Towers Watson & Co.
Form 10-Q
May 17, 2010

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

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from __________ to __________

Commission File Number: 001-34594

TOWERS WATSON & CO.

(Exact name of Registrant as specified in its charter)

Delaware	**27-0676603**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
875 Third Avenue New York, NY	**10022**
(Address of principal executive offices)	(zip code)

(212) 725-7550

(Registrant s telephone number, including area code)

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

Yes þ No o

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

Yes o No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of May 12, 2010 there were 42,899,474 outstanding shares of Class A Common Stock and 4,221,096 of Restricted Class A Common Stock at a par value of $0.01 per share; 12,798,118 outstanding shares of Class B-1 Common Stock at a par value of $0.01; 5,561,630 outstanding shares of Class B-2 Common Stock at a par value of $0.01; 5,561,630 outstanding shares of Class B-3 Common Stock at a par value of $0.01; and 5,399,778 outstanding shares of Class B-4 Common Stock at a par value of $0.01.

TOWERS WATSON & CO.
INDEX TO FORM 10-Q
For the Three and Nine Months Ended March 31, 2010

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

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

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Revenue	$ 803,963	$ 416,994	$ 1,637,922	$ 1,279,509
Costs of providing services:				
Salaries and employee benefits	537,706	260,384	1,062,251	787,751
Professional and subcontracted services	52,139	30,939	102,004	91,947
Occupancy	35,735	17,787	73,402	54,529
General and administrative expenses	69,999	38,563	141,454	131,258
Depreciation and amortization	32,834	17,531	69,019	55,265
Transaction and integration expenses	24,405		49,697	
	752,818	365,204	1,497,827	1,120,750
Income from operations	51,145	51,790	140,095	158,759
(Loss)/Income from affiliates	(1,049)	3,336	(1,213)	6,398
Interest income	1,169	294	1,708	1,647
Interest expense	(2,273)	(553)	(3,326)	(2,181)
Other non-operating income	704	1,786	3,604	3,466
Income before income taxes	49,696	56,653	140,868	168,089
Provision for income taxes	40,329	15,927	77,792	52,355
Net income	9,367	40,726	63,076	115,734
Less: Net income attributable to non-controlling interests	552	135	608	432
Net Income attributable to controlling interests	$ 8,815	$ 40,591	$ 62,468	$ 115,302
Earnings per share:				
Net income Basic	$ 0.12	$ 0.95	$ 1.16	$ 2.70
Net income Diluted	$ 0.12	$ 0.95	$ 1.16	$ 2.69

Weighted average shares of common stock, basic (000)	76,414	42,609	53,777	42,705
Weighted average shares of common stock, diluted (000)	76,416	42,773	53,920	42,869

See accompanying notes to the
condensed consolidated financial statements
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TOWERS WATSON & CO.
Condensed Consolidated Balance Sheets
(Thousands of U.S. Dollars, Except Share Data)
(Unaudited)

	March 31, 2010	June 30, 2009
Assets		
Cash and cash equivalents	$ 474,950	$ 209,832
Short-term investments	124,173	
Receivables from clients:		
Billed, net of allowances of $10,182 and $4,452	411,126	190,991
Unbilled, at estimated net realizable value	257,091	111,419
	668,217	302,410
Other current assets	202,063	53,358
Total current assets	1,469,403	565,600
Fixed assets, net	237,599	174,857
Deferred income taxes	162,352	111,912
Goodwill	1,804,128	542,754
Intangible assets, net	708,555	186,233
Other assets	156,645	44,963
Total Assets	$ 4,538,682	$ 1,626,319
Liabilities		
Accounts payable, accrued liabilities and deferred income	$ 396,456	$ 281,946
Reinsurance payables	153,109	
Note payable	200,967	
Other current liabilities	143,470	51,716
Total current liabilities	894,002	333,662
Revolving credit facility	15,000	
Accrued retirement benefits	908,154	292,555
Professional liability claims reserve	341,323	43,229
Other noncurrent liabilities	153,636	102,237
Total Liabilities	2,312,115	771,683

Commitments and contingencies

Stockholders Equity		
Class A Common Stock $.01 par value:		
300,000,000 shares authorized; 47,051,134 and 0 issued and 47,051,134 and 0 outstanding	470	
99,000,000 shares authorized; 0 and 43,813,451 issued and 0 and 42,657,431 outstanding		438
Class B Common Stock $.01 par value:		
93,500,000 shares authorized; 29,374,775 and 0 issued and 29,374,775 and 0 outstanding	294	
Additional paid-in capital	1,750,520	452,938
Treasury stock, at cost - 0 and 1,156,020 shares		(63,299)
Retained earnings	659,007	608,634
Accumulated other comprehensive loss	(195,291)	(145,073)
Total Stockholders Equity	2,215,000	853,638
Non-controlling interest	11,567	998
Total Equity	2,226,567	854,636
Total Liabilities and Total Equity	$ 4,538,682	$ 1,626,319

See accompanying notes to the
condensed consolidated financial statements

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

	Nine months ended March 31, 2010	2009
Cash flows (used in)/from operating activities:		
Net income	63,076	115,734
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful receivables from clients	6,192	4,113
Depreciation	49,683	44,597
Amortization of intangible assets	19,336	10,668
Provision for deferred income taxes	63,364	7,446
Equity from affiliates	1,605	(6,171)
Stock based compensation	27,016	2,901
Other, net	(3,117)	(2,191)
Changes in operating assets and liabilities (net of business acquisitions)		
Receivables from clients	(53,004)	34,847
Other current assets	(46,470)	(7,348)
Other noncurrent assets	(14,627)	3,603
Accounts payable, accrued liabilities and deferred income	(311,237)	(47,020)
Reinsurance payables	37,614	
Accrued retirement benefits	(6,313)	(40,789)
Professional liability claims reserves	14,870	(8,073)
Other current liabilities	(4,858)	(14,060)
Other noncurrent liabilities	(32,698)	(14,363)
Cash flows (used in)/from operating activities:	(189,568)	83,894
Cash flows from/(used in) investing activities:		
Cash paid for business acquisitions	(200,025)	(518)
Cash acquired from business acquisitions	721,708	
Purchases of fixed assets	(11,479)	(29,772)
Capitalized software costs	(15,638)	(14,503)
Purchases of held-to-maturity securities	(17,789)	
Redemption of held-to-maturity securities	5,623	
Investment in affiliates		(2,007)
Contingent proceeds from divestitures	3,336	3,466
Cash flows from/(used in) investing activities:	485,736	(43,334)
Cash flows used in financing activities:		
Borrowings under Credit Facility	15,368	40,223
Dividends paid	(9,562)	(9,586)
Repurchases of common stock	(34,922)	(77,443)
Issuances of common stock and excess tax benefit	4,447	4,949

Cash flows used in financing activities:	(24,669)	(41,857)
Effect of exchange rates on cash	(6,381)	(5,043)
Increase/(decrease) in cash and cash equivalents	265,118	(6,340)
Cash and cash equivalents at beginning of period	209,832	124,632
Cash and cash equivalents at end of period	$ 474,950	$ 118,292
Supplemental disclosures:		
Cash paid for interest	$ 1,884	$ 2,091
Cash paid for income taxes, net of refunds	$ 48,823	$ 46,889

See accompanying notes to the
condensed consolidated financial statements

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

	Common Stock Outstanding (number of shares, in thousands)	Common Stock	Additional Paid-in Capital	Treasury Stock, at Cost	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2009	42,657	$ 438	$ 452,938	$ (63,299)	$ 608,634	$ (145,073)	$ 853,638
Comprehensive Income:							
Net income					62,468		62,468
Foreign currency translation adjustment, net of tax						(50,218)	(50,218)
Total comprehensive income							12,250
Class A common stock:							
Cash dividends declared					(12,095)		(12,095)
Repurchases of common stock	(792)			(34,922)			(34,922)
Issuances of common stock and excess tax benefit	937	6	21,104	17,640			38,750
Retirement of treasury stock		(16)	(80,565)	80,581			
Stock issued for consideration of Merger:							
Issuance of class A restricted shares	4,249	42	53,617				53,659
Issuance of class B1-B4 shares	29,375	294	1,303,426				1,303,720
Balance at March 31, 2010	76,426	$ 764	$ 1,750,520	$	$ 659,007	$ (195,291)	$ 2,215,000

See accompanying notes to the
condensed consolidated financial statements

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TOWERS WATSON & CO.
Notes to the Condensed Consolidated Financial Statements
(Tabular amounts are in thousands, except per share data)
(Unaudited)

Note 1 Organization and Basis of Presentation.

On January 1, 2010, pursuant to the Agreement and Plan of Merger, as amended by Amendment No. 1 (the Merger Agreement), Watson Wyatt Worldwide, Inc. (Watson Wyatt) and Towers, Perrin, Forster & Crosby, Inc. (Towers Perrin) combined their businesses through two simultaneous mergers (the Merger) and became wholly-owned subsidiaries of Jupiter Saturn Holding Company, which subsequently changed its name to Towers Watson & Co. (Towers Watson , the Company or we). Since the consummation of the Merger, Towers Perrin changed its name to Towers Watson Pennsylvania Inc.; and Watson Wyatt changed its name to Towers Watson Delaware Holdings Inc. However, for ease of reference, we continue to use the legacy Towers Perrin and Watson Wyatt names throughout this Report.

Although the business combination of Watson Wyatt and Towers Perrin was a merger of equals , generally accepted accounting principles require that one of the combining entities be identified as the acquirer by reviewing facts and circumstances as of the acquisition date. Watson Wyatt was determined to be the accounting acquirer. This conclusion is primarily supported by the facts that Watson Wyatt shareholders owned approximately 56 percent of all Towers Watson common stock after the redemption of Towers Watson Class R common stock and that Watson Wyatt s Chief Executive Officer became the Chief Executive Officer of Towers Watson. Watson Wyatt is the accounting predecessor in the Merger and as such, the historical results of Watson Wyatt through December 31, 2009 have become those of the new registrant, Towers Watson. Towers Watson s condensed consolidated financial statements as of and for the three and nine months ended March 31, 2010 include the results of Towers Perrin s operations beginning January 1, 2010.

The accompanying unaudited quarterly condensed consolidated financial statements of Towers Watson & Co. and our subsidiaries (collectively referred to as we, Towers Watson or the Company) are presented in accordance with the rules and regulations of the Securities Exchange Commission (SEC) for quarterly reports on Form 10-Q and therefore do not include all of the information and footnotes required by U.S. generally accepted accounting principles. In the opinion of management, these condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the condensed consolidated financial statements and results for the interim periods. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements should be read together with the Watson Wyatt audited consolidated financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 30, 2009, which is filed under the historical registrant Watson Wyatt (now found under the filings of Towers Watson Delaware Holdings Inc.) with the SEC and Towers Watson s Registration Statement on Form S-4/A (Registration No. 333-161705) filed with the SEC, and declared effective on November 9, 2009. Both of such reports may be accessed via EDGAR on the SEC s web site at www.sec.gov. Balance sheet data as of June 30, 2009 was derived from Watson Wyatt s audited financial statements.

Our fiscal year 2010 began July 1, 2009 and ends June 30, 2010.

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The results of operations for the nine months ended March 31, 2010 are not indicative of the results that can be expected for the entire fiscal year ending June 30, 2010, especially in light of the Merger. The results reflect certain estimates and assumptions made by management including those estimates used in calculating Merger consideration and fair value of tangible and intangibles, net assets of Towers Perrin as of January 1, 2010, estimated bonuses and anticipated tax liabilities that affect the amounts reported in the condensed consolidated financial statements and related notes.

Note 2 Merger with Towers Perrin.

Consideration Exchanged

The consummation of the Merger resulted in the following:

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

Each share of Towers Perrin common stock, par value $0.50 per share issued and outstanding immediately prior to the Merger was converted into the right to receive 545.627600377 fully-paid and nonassessable shares of Towers Watson common stock, which ratio was determined at the time of the Merger in accordance with the Merger Agreement. Shares of Towers Watson common stock issued to Towers Perrin shareholders (other than 209,013 shares issued to Towers Perrin shareholders located in certain countries (as detailed below) and other than shares issued to Towers Perrin shareholders who elected to receive a portion of their Merger Consideration as shares of Towers Watson s Class R common stock, par value $0.01 per share) have been divided among four series of non-transferable Towers Watson common stock, Classes B-1, B-2, B-3 and B-4, each with a par value of $0.01 per share. Outstanding shares of Towers Watson Class B common stock generally will automatically convert on a one-for-one basis into shares of freely transferable shares of Towers Watson Class A common stock on the following timetable:

Class B-1 common stock- January 1, 2011
Class B-2 common stock- January 1, 2012
Class B-3 common stock- January 1, 2013
Class B-4 common stock- January 1, 2014

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

Certain Towers Perrin shareholders who met defined age and service criteria elected to terminate their employment no later than January 31, 2010 (except as extended by Towers Watson s executive committee) and receive a portion of their Merger consideration in shares of Towers Watson Class R Common Stock, which subsequently were automatically redeemed for equal amounts of cash and subordinated one-year promissory notes (such election, a Class R Election). The amount of cash and principal amount of Towers Watson notes issued in exchange for each share of Towers Watson Class R Common Stock was determined based on the Exchange Ratio and the average closing price per share of Watson Wyatt Common Stock for the 10 trading days ending on December 28, 2009, the second trading day immediately prior to the closing of the Merger, which was $46.79. Class R Elections were prorated so that the amount of cash and notes payable on the automatic conversion of the shares of Towers Watson Class R common stock would not exceed $400

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million, which amount was agreed to by Towers Perrin and Watson Wyatt prior to the closing of the Merger. Towers Perrin shareholders who made valid Class R Elections received shares of Towers Watson Class B-1 common stock in exchange for their shares of Towers Perrin common stock that were not exchanged for shares of Towers Watson Class R common stock due to proration or because the Towers Perrin shareholder elected to receive less than 100 percent of his or her Merger consideration in the form of Towers Watson Class R common stock. As noted above, shares of Towers Watson Class B-1 common stock generally will automatically convert into freely tradable shares of Towers Watson Class A Common Stock on January 1, 2011.

Prior to the Merger, Towers Perrin issued awards of restricted stock units to certain Towers Perrin employees, which were exchanged in the Merger for shares of Towers Watson Class A common stock, generally subject to a three-year contractual vesting schedule and other restrictions (Restricted Towers Watson Class A Common Stock). At the time of the Merger, the restricted stock units were converted using the Merger Agreement exchange ratio (545.627600377) into Towers Watson Restricted Class A common stock. The restriction on the underlying shares lapses over the service period for the employees, which is from grant date in October 2009 to January 1, 2011 through 2013, annually. The Towers Watson Restricted Class A common stock is held by an administrator or in a trust and the dividends accrue and the shares are voted in blocks according to provisions in the Merger Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

For a more complete description of the Merger Agreement and Amendment No.1 to the Merger Agreement, please see the registration statement on Form S-4/A filed by Towers Watson with the SEC (Registration No. 333-161705) and declared effective on November 9, 2009.

Fair Value of Consideration

The business combination has been accounted for using the acquisition method of accounting as prescribed in Accounting Standards Codification (ASC) 805, *Business Combinations,* (Statement of Financial Accounting Standards No. 141R). The total consideration of $1,757,379,000 is comprised of $200 million of cash and $200 million of notes payable to Class R shareholders and of stock consideration for the following: Class A shares for certain foreign shareholders of $9,932,000, Restricted Class B-1, B-2, B-3 and B-4 shares of $1,303,718,000 and Restricted Class A shares of $43,729,000.

The consideration given in the form of cash and notes payable was measured in the amount of cash paid and notes payable issued. According to ASC 805 the fair value of the securities traded in the market the day before the merger is consummated is used to determine the fair value of the equity consideration. As accounting predecessor, Watson Wyatt s closing share price on the NYSE on December 31, 2009 of $47.52 was used to determine the fair value of equity consideration. The equity consideration for the Class A shares to certain foreign shareholders of $9,932,000 is valued at $47.52 multiplied by 209,013, the shares issued. The estimated fair value of the restricted Class B1-B4 shares of $1,303,718,000 was calculated at $47.52 multiplied by 29,483,008, the shares issued and using a discount to approximate the fair value of the one, two, three and four-year period of restriction lapse until the shares are converted into freely-tradable Towers Watson Class A common stock. The estimated fair value of the Restricted Class A shares of $43,729,000 includes (i) the vested portion of the Towers Perrin restricted stock units which was earned by employees related to the service condition from grant date in October 2009 until the Merger date January 1, 2010 valued at $47.52 per share and (ii) 10 percent of the unvested portion of the Towers Perrin restricted stock units which is the estimate of forfeitures that will result from employees not fulfilling the service condition during the three year vesting post-Merger which will be proportionately distributed to Class F shareholders, the Towers Perrin shareholders as of the Merger date.

PCIC

As of December 31, 2009, Towers Perrin and Watson Wyatt each owned a 36.4 percent equity investment in Professional Consultants Insurance Company (PCIC). PCIC is a captive insurance company that provides professional liability insurance on a claims-made basis. Watson Wyatt applied the equity method of accounting for its investment in PCIC through December 31, 2009. Towers Watson s financial statements as of and for the nine month period ended March 31, 2010, included herein, reflect Watson Wyatt s equity method of accounting for PCIC for the six month period ended December 31, 2009 which resulted in a recording a loss from affiliates of $113 thousand.

As a result of the Merger, Towers Watson has a majority ownership interest in PCIC and consequently retained a majority of the economic risks and rewards of PCIC. As a result, Towers Watson now consolidates PCIC s financial position and results of operations in its consolidated financial statements beginning January 1, 2010. All intercompany accounts and transactions have been eliminated in consolidation.

Fair value of net assets acquired and intangibles

According to ASC805, the assets acquired and liabilities of Towers Perrin assumed by Towers Watson were recorded at their respective fair values as of the combination date, January 1, 2010. The valuation was performed by a third-party valuation specialist who assisted management in the determination of estimated fair value including significant estimates and assumptions. Management also evaluated the methodology and valuation models to determine the estimated useful lives and amortization method.

Customer relationships

Customer relationship intangible was identified separate from goodwill based on determination of the length, strength and contractual nature of the relationship that Towers Perrin shared with its clients. This customer relationship information was analyzed via the application of the multi-period excess earnings method, an income approach. Several assumptions used in the income approach are revenue growth, retention rate, operating expenses, charge for contributory assets and trade name and the discount rate used to calculate the present value of the cash flows. The customer relationship, valued at $140.8 million, is amortized on an accelerated amortization basis over the estimated useful life of 12 years.

Trademarks and trade names

The Towers Perrin trade name was identified separate from goodwill based on evaluation of the importance of the Towers Perrin trade name to the Towers Perrin business through understanding the brand recognition in the market, importance of the trade name to the customer, and the amount of revenue associated with the trade name. In developing the estimated fair value, the trade name was valued utilizing the relief from royalty method, an income approach. Significant assumptions used in the relief from royalty method were revenue growth, royalty rate, and discount rate used to calculate the present value of cash flows. The Towers Perrin trade name, valued at $275.5 million, has an estimated indefinite lived asset and is not amortized but tested annually for impairment or if factors exist to indicate impairment.

Developed technology

Developed technology identified separately from goodwill consists of intellectual property such as proprietary software used internally for revenue producing activities or by clients. Developed technology can provide significant advantages to the owner in terms of product differentiation, cost advantages and other competitive advantages. Three external-use technologies of Towers Perrin: Moses, EVALUE and the Global Compensation technology are offered for sale or subscription and have associated revenue streams. In addition, twenty-two internally developed technology applications were identified as primary applications used in Towers Perrin s business but did not have associated revenue streams. The external-use technologies, for which revenue sources were directly identified, were valued by applying the multi-period excess earnings method, an income approach. The internal-use technologies were valued by applying the cost to replicate method, a cost approach. Significant assumptions used in the multi-period excess earnings method were revenue growth, decay rate, cost of revenue, operating expenses, charge for use of contributory assets and trade name and discount rate used to calculate the present value of the cash flows. The external-use technology, valued at $58.2 million, is amortized on an accelerated basis over a weighted-average useful life of 3.6 years. Significant assumptions used in the cost to replicate method were cost to replace including the number and skill level of man hours and cost per hour based on fully burdened salary of staff; profit margin if the work were performed by a third-party; and obsolescence factor. The internal-use technology, valued at $67.2 million, is amortized on a straight-line basis over the weighted-average estimated useful life of 4.2 years.

Favorable and unfavorable lease contracts

Assets and liabilities for favorable and unfavorable lease contracts were identified separately from goodwill related for 39 of Towers Perrin s material real estate leases agreements. The assets and liabilities were valued by comparing cash obligations for each material lease agreement to the estimated market rent at the time of the transaction. The resulting favorable or unfavorable positions are recorded gross as assets or liabilities on the balance sheet. Significant assumptions used in the valuation were market rent, annual escalation percentages based on current inflation rates and a discount rate used to calculate the present value of the cash flows. Both the assets for favorable lease agreements, valued at $12.1 million, and the liabilities for unfavorable lease agreements, valued at $28.1 million, are amortized on a straight-line basis over the life of the respective lease to occupancy costs. The weighted-average estimated useful life for the leases is 7.1 years.

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As of the date of the filing of this quarterly report, the initial accounting for this business combination is not yet complete. Although the Company does not anticipate any significant adjustments, to the extent that the estimates used need to be refined, the Company will do so upon making that determination but not later than one year from the business combination date.

The table below sets forth a preliminary estimate of the Merger consideration transferred to Towers Perrin shareholders and the preliminary estimate of tangible and intangible net assets received in the Merger:

	January 1, 2010 (In thousands, except share and per share data)		
Calculation of Consideration Transferred			
Cash paid			$ 200,000
Notes payable issued to Towers Perrin shareholders			200,000
Towers Perrin shares converted to Towers Watson shares	42,489,840		
Less Class R shares	(8,548,835)		
Less 10% of consideration in RSU s	(4,248,984)		
Shares of Towers Watson stock issued		29,692,021	
Closing price of Watson Wyatt stock, December 31, 2009		$ 47.52	
Average discount for restricted stock		7%	
Aggregate fair value of the Towers Watson common stock issued			1,313,650
Fair value of RSU s assumed in the Merger			43,729
Total consideration transferred			$ 1,757,379
Estimated Tangible and Intangible Net Assets:			
Current assets		$ 982,053	
Other non-current assets		296,682	
Identifiable intangible assets		553,844	
Deferred tax asset, net		131,631	
Current liabilities		(674,974)	
Other long-term liabilities		(823,212)	
Goodwill		1,291,355	
Total estimated tangible and intangible net assets			$ 1,757,379

The following unaudited pro forma combined statements of operations have been provided to present illustrative combined unaudited statements of operations for the nine months ended March 31, 2010 and 2009, giving effect to the business combination as if it had been completed on July 1, 2009 and July 1, 2008, respectively. The unaudited historical combined statement of operations for the three month period ended March 31, 2010 reflects the actual financial results of the combined Company. All other periods reflect the pro forma historical financial results from Watson Wyatt and Towers Perrin. The unaudited pro forma combined financial information shows the impact of the business combination on Watson Wyatt and Towers Perrin s historical results of operations. The unaudited pro forma condensed combined statement of operation are presented for illustrative purposes only and are not indicative of the results of operations that might have occurred had the business combination actually taken place as of the dates specified, or that may be expected to occur in the future. We do not assume any benefits from any cost savings or synergies expected to result from the Merger, except for any cost savings or synergies actually realized by the Company for the three-month period ended March 31, 2010.

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	Pro forma, as adjusted, Nine Months Ended March 31,	
	2010	2009
Revenue	$ 2,431,008	$ 2,484,160
Costs of providing services:		
Salaries and employee benefits	1,667,884	1,711,391
Professional and subcontracted services	181,908	229,936
Occupancy, communications and other	111,013	108,725
General and administrative expenses	188,954	255,634
Depreciation and amortization	99,534	102,537
Transaction and integration expenses	49,697	49,697
	2,298,990	2,457,920
Income from operations	132,018	26,240
Loss from affiliates	(1,024)	(10,326)
Interest income	3,489	7,231
Interest expense	(7,957)	(10,252)
Other non-operating income	8,885	17,320
Income before income taxes	135,411	30,213
Provision for income taxes	60,898	25,642
Net income	74,513	4,571
Less: Net income attributable to non-controlling interests	49	4,351
Net income attributable to controlling interests	$ 74,464	$ 220
Earnings per share:		
Net income Basic	$ 0.97	$ 0.00
Net income Diluted	$ 0.97	$ 0.00
Weighted average shares of common stock, basic (000)	76,422	76,422
Weighted average shares of common stock, diluted (000)	76,565	76,565

Note 3 Segment Information.

Towers Watson has three reportable operating segments or practice areas:
(1) Benefits Group
(2) Risk and Financial Services Group
(3) Talent and Rewards Consulting Group

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Towers Watson s chief operating decision maker is the chief executive officer. It was determined that Towers Watson operational data used by the chief operating decision maker is that of the new segments. Management bases strategic goals and decisions on these segments and the data presented below is more useful to assess the adequacy of strategic decisions, the method of achieving these strategies and related financial results. Historically Watson Wyatt had five reportable segments which have been retrospectively adjusted to the new post-Merger segments. The Benefits and Technology and Administrative Solutions segments were combined and reclassified into the Benefits Group. The Investment Consulting and Insurance & Financial Services segments were combined and reclassified into the Risk and Financial Services Group while the Human Capital Group became the Talent and Rewards Consulting Group. Management evaluates the performance of its segments and allocates resources to them based on net operating income on a pre-bonus, pre-tax basis.

The table below presents specified information about reported segments as of and for the three months ended March 31, 2010:

	Benefits Group	Risk and Financial Services Group	Talent and Rewards Consulting Group	Total
Revenue (net of reimbursable expenses)	$ 469,927	$ 191,064	$ 122,641	$ 783,632
Net operating income	151,185	53,792	3,555	208,532
Receivables	421,198	143,457	109,439	674,094

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

	Benefits Group	Risk and Financial Services Group	Talent and Rewards Consulting Group	Total
Revenue (net of reimbursable expenses)	$ 285,841	$ 71,037	$ 46,968	$ 403,846
Net operating income	90,238	19,727	(1,487)	108,478
Receivables	251,617	51,197	39,425	342,239

The table below presents specified information about reported segments as of and for the nine months ended March 31, 2010:

	Benefits Group	Risk and Financial Services Group	Talent and Rewards Consulting Group	Total
Revenue (net of reimbursable expenses)	$ 1,029,836	$ 331,314	$ 230,042	$ 1,591,192
Net operating income	318,105	84,548	18,291	420,944
Receivables	421,198	143,457	109,439	674,094

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

	Benefits Group	Risk and Financial Services Group	Talent and Rewards Consulting Group	Total
Revenue (net of reimbursable expenses)	$ 848,734	$ 213,443	$ 175,629	$ 1,237,806
Net operating income	251,315	51,417	20,637	323,369

Receivables	251,617	51,197	39,425	342,239

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

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Reconciliations of the information reported by segment to the historical consolidated amounts follow for the three and nine month periods ended March 31, 2010 and 2009:

	Three Months Ended, March 31		Nine Months Ended, March 31	
Revenue:	2010	2009	2010	2009
Total segment revenue	$ 783,632	$ 403,846	$ 1,591,192	$ 1,237,806
Reimbursable expenses and other	20,331	13,148	46,730	41,703
Revenue	$ 803,963	$ 416,994	$ 1,637,922	$ 1,279,509
Net Operating Income:				
Total segment net operating income	$ 208,532	$ 108,478	$ 420,994	$ 323,369
Differences in allocation methods (1)	(1,095)	(1,920)	4,444	(1,014)
Amortization of intangible assets	(12,492)	(3,263)	(19,336)	(10,668)
Transaction and integration expenses	(24,405)		(49,697)	
Stock-based compensation restricted A shares	(24,018)		(24,018)	
Discretionary compensation	(90,556)	(45,779)	(185,384)	(144,452)
Other, net	(6,270)	(863)	(6,085)	854
Income before income taxes	$ 49,696	$ 56,653	$ 140,868	$ 168,089
Receivables:				
Total segment receivables billed and unbilled (2)	$ 674,094	$ 342,239	$ 674,094	$ 342,239
Valuation differences and other	(5,877)	(15,443)	(5,877)	(15,443)
Total billed and unbilled receivables	668,217	326,796	668,217	326,796
Assets not reported by segment	3,870,465	1,126,783	3,870,465	1,126,783
Total assets	$ 4,538,682	$ 1,453,579	$ 4,538,682	$ 1,453,579

(1) Certain expenses including general and administrative, pension, and medical costs are allocated to our segments as management believes these costs are largely uncontrollable to the segment.

To the extent the basis for allocation differs from expectation, a reconciling item will be created between internally allocated expenses and the actual expense that we report for U.S. GAAP purposes.

(2) Total segment receivables, which reflects the receivable balances used by management to make business decisions, are included for management reporting purposes net of deferred revenue.

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Note 4 Share-based Compensation.

In connection with the Merger, Towers Watson assumed the amended and restated Watson Wyatt 2001 Employee Stock Purchase Plan and the Watson Wyatt 2000 Long-Term Incentive Plan, and created the Towers Watson & Co. 2009 Long Term Incentive Plan. Towers Watson did not assume the Watson Wyatt 2001 Deferred Stock Unit Plan for Selected Employees or the Watson Wyatt Amended Compensation Plan for Outside Directors.

Towers Watson & Co. Employee Stock Purchase Plan

Towers Watson assumed the amended and restated Watson Wyatt 2001 Employee Stock Purchase Plan (the Stock Purchase Plan) which enables employees to purchase shares of Towers Watson stock at a 5 percent discount. The Stock Purchase Plan is a non-compensatory plan under generally accepted accounting principles of stock-based compensation. As a result, no compensation expense is recognized in conjunction with this plan. Watson Wyatt originally registered 750,000 shares of its Class A common stock on December 19, 2001 and an additional 1,500,000 shares of its Class A common stock on December 16, 2003, of which 196,424 shares remained available for issuance immediately prior to the Merger at which time 4,500,000 additional shares were added. Towers Watson filed a Form S-8 Registration Statement in the third quarter of fiscal 2010 registering the 4,696,424 shares available for issuance under the Stock Purchase Plan.

Towers Watson & Co. 2009 Long Term Incentive Plan

In January 2010, Towers Watson filed a Form S-8 Registration Statement to register 12,500,000 shares of Towers Watson Class A common stock that may be issued pursuant to the Towers Watson & Co. 2009 Long Term Incentive Plan (the 2009 Plan) and 125,648 shares of Class A common stock that may be issued upon exercise of the unvested stock options previously granted under the Watson Wyatt 2000 Long-Term Incentive Plan. The Watson Wyatt 2000 Long-term Incentive Plan was assumed by Towers Watson and the registered shares for the Watson Wyatt 2000 Long-term Incentive Plan are limited to exercise of awards which were outstanding at the time of the Merger. The assumed options were exercisable for shares of Towers Watson Class A Common Stock based on the exchange ratio of one share of Watson Wyatt Class A common stock underlying the options for one share of Towers Watson Class A Common Stock. The 2009 Plan was approved by Watson Wyatt shareholders on December 18, 2009.

During the three and nine months ended March 31, 2010, 108,933 fully-vested stock options were granted under the 2009 Plan with an exercise price equal to the grant date fair value of Towers Watson Class A common stock of $45.88. As a result the Company recorded $1.3 million of stock-based compensation in the third quarter of fiscal 2010. During the three and nine months ended March 31, 2010, 0 and 125,648 stock options, respectively, were granted under the Watson Wyatt 2000 Long-term Incentive Plan with an exercise price equal to the grant date market price of Watson Wyatt s common stock of $42.47. All outstanding Watson Wyatt stock options became fully vested at the time of the Merger with the exercise price as of the original grant date. As a result, $1.1 million of the unamortized grant date fair value of the options was expensed in the third quarter of fiscal 2010. There were no grants of stock options during the three and nine months ended March 31, 2009.

The weighted-average fair value of the stock option grants was calculated using the Black-Scholes formula and are included in the valuation assumptions table below. In addition, a post-vesting discount was calculated using 1.4 percent, the risk-free interest rate of a three-year bond, compounded over three-years. The post-vesting discount was used to estimate fair value as there is a transfer restriction for three years of the stock option s underlying shares once vested. Compensation expense is recorded over a three-year graded vesting term as if one third of the options granted to a participant are granted over one year, one third over two years and the remaining one third over three years.

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	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Stock option grants:				
Risk-free interest rate	1.4%		1.4%	
Expected lives in years	3		3	
Expected volatility	37.4%		37.2%	
Dividend yield	0.6%		0.7%	
Weighted-average grant date fair value of options granted	$ 11.96		$ 11.02	
Number of shares granted	108,933		234,581	

Former Watson Wyatt Plans and Change of Control Provisions

Amended Compensation Plan for Outside Directors

Under this Plan, outside Watson Wyatt Directors were initially paid in shares of Watson Wyatt s common stock, or in a combination of cash and shares, quarterly, at the completed quarter-end share price (which approximates fair value), for services provided during the preceding quarter.

Restricted Stock Units

The Watson Wyatt 2001 Deferred Stock Unit Plan for Selected Employees was intended to provide selected associates with additional incentives by permitting Watson Wyatt to grant them an equity interest in the form of restricted stock units, in lieu of a portion of their annual fiscal year end bonus. Shares under this plan are awarded during the first quarter of each fiscal year. During the first quarter of fiscal year 2010, 219,751 shares of common stock were awarded at an average market price of $44.08 for a total fair value of $9.7 million. During the first quarter of fiscal year 2009, 295,775 shares of common stock were awarded at an average market price of $54.24 for a total fair value of $16.0 million.

Deferred Stock Units

Under the Watson Wyatt 2001 Deferred Stock Unit Plan for Selected Employees there were Performance Share Bonus Incentive Programs (SBI) which consisted of grants of deferred stock units based on either salary or on the value of the cash portion of the eligible participant s fiscal year-end bonus target and a multiplier, which was then converted into a target number of deferred stock units based upon Watson Wyatt s stock price as of the quarter end prior to grant. Participants vested between zero and 170 percent of the target number of deferred stock units or between zero and 100 percent based on the extent to which financial and strategic performance metrics were achieved over three fiscal year periods. The financial and strategic performance metrics were established at the beginning of each performance period. For the performance periods covering fiscal years 2007 through 2009, 2008 through 2010, and 2009 through 2011, the vesting criteria are based upon growth specific metrics such as earnings per share, net operating income and revenue.

During the first quarter of fiscal year 2010, 94,906 shares vested, of which 66,065 were deferred and 28,841 were awarded at a market price of $44.07 to certain senior executive officers under the SBI 2007 plan, which represented vesting at 135 percent of the target number of deferred stock units. During the first quarter of fiscal year 2009, 164,457 shares vested, of which, 120,396 were deferred and 44,061 were awarded at a market price of $56.83 to certain senior executive officers under the SBI 2006 plan, which represented vesting at 170 percent of the target number of deferred stock units.

Historically, Watson Wyatt s management periodically reviewed conditions that would affect the vesting of performance-based awards and adjusts compensation expense, if necessary, based on achievement of financial performance metrics set by the Compensation Committee of Watson Wyatt. The SBI 2008 and 2009 plan documents stated that the Compensation Committee had the discretion to accelerate the vesting of awards under the SBI Program in connection with a change in control. Based on available plan performance information, the Compensation

Committee concluded that (i) no payout would be made under the SBI 2008 plan upon the date of the Merger, and (ii) it would settle the SBI 2009 plan at 100 percent of target to take into account that the performance period would only be halfway completed as of the closing date of the Merger. During the second quarter of fiscal 2010, Watson Wyatt s management evaluated the performance metrics of the SBI 2008 for Select Associates, and based on an update to the forecast for the remaining performance period, the accrual of compensation expense recorded was $3.0 million in the three months ended December 31, 2009. Approximately $3.4 million of compensation expense was recorded relative to the SBI plans during the third quarter of fiscal year 2010 as a result of change of control provisions. In addition, 142,081 of fully vested deferred restricted stock units from the fiscal year 2005 through 2007 plans were distributed subsequent to the Merger as the 2001 Deferred Stock Unit Plan for Selected Employees was not assumed by Towers Watson.

Note 5 Retirement Benefits.

Defined Benefit Plans

Towers Watson sponsors both qualified and non-qualified defined benefit pension plans and other post-employment benefit or OPEB plans in North America and Europe. These funded and unfunded plans represent 90 percent of total Towers Watson s pension obligations and as a result are disclosed herein. Towers Watson also sponsors funded and unfunded defined benefit pension plans in certain other countries as well, representing the remaining 10 percent of the liability.

Under the legacy Watson Wyatt plans in North America, benefits are based on the number of years of service and the associate s compensation during the five highest paid consecutive years of service. The non-qualified plan, included only in North America, provides for pension benefits that would be covered under the qualified plan but are limited by the Internal Revenue Code. The non-qualified plan has no assets and therefore is an unfunded arrangement. Beginning January 2008, Watson Wyatt made changes to the plan in the U.K. related to years of service used in calculating benefits for associates. Benefits earned prior to January 2008 are based on the number of years of service and the associate s compensation during the three years before leaving the plan and benefits earned after January 2008 are based on the number of years of service and the associate s average compensation during the associate s term of service since that date. The plan liabilities in Germany were a result of Watson Wyatt s acquisition of Heissmann GmbH in 2007. A significant percentage of the liabilities represent the grandfathered pension benefit for employees hired prior to a July 1991 plan amendment. The pension plan for those hired after July 1991 is a defined contribution type arrangement. In the Netherlands, the pension benefit is a percentage of service and average salary over the working life of the employee, where salary includes allowances and bonuses up to a set maximum salary and is offset by the current social security benefit. The benefit liability is reflected on the balance sheet. The measurement date for each of the plans is June 30.

The legacy Towers Perrin pension plans in the U.S. accrue benefits under a cash-balance formula for employees hired or rehired after 2002 and for all employees for service after 2007. For employees hired prior to 2003 and active as of January 2003, benefits prior to 2008 are based on a combination of a cash balance formula, for the period after 2002, and a final average pay formula based on years of plan service and the highest five consecutive years of plan compensation prior to 2008. Under the cash balance formula benefits are based on a percentage of each year of the employee s plan compensation. The Canadian Retirement Plan provides a choice of a defined benefit approach or a defined contribution approach. The non-qualified plans in North America provide for pension benefits that would be covered under the qualified plan in the respective country but are limited by statutory maximums. The non-qualified plans have no assets and therefore are unfunded arrangements. The U.K. Plan provides predominantly lump sum benefits. Benefit accruals under the U.K. Plan ceased on March 31, 2008. The plans in Germany mostly provide benefits under a cash balance benefit formula. Benefits under the Netherlands plan accrue on a final pay basis on earnings up to a maximum amount each year. The benefit assets and liabilities are reflected on the balance sheet. The measurement date for each of the plans has historically been December 31, but will be changed to June 30 as a result of the Merger.

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Components of Net Periodic Benefit Cost for Defined Benefit Pension Plans

The following tables set forth the components of net periodic benefit cost for the Company s defined benefit pension plan for North America and Europe for the three and nine month periods ended March 31, 2010 and 2009:

	Three Months Ended March 31,			
	2010		2009	
	North America	Europe	North America	Europe
Service Cost	$ 13,107	$ 3,217	$ 5,315	$ 1,337
Interest Cost	35,787	10,037	12,118	3,593
Expected Return on Plan Assets	(35,146)	(8,659)	(12,397)	(3,258)
Amortization of Net Loss/(Gain)	3,764	671	2,533	(48)
Amortization of Prior Service (Credit)/Cost	(406)	10	(576)	6
Net Periodic Benefit Cost	$ 17,106	$ 5,276	$ 6,993	$ 1,630

	Nine Months Ended March 31,			
	2010		2009	
	North America	Europe	North America	Europe
Service Cost	$ 25,009	$ 7,044	$ 18,884	$ 5,930
Interest Cost	60,604	21,708	36,489	17,204
Expected Return on Plan Assets	(58,282)	(18,836)	(38,045)	(16,318)
Amortization of Net Loss/(Gain)	11,080	2,013	6,622	(248)
Amortization of Prior Service Cost	(1,218)	31	(1,705)	32
Net Periodic Benefit Cost	$ 37,193	$ 11,960	$ 22,245	$ 6,600

The fiscal year 2010 net periodic benefit cost is based, in part, on the following rate assumptions as of June 30, 2009 for the North America and Europe plans:

	North America	Europe
Discount rate	6.46%	6.06%
Expected long-term rate of return on assets	8.10%	6.51%
Rate of increase in compensation levels	3.93%	4.90%

Employer Contributions

The Company made $32.4 million in contributions to the North American plans during the first nine months of fiscal year 2010 and anticipates making $1.6 million in contributions over the remainder of the fiscal year. The Company made $15.7 million in contributions to Europe plans during the first nine months of fiscal year 2010 and anticipates making $4.3 million in contributions over the remainder of the fiscal year.

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Defined Contribution Plans

Under the Watson Wyatt legacy plan, we sponsor a savings plan that provides benefits to substantially all U.S. associates. The Company matches employee contributions at a rate of 50% of the first 6% up to $60,000 of associates eligible compensation. The Company will also make an annual profit sharing contribution to the plan in an amount that is dependent upon the Company s financial performance during the fiscal year. The Watson Wyatt U.K. pension plan has a money purchase section to which the Company makes core contributions plus additional contributions matching those of the participating employees up to a maximum rate. Contribution rates are dependent upon the age of the participant and on whether or not they arise from salary sacrifice arrangements through which an individual has taken a reduction in salary and the Company has paid an equivalent amount as pension contributions. Core contributions amount to 2-6% of pensionable salary with additional matching contributions of a further 2-6%.

The Towers Perrin legacy plans consist of sponsoring savings plans in 21 countries that provide benefits to substantially all employees within those countries. Certain of these plans provide for a Company match to employee contributions at various rates. In the U.S., the company provides a matching contribution of 100% of the first 5% of employee contributions. The Company makes contributions of 10% of pay to the legacy Towers Perrin UK plan.

Health Care Benefits

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

Postretirement Benefits

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

Components of Net Periodic Benefit Cost for Other Postretirement Plans

The following table sets forth the components of net periodic benefit cost for the Company s healthcare and post-retirement plans for the three and nine months ended March 31, 2010 and 2009

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Service cost	$ 1,400	$ 277	$ 1,995	$ 930
Interest cost	3,721	580	5,034	1,991
Expected return on plan assets	(33)		(33)	
Amortization of net gain	(275)	(267)	(825)	(700)
Amortization of prior service cost	(143)	(164)	(428)	(496)
Net periodic benefit cost	$ 4,670	$ 426	$ 5,743	$ 1,725

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The fiscal year 2010 net periodic benefit cost for the healthcare and post retirement plans is based, in part, on the following rate assumptions as of June 30, 2009 for the North America plans:

	North America
Discount rate	6.52%
Expected long-term rate of return on assets	2.00%
Rate of increase in compensation levels	4.09%

Note 6 Goodwill and Intangible Assets.

The components of goodwill and intangible assets are outlined below for the nine months ended March 31, 2010:

	Benefits Group	Risk and Financial Services Group	Talent and Rewards Consulting Group	All Other Segments	Total
Balance as of June 30, 2009	$ 394,954	$ 115,942	$ 30,644	$ 1,214	$ 542,754
Goodwill acquired	785,978	226,126	279,276		1,291,380
Translation adjustment	(20,528)	(8,286)	(1,192)		(30,006)
Balance as of March 31, 2010	$ 1,160,404	$ 333,782	$ 308,728	$ 1,214	$ 1,804,128

The following table reflects changes in the net carrying amount of the components of intangible assets for the nine months ended March 31, 2010:

	Trademark & trade name	Customer related intangible	Core/ developed technology	Non-compete agreements	Favorable lease agreements	Total
Balance as of June 30, 2009	$ 100,511	$ 78,843	$ 6,757	$ 122	$	$ 186,233
Intangible assets acquired during the period	275,500	140,800	125,400		12,144	553,844
Amortization expense		(11,019)	(8,194)	(123)		(19,336)
Rent expense					(229)	(229)
Translation adjustment	(7,758)	(4,048)	(152)	1		(11,957)
Balance as of March 31, 2010	$ 368,253	$ 204,576	$ 123,811	$	$ 11,915	$ 708,555

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The intangible unfavorable lease liability recorded as a result of acquisition accounting as of January 1, 2010 was $(28.1) million with an offset to rent expense of $810 thousand for an ending balance of $(27.3) million as of March 31, 2010. The following table reflects the rent offset resulting from the amortization of the net lease intangible assets and liabilities for the remainder of fiscal year 2010 and subsequent fiscal years is as follows:

Fiscal year ending June 30,	Amount
2010	$ (376)
2011	(1,429)
2012	(2,786)
2013	(2,134)
2014	(1,873)
Thereafter	(6,784)
Total	$ (15,382)

The following table reflects the carrying value of intangible assets as of March 31, 2010 and June 30, 2009:

	March 31, 2010		June 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets:				
Trademark and trade name	$ 368,655	$ 402	$ 100,913	$ 402
Customer related intangibles	245,774	41,198	108,821	29,978
Developed technology	148,773	24,962	23,525	16,768
Non-compete agreements	1,278	1,278	1,273	1,151
Favorable lease agreements	12,144	229		
Total intangible assets	$ 776,624	$ 68,069	$ 234,532	$ 48,299

A component of the change in the gross carrying amount of intangible assets reflects translation adjustments between June 30, 2009 and March 31, 2010. These intangible assets are denominated in the currencies of our subsidiaries outside the United States, and are translated into our reporting currency, the U.S. dollar, based on exchange rates at the balance sheet date.

The weighted average remaining life of amortizable intangible assets at March 31, 2010 was 8.9 years. Estimated amortization expense for the remainder of fiscal year 2010 and subsequent fiscal years is as follows:

Fiscal year ending June 30,	Amount
2010	$ 12,193
2011	47,908
2012	47,874
2013	44,359
2014	37,964
Thereafter	138,089
Total	$ 328,387

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Note 7 Short-term investments

Short-term investments are comprised of the following as of March 31, 2010. There were no short term investments as of June 30, 2009.

	March 31, 2010		
	Amortized Cost	Unrealized Gains	Estimated Fair Value
Corporate securities	$ 121,586	$ 2,587	$ 124,173

Note 8 Earnings Per Share.

The Company adopted guidance under ASC 260, Earnings per Share , relating to the two-class method of presenting EPS. This guidance addresses whether awards granted in share-based transactions are participating securities prior to vesting and therefore need to be included in the earning allocation in computing earnings per share using the two-class method. ASC 260-10-45-60 requires nonvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents to be treated as a separate class of securities in calculating earnings per share. The Company s participating securities include nonvested restricted stock. The adoption had no impact on previously reported basic or diluted EPS. The components of basic and diluted earnings per share are as follows:

	Three Months Ended March 31					
	2010			2009		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						
Net Income	$ 8,815			$ 40,591		
Less: Income allocated to participating securities	(490)					
Income available to common shareholders	$ 8,325	72,165	0.12	$ 40,591	42,609	0.95
Diluted EPS						
Share based compensation awards		2			164	
Income available to common shareholders	$ 8,325	72,167	0.12	$ 40,591	42,773	0.95

	Nine Months Ended March 31					
	2010			2009		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						
Net Income	$ 62,468			$ 115,302		
Less: Income allocated to participating securities	(1,646)					

Income available to common shareholders	60,822	52,361	1.16	115,302	42,705	2.70
Diluted EPS						
Share based compensation awards		143			164	
Income available to common shareholders	$ 60,822	52,504	1.16	$ 115,302	42,869	2.69

Stock options of 109 thousand were outstanding as of March 31, 2010, but were not included in the computation of diluted earnings per share because their inclusion would have been antidilutive.

Note 9 Comprehensive (Loss)/Income.

Comprehensive (loss)/income includes net income and changes in the cumulative translation adjustment gain or loss. For the three months ended March 31, 2010, comprehensive loss totaled $36.8 million compared with comprehensive income of $22.2 million for the three months ended March 31, 2009. For the nine months ended March 31, 2010, comprehensive income totaled $12.3 million compared with comprehensive loss of $96.6 million for the nine months ended March 31, 2009.

Note 10 Restricted Shares.

In conjunction with the Merger, shares of Towers Watson common stock issued to Towers Perrin shareholders have been divided among four series of non-transferable Towers Watson common stock, Classes B-1, B-2, B-3 and B-4, each with a par value of $0.01 per share. Outstanding shares of Towers Watson Class B common stock generally will automatically convert on a one-for-one basis into shares of freely transferable shares of Towers Watson Class A common stock on the following timetable:

Stock Class	Number of Shares	Conversion Date
B-1	12,798,118	January 1, 2011
B-2	5,561,630	January 1, 2012
B-3	5,561,630	January 1, 2013
B-4	5,453,397	January 1, 2014

The Towers Perrin restricted stock unit (RSU) holders received 10 percent of the total consideration issued to Towers Perrin shareholders in conjunction with the Merger. The RSU s were converted into 4,248,984 Towers Watson Restricted Class A shares, of which an estimated 10%, or 42,489 shares, are expected to be forfeited by current employee Restricted Class A shareholders who are subject to a service condition. The service condition is fulfilled from grant date through each of the three annual periods from January 1, 2010 until December 31, 2012. The restriction lapses annually on January 1 and the Restricted Class A shares are exchanged for freely tradable Class A common stock. Forfeited shares will be distributed to Towers Perrin shareholders as of December 31, 2009 in proportion to their ownership in Towers Perrin on that date. Shareholders of Restricted Class A shares have voting rights and receive dividends upon annual vesting of the shares. Dividends on forfeited shares are distributed with the associated shares on January 1, 2013.

Stock Class	Number of Shares	Conversion Date
A	1,416,328	January 1, 2011
A	1,416,328	January 1, 2012
A	1,416,328	January 1, 2013

Note 11 Derivative Financial Instruments.

The Company is exposed to market risk from changes in foreign currency exchange rates. To manage this exposure, the Company enters into various derivative transactions. These instruments have the effect of reducing the Company s exposure to unfavorable changes in foreign currency rates. The Company does not enter into derivative transactions for trading purposes.

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Derivative transactions are governed by a set of policies and procedures established by the Company covering areas such as authorization, counterparty exposure and hedging practices. The Company also evaluates new and existing transactions and agreements to determine if they require derivative accounting treatment. Positions are monitored using fair market value and sensitivity analyses.

Certain derivatives also give rise to credit risks from the possible non-performance by counterparties. The credit risk is generally limited to the fair value of those contracts that are favorable to the Company. The Company has established strict counterparty credit guidelines and enters into transactions only with financial institutions with securities of investment grade or better. The Company monitors counterparty exposures and reviews any downgrade in credit rating. To mitigate pre-settlement risk, minimum credit standards become more stringent as the duration of the derivative financial instrument increases. To minimize the concentration of credit risk, the Company enters into derivative transactions with a portfolio of financial institutions. Based on these factors, the Company considers the risk of counterparty default to be minimal.

Accounting Policy for Derivatives

All derivative instruments are recognized in the accompanying consolidated balance sheets at fair value. Derivative instruments with a positive fair value are reported in other current assets and derivative instruments with a negative fair value are reported in other current liabilities in the accompanying consolidated balance sheet. Changes in the fair value of derivative instruments are recognized immediately in general and administrative expenses, unless the derivative is designated as a hedge and qualifies for hedge accounting.

There are three hedging relationships where a derivative (hedging instrument) may qualify for hedge accounting: (1) a hedge of the change in fair value of a recognized asset or liability or firm commitment (fair value hedge), (2) a hedge of the variability in cash flows from forecasted transactions (cash flow hedge), and (3) a hedge of the variability caused by changes in foreign currency exchange rates (foreign currency hedge). Under hedge accounting, recognition of derivative gains and losses can be matched in the same period with that of the hedged exposure and thereby minimize earnings volatility. If the derivative does not qualify for hedge accounting, the Company considers the transaction to be an economic hedge and changes in the fair value of the derivative asset or liability are recognized immediately in general and administrative expenses. At March 31, 2010, the Company had entered into foreign currency cash flow hedges and economic hedges.

In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a fair value, cash flow, or a foreign currency hedge by documenting the relationship between the derivative and the hedged item. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both inception of the hedge and on an ongoing basis. The Company assesses the ongoing effectiveness of its hedges and measures and records hedge ineffectiveness, if any, at the end of each quarter.

For a cash flow hedge, the effective portion of the change in fair value of a hedging instrument is recognized in other comprehensive income, as a component of shareholders investment, and subsequently reclassified to general and administrative expenses. The ineffective portion of a cash flow hedge is recognized immediately in general and administrative expenses.

The Company discontinues hedge accounting prospectively when (1) the derivative expires or is sold, terminated, or exercised, (2) it determines that the hedging transaction is no longer highly effective, (3) a hedged forecasted transaction is no longer probable of occurring in the time period described in the hedge documentation, (4) the hedged item matures or is sold, or (5) management elects to discontinue hedge accounting voluntarily.

When hedge accounting is discontinued because the derivative no longer qualifies as a cash flow hedge, the Company will continue to carry the derivative in the accompanying consolidated balance sheet at its fair value, recognize subsequent changes in the fair value of the derivative in current-period general and administrative expenses, and continue to defer the derivative gain or loss in other comprehensive income or loss until the hedged forecasted transaction affects expenses. If the hedged forecasted transaction is not likely to occur in the time period described in the hedge documentation or within a two month period of time thereafter, the deferred derivative gain or loss is reclassified immediately to general and administrative expenses.

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The Company s reinsurance intermediary subsidiary in the U.K. receives revenues in currencies (primarily in U.S. dollars) that differ from its functional currency. As a result, the foreign subsidiary s functional currency revenue will fluctuate as the currency exchange rates change. To reduce this variability, the Company uses foreign exchange forward contracts and over-the-counter options to hedge the foreign exchange risk of the forecasted collections. The Company has designated these derivatives as cash flow hedges of its forecasted foreign currency denominated collections. At March 31, 2010, the longest outstanding maturity was twenty-one months. As of March 31, 2010 a net $2.5 million pretax loss has been deferred in other comprehensive loss, $2.2 million of which is expected to be reclassified to general and administrative expenses in the next twelve months. Deferred gains or losses will be reclassified from other comprehensive loss to general and administrative expenses when the hedged revenue is recognized. During the three months ended March 31, 2010, the Company recognized no material gains or losses due to hedge ineffectiveness within general and administrative expenses in the accompanying consolidated statement of operations. The Company also uses derivative financial contracts, principally foreign exchange forward contracts to hedge non-functional currency obligations. Primarily, these exposures arise from intercompany lending between entities with different functional currencies.

At March 31, 2010, the Company had cash flow hedges with a notional value of $175.9 million, $59.5 million to hedge revenue cash flows and $116.4 million to hedge short term intercompany loans. The Company determines the fair value of its foreign currency derivatives based on quoted prices received from the counterparty for each contract which the Company evaluates using pricing models whose inputs are observable. The net fair value of derivatives held as of March 31, 2010 was $(1.8) million. See note 11 for further information regarding the determination of fair value.

The fair value of the Company s derivative instruments held at March 31, 2010 and their location in the accompanying consolidated balance sheet are as follows:

	Asset derivatives		Liability derivatives	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivatives designated as hedging instruments:				
Foreign exchange forwards	Other current assets	$ 73	Other current liabilities	$ (3,951)
Foreign exchange options	Other current assets	92	Other current liabilities	(109)
Total derivatives designated as hedging instruments		165		(4,060)
Derivatives not designated as hedging instruments:				
Foreign exchange forwards	Other current assets	2,236	Other current liabilities	
Foreign exchange options	Other current assets		Other current liabilities	(96)
Total derivatives not designated as hedging instruments		2,236		(96)
Total derivatives		$ 2,401		$ (4,156)

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The effect of derivative instruments that are designated as hedging instruments on the accompanying consolidated statement of operations and the consolidated statement of changes in stockholders equity for the nine months ended March 31, 2010 is as follows:

Derivatives designated as hedging instruments:	Loss recognized in OCI (effective portion)	Location of loss reclassified from OCI into income (effective portion)	Loss reclassified from OCI into income (effective portion)	Location of loss recognized in income (ineffective portion and amount excluded from effectiveness testing)	Loss recognized in income (ineffective portion and amount excluded from effectiveness testing)
Foreign exchange forwards	$ (3,150)	General and administrative expenses	$ (835)	General and administrative expenses	$ (36)
Foreign exchange options	(173)	General and administrative expenses		General and administrative expenses	(27)
Total	$ (3,323)		$ (835)		$ (63)

At March 31, 2010 the Company had $118.8 million of notional value of derivatives, as economic hedges primarily to hedge intercompany loans that do not receive hedge accounting treatment. The effect of derivatives which have not been designated as hedging instruments on the accompanying consolidated statement of operations for the three months ended March 31, 2010 are as follows:

Derivatives not designated as hedging instruments:	Location of gain (loss) recognized in income	Gain (loss) recognized in income
Foreign exchange forwards	General and administrative expenses	$ 2,236
Foreign exchange options	General and administrative expenses	(364)
Total		$ 1,872

Note 12- Fair Value Measurements

The Company has categorized its financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Financial assets recorded in the accompanying consolidated balance sheets are categorized based on the inputs in the valuation techniques as follows:

Level 1- Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market.

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Level 2-Financial assets and liabilities whose values are based on the following:

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets;

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and

d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full asset or liability.

Level 3-Financial assets and liabilities whose values are based on prices, or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following presents the Company s assets and liabilities measured at fair value on a recurring basis as of March 31, 2010. There were no assets and liabilities measured at fair value on a recurring basis as of June 30, 2009.

	Fair Value Measurements on a Recurring Basis at March 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	$ 8,363*(a)*	$ 115,810*(a)*	$	$ 124,173
Other current assets		2,401*(b)*		2,401
Other non-current assets	7,558*(c)*			7,558
Liabilities:				
Other current liabilities		4,156*(b)*		4,156

(a) Available for sale consisting of commercial paper and corporate securities.

(b) Primarily foreign exchange forward contracts and foreign exchange options.

(c) Primarily available for sale securities.

The Company recorded a gain of $2,146 for the quarter ended March 31, 2010, under general and administrative expenses in the accompanying consolidated statements of operations related to the changes in the fair value of its financial instruments for foreign exchange forward contracts and foreign exchange options accounted for as foreign currency hedges which are still held at March 31, 2010. There was no gain or loss recorded in the accompanying consolidated statements of operations for available for sale securities still held at March 31, 2010.

To determine the fair value of the Company s foreign exchange forward contracts and foreign exchange options, the Company receives a quoted value from the counterparty for each contract. The quoted price received by the Company is a Level 2 valuation based on observable quotes in the marketplace for the underlying currency. The Company uses these underlying values to estimate amounts that would be paid or received to terminate the contracts at the reporting date based on current market prices for the underlying currency.

The available for sale securities are valued using quoted market prices as of the end of the trading day. The Company monitors the value of the investments for other-than-temporary impairment on a quarterly basis.

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Note 13- Commitments and Contingent Liabilities

The commitment and contingencies described below are currently in effect and could require Towers Watson, or its predecessor companies, Watson Wyatt and Towers Perrin, to make payments to third parties under certain circumstances. In addition to commitments and contingencies specifically described below, Towers Watson and its historical predecessor companies, Watson Wyatt and Towers Perrin, have historically provided guarantees on an infrequent basis to third parties in the ordinary course of business.

Subordinated Notes due January 2011: On December 30, 2009, in connection with the Merger and the Class R Elections as described in Note 2, Towers Watson entered into an Indenture (the Indenture) with Wilmington Trust FSB, as Trustee (the Trustee), for the issuance of Towers Watson Notes in the aggregate principal amount of $200 million. The Towers Watson Notes were issued on January 6, 2010, bearing interest from January 4, 2010 at a fixed per-annum rate of 2.0 percent, and will mature on January 1, 2011. The Indenture contains limited operating covenants, and obligations under the Towers Watson Notes are subordinated to the Company s obligations under the Senior Credit Facility (as defined below) on the terms set forth in the Indenture.

Towers Watson Senior Credit Facility: On January 1, 2010, in connection with the Merger, Towers Watson and certain subsidiaries entered into a three-year, $500 million revolving credit facility with a syndicate of banks (the Senior Credit Facility). Borrowings under the Senior Credit Facility will bear interest at a spread to either LIBOR or the Prime Rate. We are charged a quarterly commitment fee, currently 0.5 percent of the Senior Credit Facility, which varies with our financial leverage and is paid on the unused portion of the Senior Credit Facility. Obligations under the Senior Credit Facility are guaranteed by Towers Watson and all of its domestic subsidiaries (other than PCIC) and are secured by a pledge of 65 percent of the voting stock and 100 percent of the non-voting stock of Towers Perrin Luxembourg Holdings S.A.R.L.

The Senior Credit Facility contains customary representations and warranties and affirmative and negative covenants. The Senior Credit Facility requires Towers Watson to maintain certain financial covenants that include a minimum Consolidated Interest Coverage Ratio and a maximum Consolidated Leverage Ratio (which terms in each case are defined in the Senior Credit Facility). In addition, the Senior Credit Facility contains restrictions on the ability of Towers Watson and its subsidiaries to, among other things, incur additional indebtedness; pay dividends; make distributions; create liens on assets; make investments, loans or advances; make acquisitions; dispose of property; engage in sale-leaseback transactions; engage in mergers or consolidations, liquidations and dissolutions; engage in certain transactions with affiliates; and make changes in lines of businesses.

As of March 31, 2010, Towers Watson had $15.0 million of borrowings outstanding under the Senior Credit Facility.

Letters of Credit under the Senior Credit Facility: As of March 31, 2010, Towers Watson had standby letters of credit totaling $21.2 million to guarantee payment to a beneficiary in the event that it fails to meet its financial obligations to the beneficiary. Additionally, Towers Watson had $0.8 million of standby letters of credit covering various other existing or potential business obligations. The aforementioned letters of credit are issued under the Senior Credit Facility, and therefore reduce the amount that can be borrowed under the Senior Credit Facility by the outstanding amount of these standby letters of credit.

Additional Borrowings, Letters of Credit and Guarantees not part of the Senior Credit Facility: Towers Perrin Foster and Crosby, Ltda. (Brazil) has a bilateral credit facility with a major bank totaling Brazilian Real (BRL) 6.5 million (U.S. $3.6 million). As of March 31, 2010, a total of BRL 5.0 million ($2.8 million) was outstanding under this facility.

Towers Watson has also provided a $5.0 million Australian dollar-denominated letter of credit (U.S. $4.6 million) to an Australian governmental agency as required by the local regulations. The estimated fair market value of these letters of credit is immaterial because they have never been used, and the Company believes that the likelihood of future usage is remote.

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Towers Watson also has $2.5 million of letters of guarantee from major banks in support of office leases and performance under existing or prospective contracts**.**

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

Legal Proceedings: From time to time, Towers Watson and its subsidiaries, including Watson Wyatt and Towers Perrin, are parties to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. The matters reported on below involve the most significant pending or potential claims against Towers Watson and its subsidiaries. We also have received subpoenas and requests for information in connection with government investigations.

Watson Wyatt and Towers Perrin each carried 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. These policies remained in force subsequent to the Merger. We reserve for contingent liabilities based on ASC 450, Contingencies when it is determined that a liability, inclusive of defense costs, is probable and reasonably estimable. The contingent liabilities recorded are primarily developed actuarially. Litigation is subject to many factors which are difficult to predict so there can be no assurance that in the event of a material unfavorable result in one or more of all pending claims, we will not incur material costs. Our professional liability insurance coverage beyond our self-insured retention was written by PCIC, an affiliated captive insurance company, with reinsurance and excess insurance attaching at $26 million provided by various unaffiliated commercial insurance carriers. Post-Merger, Towers Watson has a 72.86 percent ownership interest in PCIC and as a result, PCIC s results will be consolidated in Towers Watson s operating results. Although the PCIC insurance policies will continue to cover professional liability claims above a $1 million per occurrence self-insured retention, the consolidation of PCIC will effectively result in self-insurance for the first $25 million of aggregate loss for each of Watson Wyatt and Towers Perrin above the $1 million per occurrence self-insured retention. As a result of consolidating PCIC s results of operations in the Company s consolidated financial statements, the impact of PCIC s reserve development also may result in fluctuations in Towers Watson s earnings. PCIC will cease issuing insurance policies effective July 1, 2010 and will at that time enter into a run-off mode of operation.

ExxonMobil Superannuation Plan (Australia)

In March 2007, the Trustees of the ExxonMobil (Australia) Superannuation Plan commenced a legal proceeding in the Supreme Court of Victoria against Towers Perrin; the plan sponsors, Esso (Australia) and ExxonMobil (Australia), commenced a similar legal proceeding against Towers Perrin in April 2007 (collectively the 2007 actions). On May 15, 2009, as the time was expiring to add any additional contributing parties, Towers Perrin filed third-party claims against Watson Wyatt, the successor actuary and Plan administrator.

The complaints in the 2007 actions allege that while performing administrative and actuarial services for the Superannuation Plan during the period from mid-1990 to 1995, Towers Perrin failed to detect drafting errors made by previous plan advisors including attorneys, when they prepared certain amendments to the Superannuation Plan Deed. These amendments were adopted before Towers Perrin commenced its engagement. Watson Wyatt succeeded Towers Perrin as the plan administrator and plan actuary in 1996 and continues to serve in those capacities. The previous plan advisors are also named as defendants in the 2007 actions.

Plaintiffs allege that the faulty drafting resulted in the grant of additional, but unintended and unauthorized benefits, to certain Superannuation Plan participants. Plaintiffs further allege that because Towers Perrin failed to detect the drafting error, benefits were not properly administered and the plan was not properly funded. Towers Perrin administered and valued the plan benefits consistent with what the plan sponsors contend was intended. Watson Wyatt continued to administer and value the benefits in the same manner when it succeeded Towers Perrin in 1996.

The most recent estimate of the value of the allegedly unintended benefits is AU$538 million.

The Trustee and plan sponsors have been engaged since 2001 in a separate legal proceeding (the rectification action) that seeks an interpretation of the relevant portions of the plan Deed and, if necessary, modification to conform those portions to reflect the manner in which the benefits were intended to be, and were, administered during both the Towers Perrin and Watson Wyatt engagements.

The April 2010 trial date previously set for the rectification action has been adjourned in light of ongoing settlement efforts among the parties to that action.

Former Towers Perrin shareholder litigation

On December 9, 2009, Watson Wyatt was informed by Towers Perrin of a settlement demand from the plaintiffs in a putative class action lawsuit filed by certain former shareholders of Towers Perrin (the *Dugan Action*). Although the complaint in the *Dugan Action* does not contain a quantification of the damages sought, plaintiffs settlement demand, which was orally communicated to Towers Perrin on December 8, 2009 and in writing on December 9, 2009, sought a payment of $800 million to settle the action on behalf of the proposed class. Plaintiffs requested that Towers Perrin communicate the settlement demand to Watson Wyatt.

The *Dugan Action* previously was reported in Amendment No. 3 to the Registration Statement on Form S-4/A (File No. 333-161705) filed on November 9, 2009 by the Jupiter Saturn Holding Company (the Registration Statement). As reported in the Registration Statement, the complaint was filed on November 5, 2009 against Towers Perrin, members of its board of directors, and certain members of senior management in the United States District Court for the Eastern District of Pennsylvania.

Plaintiffs in this action are former members of the Towers Perrin s senior management, who left Towers Perrin at various times between 1995 and 2000. The *Dugan* plaintiffs seek to represent a class of former Towers Perrin shareholders who separated from service on or after January 1, 1971, and who also meet certain other specified criteria.

On December 17, 2009, four other former Towers Perrin shareholders, all of whom voluntarily left Towers Perrin in May or June 2005 and all of whom are excluded from the proposed class in the *Dugan Action*, commenced a separate legal proceeding (the *Allen Action*) in the United States District Court for the Eastern District of Pennsylvania alleging the same claims in substantially the same form as those alleged in the *Dugan Action*. These plaintiffs are proceeding in their individual capacities and do not seek to represent a proposed class.

On January 15, 2010, another former Towers Perrin shareholder who separated from service with Towers Perrin in March 2005 when Towers Perrin and EDS launched a joint venture that led to the creation of a corporate entity known as ExcellerateHRO (eHRO), commenced a separate legal proceeding (the *Pao Action*) in the United States District Court of the Eastern District of Pennsylvania also alleging the same claims in substantially the same form as those alleged in the *Dugan Action*. Towers Perrin contributed its Towers Perrin Administrative Solutions (TPAS) business to eHRO and formerly was a minority shareholder (15 percent) of eHRO. Pao seeks to represent a class of former Towers Perrin shareholders who separated from service in connection with Towers Perrin s contribution to eHRO of its TPAS business and who are excluded from the proposed class in the *Dugan Action*. Towers Watson is also a defendant in the Pao Action.

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Pursuant to the Towers Perrin Bylaws in effect at the time of their separations, the Towers Perrin shares held by each of these plaintiffs were redeemed by Towers Perrin at book value at the time these individuals separated from employment. The complaints allege variously that there either was a promise that Towers Perrin would remain privately owned in perpetuity (*Dugan Action*) or that in the event of a change to public ownership plaintiffs would receive compensation (*Allen* and *Pao Actions*). Plaintiffs allege that by agreeing to sell their shares back to Towers Perrin at book value upon retirement, they and other members of the putative classes relied upon these alleged promises, which they claim were breached as a result of the consummation of the merger between Watson Wyatt and Towers Perrin. The complaints assert claims for breach of contract, breach of express trust, breach of fiduciary duty, promissory estoppel, quasi-contract/unjust enrichment, and constructive trust, and seek equitable relief including an accounting, disgorgement, rescission and/or restitution, and the imposition of a constructive trust. On January 20, 2010, the court consolidated the three actions for all purposes.

On February 22, 2010, defendants filed a motion to dismiss the complaints in their entireties. The motion is not yet fully briefed and remains pending.

Towers Watson believes the claims in these lawsuits are without merit and intends to defend against them vigorously. However, the cost of defending against the claims could be substantial and the outcome of these legal proceedings is inherently uncertain and could be unfavorable to Towers Watson.

Note 14 Recent Accounting Pronouncements.

Adopted

In June 2009, the Financial Accounting Standards Board (FASB) issued its final Statement of Financial Accounting Standards (SFAS) No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 made the FASB Accounting Standards Codification (the Codification) the single source of U.S. GAAP used by nongovernmental entities in the preparation of financial statements, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative accounting guidance for SEC registrants. The Codification is meant to simplify user access to all authoritative accounting guidance by reorganizing U.S. GAAP pronouncements into roughly 90 accounting topics within a consistent structure; its purpose is not to create new accounting and reporting guidance. The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for the Company beginning July 1, 2009. Following SFAS No. 168, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates.

ASC 805, Business Combinations which is a revision of accounting provisions that changes the application of the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; contingent consideration will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. ASC 350-30-35-1, Determination of the Useful Life of Intangible Assets amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of recognized intangible assets under ASC 350, Goodwill and Other Intangible Assets. ASC 805-20-25-18A, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies which amends and clarifies the accounting for acquired contingencies and is effective upon the adoption of ASC 805, Business Combinations. We adopted these provisions on July 1, 2009.

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ASC 810, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income. It also amends certain consolidation procedures for consistency with the requirements of ASC 805, Business Combinations. The provisions also include expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. We adopted these provisions on July 1, 2009. As a result, Watson Wyatt s non-controlling interest of $1.0 million as of June 30, 2009, which was previously included in other non-current liabilities, was reclassified to non-controlling interest in total equity.

ASC 815-10-50, SFAS 161, Disclosures About Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133 gives financial statement users better information about the reporting entity s hedges by providing for qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. We adopted these provisions on January 1, 2009.

ASC 820, Fair Value Measurements defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company adopted these provisions for financial assets and liabilities on July 1, 2008 and for nonfinancial assets and liabilities on July 1, 2009. These adoptions did not have a material impact on the Company s financial position or results of operations

Not yet adopted

ASC 715-10-50, Employers Disclosures about Postretirement Benefit Plan Assets provides guidance on the objectives an employer should consider when providing detailed disclosures about assets of a defined benefit pension plan or other postretirement plan. These disclosure objectives include investment policies and strategies, categories of plan assets, significant concentrations of risk and the inputs and valuation techniques used to measure the fair value of plan assets. These provisions are effective for our fiscal year ending June 30, 2010. The Company is currently evaluating the effects these provisions may have on its financial statements.

ASC 810 Amendments to FASB Interpretation No. 46 (R) which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity provided by FASB Interpretation 46(R), Consolidation of Variable Interest Entities-An Interpretation of ARB No. 51. Additionally, the provisions require ongoing assessment of whether an enterprise is the primary beneficiary of the variable interest entity. We will adopt these provisions on July 1, 2010. The Company is currently evaluating the effects these provisions may have on its financial statements.

Note 15 Income Taxes.

At March 31, 2010, Towers Watson s gross liability for income taxes associated with uncertain tax positions was $37.5 million. This liability can be reduced by $3.6 million of offsetting deferred tax benefits associated with foreign tax credits and the federal tax benefit of state income taxes. The net difference of $33.9 million, if recognized, would have a favorable impact on the Company s effective tax rate. The gross tax liability for uncertain tax positions increase is mainly due to the inclusion of legacy Towers Perrin s liability of $26.7 million.

Interest and penalties related to income tax liabilities are included in income tax expense. At March 31, 2010, Towers Watson had accrued interest of $3.0 million and penalties of $0.07 million, totaling $3.07 million.

The Company believes it is reasonably possible that there will be a $0.9 million decrease in the gross tax liability for uncertain tax positions within the next 12 months based upon potential settlements and the expiration of statutes of limitations in various tax jurisdictions.

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

	Open Tax Years
&n	