WATSON WYATT & CO HOLDINGS
Form 10-K
August 24, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended June 30, 2005** **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: 001-16159

WATSON WYATT & COMPANY HOLDINGS

(Exact name of registrant as specified in its charter)

Delaware	**52-2211537**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

901 N. Glebe Road
Arlington, VA 22203
(Address of principal executive offices, including zip code)

(703) 258-8000
(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, $0.01 par value (32,663,706 shares outstanding as of July 31, 2005)	**New York Stock Exchange**

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 ý No o

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

Yes o No ý

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ý No o

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

Yes o No ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was $832,164,144 as of June 30, 2005.

Documents Incorporated by Reference

Portions of the Definitive Proxy Statement for the Annual Meeting of Stockholders to be held on or about November 11, 2005 are incorporated by reference into Part III of this Form 10-K.

PART I

Item 1. Business.

Business Combination

Effective as of July 31, 2005, Watson Wyatt & Company Holdings completed the acquisition of assets and assumptions of liabilities of Watson Wyatt LLP (WWLLP) (the acquisition), a privately held limited liability partnership registered in England. Prior to this date, Watson Wyatt & Company Holdings and WWLLP jointly offered services under the Watson Wyatt Worldwide brand through an alliance established in 1995. In connection with this alliance, Watson Wyatt & Company Holdings held an interest in WWLLP. Upon consummating the acquisition, Watson Wyatt & Company Holdings acquired the remaining interest in the assets of WWLLP. Additional information about the acquisition is set forth in the Form 8-K (File No. 001-16159) filed with the SEC by Watson Wyatt & Company Holdings on August 1, 2005.

Since the acquisition occurred subsequent to the end of fiscal year 2005, the Consolidated Financial Statements and related information contained herein do not reflect the acquisition. For more information regarding this business acquisition and the accounting for the company s share of WWLLP and Watson Wyatt Holdings (Europe) Limited (WWHE) prior to the business acquisition, see Note 2 and Note 4, respectively, of Notes to the Consolidated Financial Statements included in Item 15 of this report.

Business Overview

Watson Wyatt & Company Holdings, including its subsidiaries (collectively referred to as we , Watson Wyatt or the company), is a global human capital consulting firm. We help our clients enhance business performance by improving their ability to attract, retain and motivate qualified employees. We focus on delivering value-added consulting services that help our clients anticipate, identify and capitalize on emerging opportunities in human capital management. As of June 30, 2005, we implemented this strategy through approximately 3,875 associates in 63 offices located in 20 countries. As a result of the acquisition, we now have approximately 6,000 associates in 32 countries.

As leading economies worldwide have become more services-oriented, human capital has become increasingly important to companies and other organizations. The heightened competition for skilled employees, unprecedented changes in workforce demographics, regulatory changes related to compensation and retiree benefits, and rising employee-related costs have increased the importance of effective human capital management. We help our clients address these issues by combining our expertise in human capital management with consulting and technology, to improve the design and implementation of various human resources, or HR, programs, including compensation, retirement and health care plans.

We design, develop and implement HR strategies and programs through the following closely-interrelated practice areas:

Benefits Group	**Technology Solutions Group**	**Human Capital Group**
Retirement plans, including pension, 401(k) and executive benefits plans	Web-based applications for health and welfare, pension and compensation administration	Compensation plans, including broad-based and executive compensation, stock and other long-term incentive programs
Health care, disability and other group benefit plans	Call center strategy, design and tools	Strategies to align workforce performance with business objectives
Investment consulting services to pension plans	Strategic, research-based HR technology and service delivery consulting	Organization effectiveness consulting, including talent management, through organization and employee research
Global compensation, benefits, expatriate and HR practice strategy, implementation and administration	Targeted online compensation and benefits statements, content management and call center case management solutions	Strategies for attracting, retaining and motivating employees
Actuarial services		Performance management
Strategic workforce planning		

Our clients include many of the world s largest corporations as well as emerging growth companies, public institutions and nonprofit organizations.

Competitive Advantage

We believe that our competitive advantages include our strong client relationships, our thought leadership and our experienced management team.

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

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

Our senior management team is strong, with an average tenure of 15 years with the company and a reputation for transparency and accountability. We consider this group to be a major asset to the company.

Corporate Information

Including predecessors, we have been in business since 1946. The Wyatt Company was incorporated in Delaware on February 17, 1958. We conducted business as The Wyatt Company from 1958 until changing our corporate name to Watson Wyatt & Company in connection with the establishment of the Watson Wyatt Worldwide alliance in 1995. Watson Wyatt & Company Holdings was incorporated in Delaware on January 7, 2000, and conducts business through its principal operating subsidiary, Watson Wyatt & Company.

Watson Wyatt Worldwide Alliance

Recognizing our clients need for consulting services worldwide, in the late 1970s we established operations throughout Europe by acquiring local firms and opening new offices. In 1995, in response to the rapidly increasing globalization of the world economy, we made a strategic decision to strengthen our European capabilities significantly and extended our global reach. We entered into an alliance with R. Watson & Sons (Watson Wyatt LLP, or WWLLP), a leading United Kingdom-based actuarial, benefits and human resources consulting partnership founded in 1878. Since 1995, we have marketed our services globally under the Watson Wyatt Worldwide brand, sharing resources, technologies, processes and business referrals with Watson Wyatt LLP.

As of June 30, 2005, the Watson Wyatt Worldwide alliance maintains 90 offices in 32 countries and employs approximately 6,000 associates. Watson Wyatt & Company Holdings at that date was responsible for operations in 20 countries in North America, Latin America and Asia-Pacific while Watson Wyatt LLP was primarily responsible for operations in the United Kingdom and Ireland. The alliance was responsible for operations in continental Europe, principally through a jointly-owned holding company, Watson Wyatt Holdings (Europe) Limited. Before the acquisition, Watson Wyatt & Company owned 25 percent of the holding company; Watson Wyatt LLP owned 75 percent.

In connection with the company s acquisition of WWLLP, the alliance was terminated effective July 31, 2005. Since the acquisition occurred subsequent to the end of fiscal year 2005, the Consolidated Financial Statements and related information contained herein do not reflect the acquisition. For more information regarding this business acquisition and the accounting for the company s share of WWLLP and WWHE prior to the business acquisition, see Note 2 and Note 4, respectively, of Notes to the Consolidated Financial Statements included in Item 15 of this report.

Human Resources Consulting Industry

The growing demand for employee benefits and human capital consulting services is directly related to the increasing size and complexity of today s human resources programs and the societal forces that are stimulating their rapid change. In the United States alone, employers spend more than $6.7 trillion annually in direct costs of human capital programs, such as compensation and benefits. In 2003, U.S. employers contributed nearly $200 billion to pension and profit-sharing plans, and more than $480 billion to group health insurance programs, while the assets of U.S. employer-sponsored retirement plans approximated $9.8 trillion.

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

Consulting Services

Our North American operations include three principal practice groups: Benefits, Technology Solutions and Human Capital. Outside North America, our operations are organized and managed on a geographic basis. The percentage of revenues generated in the various groups is as follows:

	2005	2004	2003
Benefits Group	63%	64%	61%
Technology Solutions Group	10	11	14
Human Capital Group	8	7	7
International	13	12	11
Other (including Communication and Data Services)	6	6	7
Total	100%	100%	100%

For more information about industry segments, see Note 13 of Notes to the Consolidated Financial Statements, included in Item 15 of this report.

Benefits Group

Our Benefits Group   with 1,600 associates   consists primarily of consulting practices in retirement, group and health care, and pension investment management. It is our largest and most established practice, with a franchise dating to 1946. This group works with clients to create cost-effective retirement and health care benefits programs that help attract, retain and motivate a talented workforce. We strive to provide tailored benefits programs for our clients, and we base our recommendations on extensive research. Our Benefits Group accounted for approximately 63 percent of our total segment revenues for the fiscal year ended June 30, 2005.

Retirement Consulting

We are one of the world   s largest advisers on retirement plans, providing actuarial and consulting services for large defined benefit and defined contribution retirement plans. Our consultants work with clients to assess the impact that changing workforce demographics will have on their retirement plans, corporate cash flow requirements and retiree benefits adequacy and security.

In North America, and throughout much of the developed world, organizations provide employees with retirement security through funded pension plans, most of which are either defined benefit or defined contribution plans. A typical defined benefit plan is characterized by employer contributions and a specified future benefit to the employee. Such plans typically involve large asset pools, complex calculations to determine employer costs, funding requirements and sophisticated analysis to match liabilities and assets over long periods of time. These plans are commonly referred to as pension plans. A typical defined contribution retirement plan is characterized by employee contributions, possible employer matching contributions and an unspecified future benefit   based on investment returns   paid to the employee. In the United States, the most common example of a defined contribution plan is a 401(k) plan.

Our target market for retirement consulting is companies with large defined benefit plans, such as the Fortune 1000, Pensions & Investments 1000 (P&I 1000), and other similarly-sized plans and plan sponsors. Watson Wyatt is one of the leading service providers to our target market of the combined list of the P&I and Fortune 1000. Our consultants provide actuarial services and are the named actuaries to many of the world   s largest retirement plans, including the three largest corporate pension plan sponsors in the United States. Additionally, our corporate client retention rate within this group has remained very

high, averaging over 95 percent over the past two years. The market for actuarial consulting for these large companies is fragmented, and no single consulting firm dominates this target market.

Our retirement services include:

- Strategic plan design
- Actuarial services
- Administrative services
- Analysis and recommendations on funding and expense strategy
- Defined contribution services including discrimination testing and vendor selection
- Multinational asset pooling consulting
- Financial reporting
- Valuation and diagnostic software and systems
- Assistance with changes relating to mergers, acquisitions and divestitures
- Compliance consulting

In both the defined benefit and defined contribution areas, we emphasize research-based consulting to design retirement programs that align our clients workforces with their business strategies. Some examples of our innovative plans and programs are:

Stable Value - an alternative retirement plan design that combines the benefit features of defined contribution and cash balance plans with the rules of a traditional defined benefit plan to facilitate plan redesigns in today s uncertain environment. Combined with asset strategies, the Stable Value Plan can help companies address the financial volatility they face due to their pension plan

Flex Pension Plus™ for Canadian organizations, a tax-effective, supplemental retirement plan for attracting and retaining key employees

Phased Retirement Programs a combination of programs that help clients attract and retain older workers by enabling them to balance work/life needs through a gradual transition to retirement

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

PensionPath® in partnership with our Technology Solutions Group, we deliver this full-featured, web-based solution designed to meet the pension administration needs of companies of all sizes

Retirement Management Online a portal that links clients to a suite of Watson Wyatt tools, research and data

FASTool an interactive tool that allows the immediate comparison of balance sheet information and assumptions related to pension and retiree medical plans for large publicly-traded companies

Quick Peek® Online a web-enabled tool that allows pension plan sponsors to quickly and easily model a variety of financial and business situations, and project retirement plan contributions, funded status and expense

Group and Health Care Consulting

Employers look to provide health and welfare benefits that will help them to attract and retain qualified workers and to enhance the health and productivity of their workforce. Given increasing health care costs, declining employee satisfaction and the increased administrative burden for U.S. companies, this challenge has never been greater. Globally, many health care systems are strained by shrinking resources and increasing demand due to population aging and declining health status. In the United States, these underlying forces are creating pressure for new approaches to providing health care benefits for workers and retirees approaches that engage patients as consumers of health care and not just passive recipients. These methods encourage employees to participate more actively in the health care buying decision by putting workers in charge of spending their own health care dollars and by providing them with the tools and information necessary to make wiser health purchasing decisions.

Clients ask us to help them with the design, financing, administration, communication and management of their health and welfare benefit plans, to improve employee health and productivity, and to control their health-related benefit costs.

Our services include:

- Strategic plan design of health and welfare, paid time off and flexible benefit plans, including designs that feature consumerism and health savings accounts
- Retiree health programs
- Health and productivity management
- eHealth strategy and implementation
- Total program management
- Vendor performance and management
- Measurement of program effectiveness
- Assistance with plan changes relating to mergers, acquisitions and divestitures

Our approach to group benefits consulting is data-driven, research-based and makes use of sophisticated consulting tools, including:

- BenefitConnect™ a customizable, web-based application that combines self-service employee tools with administrative and call center components to facilitate the administration and management of health and welfare benefits

I-E Engine an innovative technology that automates the vendor selection and management process through five modules that support specific components of the health and welfare benefits life cycle

PreView™ a medical benefits cost modeling system that accurately and quickly models medical claims under alternative plan designs, covered populations and managed care delivery systems

ConsumerHealthView a cost modeling system that assesses the short-term and long-term financial impact of consumer-driven health plans

Health Plan Value Library™ a database of information on the cost, quality and accessibility of health plans, used to screen and evaluate health plans

Avoidable Claims Analysis a data analysis system that identifies opportunities for the reduction of medical claims through health management programs

Investment Consulting

Pension plan sponsors face challenges in today s market environment. Through our registered investment advisor subsidiary, we offer investment consulting services that help clients throughout the world maximize the risk-adjusted return on their retirement plan assets, develop governance policies and strategies, and design investment structures to manage financial liabilities within the context of their overall organizational objectives.

Our services include:

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

We offer the following integrated services for plan sponsors:

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

Watson Wyatt Advanced Investment Solutions® fiduciary outsourcing for defined benefit plans. We work with the plan sponsor to develop an investment policy and directly manage the implementation of that policy

Technology Solutions Group

Our Technology Solutions Group of 335 associates provide technology, consulting and outsourcing services to a market increasingly defined by four key dynamics: enterprise resource planning systems (ERPs), total benefits outsourcing (TBO), human resource outsourcing (HR BPO) and co-sourcing.

ERP vendors are expanding into broader HR services, including benefits or compensation administration, looking for increased revenues through upgrades and additional services offerings. TBO and HR BPO providers are also expanding their service lines across additional HR domains and promoting a one-stop-shop method to benefits administration. Watson Wyatt s technology business strategy is targeted towards businesses that use a mix of sourcing strategies. Our approach allows an organization to choose to outsource (1) the technology only, (2) the technology and administration services, or (3) the technology, administration and employee support services. Combining best-in-class technology solutions with outsourcing services offers employers lower cost, greater flexibility and more comprehensive options than stand-alone ERPs or total outsourcing approaches.

Watson Wyatt has long provided benefits administration solutions to our clients. We offer targeted applications in our core areas, including:

PensionPath® this web-based solution is designed to meet the pension administration needs of companies. The offering includes case management and administration tools to manage the entire life cycle of pension administration, from new hire to retirement, and employee self-service tools that enhance workers understanding of their retirement benefits future value.

PensionPath can be customized on both the front- and back-end to match the client s brand and specific service needs, while allowing employees to easily obtain pension estimates. Much more than the typical pension calculator, PensionPath brings an extensive array of system-level tools into the hands of benefits staff, including event processing and administration, ad hoc and standard reporting, full calculations, history tracking and multi-user capabilities.

BenefitConnect a web-based solution combining self-service tools that educate and engage employees with administrative and call center components to reduce the burden of health and welfare plan administration for employers. This tool provides employers greater flexibility and control over the cost of their health and welfare plan enrollment and administration.

BenefitConnect serves the entire spectrum of potential users, including employees, plan administrators, customer service representatives, HR and benefit managers, vendors and carriers. It can be configured and branded to meet companies unique requirements and plan and vendor formats.

BenefitConnect s full functionality helps users manage benefits data, make eligibility calculations, facilitate annual and ongoing plan enrollment, integrate with payroll solutions and carriers to process participant elections, and manage and track employee calls, transactions and cases. It also allows companies to create or leverage their internal call center with a powerful suite of web-based call center tools.

Reward® a suite of compensation management applications that automates all aspects of pay delivery including market pricing, compensation design and analysis and manager self-service for compensation planning

eStatements integrated, web-based applications that provide employees with a personalized view of their compensation and benefit programs, costs and account balances

AnswerKey Watson Wyatt s shared service center solution is a web-based case management tool designed to support the business of service center operations by effectively integrating data and critical tools

We also provide clients with strategic, research-based HR technology and service delivery consulting, while working with them to align their HR strategy with their business goals and to use HR technology to improve customer satisfaction and sustainable return on investment (ROI). Our services in this area include vendor assessments and selection and service delivery model development, including shared services strategy and design.

Our approach establishes the foundation for employee relationship management, allowing our clients to connect their people and processes to their business strategy to improve performance. Our Technology Solutions Group represented approximately 10 percent of our total segment revenues for the fiscal year ended June 30, 2005.

Human Capital Group

Our Human Capital Group of 170 associates helps clients achieve competitive advantage by aligning their workforce with their business strategy. This includes helping clients develop and implement strategies for attracting, retaining and motivating their employees to maximize the return on their investment in human capital. Our Human Capital Group represented approximately 8 percent of our total segment revenues for the fiscal year ended June 30, 2005.

Our Human Capital Group focuses in three principal areas: executive compensation, Strategic Rewards® and organization effectiveness.

Executive Compensation

We advise our clients management and boards of directors on executive pay programs, including cash compensation, stock options and stock purchase plans, and on ways to align pay-for-performance plans throughout the organization to increase stockholder value.

Strategic Rewards®

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

Organization Effectiveness

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

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

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

International Operations

Our international segment is comprised of operations in 26 offices in Asia-Pacific and Latin America, employing 940 associates, which generally provide our full array of services. This segment represented approximately 13 percent of our total segment revenues for the fiscal year ended June 30, 2005.

We established our presence in Asia-Pacific in 1979 with offices in Hong Kong and Malaysia and grew substantially throughout the 1980s and 1990s by establishing new offices and acquiring existing firms. We have been successful in helping our clients with complex personnel and cultural issues that are necessary to grow their businesses.

We also provide compensation and benefits surveys in the region, with more than 50 different survey products, as of fiscal year end. We are a leading provider of retirement and other employee benefit consulting services in Asia-Pacific, and we provide investment consulting services to some of the largest pension plans in Japan and Hong Kong. We were named HR Consulting Firm of the Year in Hong Kong by *China Staff* magazine for the past seven years in a row. In addition to our human capital and benefits consulting services, we also market technology solutions to clients in the region.

Our Latin American presence began in the early 1980s in Mexico and grew to include such major markets as Brazil in the 1990s. We have most recently opened new offices in Chile and Uruguay. With deregulation, privatization and the influx of multinational corporations, we believe there are significant opportunities for growth in the region, both in the benefits area where most of our services are concentrated currently and in the human capital consulting area.

Other Services

Communication Consulting

In our communication consulting group, we help clients connect people with the organization s purpose, driving both results and behavioral change. Our award-winning work and ground-breaking research prove that effective communication increases total returns to shareholders; improves service, quality and productivity levels; helps fuel growth; enhances organizational ability to manage change successfully; builds employee community, trust and commitment; and educates, engages and motivates employee behavioral change. Working with clients who have responsibility for employee communication in human resources, corporate or line functions, our consultants combine strong creative skills with technical excellence to create programs that range from high-level strategic planning to tactical implementation.

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

Clarifying the financial value and scope of employee compensation and benefits and enhancing employees appreciation of their total rewards package

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

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

Facilitating organizational change so that all stakeholders fully understand the change and their role in its success

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

Demonstrating the return on investment (ROI) of employee communication in achieving business objectives

Targeting, attracting and hiring the right talent to meet business objectives through innovative communication materials

Watson Wyatt Data Services

Watson Wyatt Data Services provides a comprehensive array of global compensation, benefits and employment practices information that is often studied and cited by many of our clients and competitors. In the United States, we publish and market an extensive library of reports on human resources issues, and more than 2,600 organizations participate in one or more of our annual surveys. Our databases contain compensation information for U.S. companies that employ over 16 million workers. Detailed compensation and benefits data is maintained for 3 million workers in virtually every industry sector and major metropolitan area. Outside of the United States, at June 30, 2005, our worldwide alliance offered more than 80 remuneration, benefits and employment practice reference guides, covering 50 countries and 5 continents. In addition to our annual survey reports, we also offer many reference works intended to help practitioners create or maintain programs in a variety of subject areas, including variable pay, performance management and personnel policies.

Integrated Service Approach

While we focus our consulting services in the principal areas described above, we draw upon consultants from our different practices to deliver integrated services to meet the needs of our clients. An example is our Total Rewards approach, which encompasses compensation, benefits, career growth and company culture. We help clients determine the correct mix of reward programs to attract and retain the right employees and to motivate them to produce desired results. We also assemble cross-practice teams to help clients through mergers and acquisitions.

Sales and Marketing

Our growth strategy is based on a commitment to ensuring client satisfaction through our account management program. Our approximately 50 account managers focus on effectively delivering services to clients and on expanding our relationships across service lines, geographic boundaries and divisions within client companies. A key element of this program is an approach we call ClientFirst™. Using proprietary processes and tools, we work with clients to define their needs and expectations before an engagement begins and then continually measure our performance according to agreed-upon standards.

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

Clients

We work with major corporations, emerging growth companies, government agencies and not-for-profit institutions in North America, Latin America and Asia-Pacific across a wide variety of industries. Our client base is broad and geographically diverse. For the fiscal year ended June 30, 2005, our 10 largest clients accounted for approximately 11 percent of our consolidated revenues, and no individual client represented more than 2 percent of our consolidated revenues.

Competition

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

Our current and anticipated competitors include:

Major human resources-focused consulting firms that compete in serving the large employer market worldwide, such as Mercer Human Resource Consulting, Towers Perrin and Hewitt Associates

Smaller benefits and compensation consulting firms, such as The Segal Company and the Hay Group

The human resources consulting divisions of diversified professional services, financial services and insurance firms, such as PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and Aon.

Information technology consulting firms, such as Accenture, IBM, ACS and BearingPoint, as well as Internet/intranet development firms

Boutique consulting firms comprised primarily of professionals formerly associated with the firms mentioned above

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

Employees

As of June 30, 2005, the company employed 3,875 associates as follows:

Benefits Group	1,600
Technology Solutions Group	335
Human Capital Group	170
International	940
Other (including Data Services and Communication)	600
Corporate	230
Total	3,875

None of our associates are subject to collective bargaining agreements. We believe relations between management and associates are good.

Risk Factors

In addition to the factors discussed elsewhere in this report, the following are some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements.

Watson Wyatt s success will continue to depend on its ability to recruit and retain qualified consultants generally as well as Watson Wyatt LLP key personnel; our failure to do so could adversely affect our ability to integrate Watson Wyatt LLP and generally to compete successfully.

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

With respect to the business acquired from WWLLP in particular, Watson Wyatt s ongoing success also will be subject to Watson Wyatt s ability to retain Watson Wyatt LLP key personnel. We cannot assure that Watson Wyatt LLP key personnel will remain employees of Watson Wyatt after the acquisition. If Watson Wyatt LLP key personnel choose not to stay with Watson Wyatt after the acquisition, we may experience substantial disruption in our efforts to integrate the European business, which could adversely affect our performance. In addition, if any key personnel were to join an existing competitor or form a competing company, some clients could choose to use the services of that competitor instead of our services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A client s assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding;

A claim arising out of the use of inaccurate data, which could lead to an underestimation of plan liabilities; and

A claim that employee benefit plan documents were misinterpreted or plan amendments were misstated in plan documents, leading to overpayments to beneficiaries.

Defending lawsuits arising out of any of our services has required and could require substantial amounts of management attention, which could affect management s focus on operations, adversely affect our financial performance and result in increased insurance costs. In addition to defense costs and liability exposure, malpractice claims may produce negative publicity that could hurt our reputation and business. For a discussion of significant legal proceedings, please refer to Legal Proceedings on page 19. We have been subject to inquiries and investigations by federal, state or other governmental agencies regarding aspects of our business, especially regulated businesses such as investment consulting or insurance consulting. Such inquiries or investigations may consume significant management time and require additional expense.

Insurance may become more difficult or expensive to obtain.

Insurance markets have hardened over recent years for most classes of professional liability risk. As the number of claims has increased against professionals and against actuaries in particular, the cost of malpractice insurance has been increasing substantially, and the deductible or self-insured retention has been increasing. Availability and price of insurance are subject to many variables, including general market conditions, loss experience in related industries and in the actuarial and benefits consulting industry, and the specific claims experience of an individual firm. As a result of the acquisition of Watson Wyatt LLP, the Company will be providing services in a larger geographic market and therefore may be exposed to a greater number of claims arising from its expanded operations. In the future there can be no assurance that Watson Wyatt will continue to be able to obtain insurance on comparable terms to what it has obtained in the past. Increases in the cost of insurance could affect the profitability of Watson Wyatt and the unavailability of insurance to cover certain levels of risk could have an adverse effect on our financial condition, particularly in a specific period.

As a result of the acquisition of Watson Wyatt LLP, we are engaged, through subsidiaries, in the insurance and financial services consulting business, which may carry greater risk of liability than our current lines of business.

Watson Wyatt intends to continue and grow the business of providing consulting services to insurance and financial services companies. The risk of malpractice claims from this line of business may be greater than from some of our current lines of business and claims may be for significant amounts.

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

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

The significance of client engagements commenced and completed during a quarter;

The seasonality of some specific types of services. In particular, retirement revenues are more heavily weighted toward the second half of the fiscal year, when annual actuarial valuations are required to be completed for calendar year end companies and the related services are performed. In the Technology Solutions Group, the distribution of work is concentrated at the end of the first fiscal quarter and through the second fiscal quarter, as there is demand from our clients for assistance in updating systems and programs used in the annual re-enrollment of employees in benefit plans, such as flex plans. Much of the remaining business is project-oriented and is thus influenced more by particular client needs and the availability of our workforce;

The number of business days in a quarter, associate hiring and utilization rates and clients ability to terminate engagements without penalty;

The size and scope of assignments;

The level of vacation and holidays taken by our associates; and

General economic conditions.

Approximately 70-75 percent of our total operating expenses are relatively fixed, encompassing the majority of administrative, occupancy, communications and other expenses, depreciation and amortization, and salaries and employee benefits excluding fiscal year end incentive bonuses. Therefore, a variation in the number of client assignments or in the timing of the initiation or the completion of client assignments can cause significant variations in quarterly operating results and could result in losses. Over the most recent eight fiscal quarters, net income from continuing operations has fluctuated from $10.8 million to $14.3 million.

If we do not successfully integrate WWLLP, we may not realize the expected benefits of the acquisition.

We expect that the acquisition will result in business opportunities and new prospects for growth through new and expanded client relationships and an integrated capital structure that facilitates business development on a global scale. The company may never realize these expected business opportunities and growth prospects. Integrating the operations of WWLLP and Watson Wyatt involves the integration of businesses that, while participating in a business alliance, have previously operated independently and under different governance and organizational structures. The difficulties of integrating the operations of these businesses include:

The challenge of effecting integration while carrying on ongoing business;

Demonstrating to existing and potential clients that the acquisition will not adversely affect customer service standards or business focus;

The necessity of coordinating what were previously geographically separate organizations;

The potential incompatibility of the business cultures of the two companies; and

The possibility that key managers, consultants and other personnel may not be satisfied or happy at Watson Wyatt after the acquisition and may elect to leave.

Integrating WWLLP may interrupt other activities of Watson Wyatt.

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

Watson Wyatt after the acquisition has significantly more assets and employees than it did before the acquisition. The integration process will require Watson Wyatt to significantly expand the scope of its operational and financial systems, which will increase its operating complexity. Implementing uniform controls, systems and procedures may be costly and time-consuming, and there can be no assurance that our efforts to implement such controls, systems and procedures will be successful. Management s failure to effectively manage the company after the acquisition could have a material adverse impact on our business, financial condition and operating results as well as our ability to meet reporting requirements to the SEC and under Section 404 of the Sarbanes-Oxley Act of 2002.

As a result of the acquisition of Watson Wyatt LLP, we will be subject to increased risks of doing business internationally after the acquisition.

An increased portion of Watson Wyatt s business is located outside of the United States following the acquisition of WWLLP. As a result, a significantly larger portion of our business operations are subject to foreign financial and business risks, which could arise in the event of:

currency exchange rate fluctuations;

unexpected increases in taxes;

new regulatory requirements and/or changes in policies and local laws that materially affect the demand for our services or directly affect our foreign operations;

- local economic and political conditions, including unusual severe or protracted recessions in foreign economies;
- unusual and unexpected monetary exchange controls; or
- civil disturbance or other catastrophic events that reduce business activity in other parts of the world.

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

Acceleration of the shift by employers from defined benefit plans to defined contribution plans would adversely affect our business and our operating results.

Watson Wyatt currently provides clients with actuarial and consulting services relating to both defined benefit and defined contribution plans. Defined benefit plans generally require more actuarial services than defined contribution plans because defined benefit plans typically involve large asset pools, complex calculations to determine employer costs, funding requirements and sophisticated analysis to match liabilities and assets over long periods of time. The trend is toward increased use of defined contribution plans, and Watson Wyatt has adjusted its business planning accordingly. If organizations shift to defined contribution plans more rapidly than we anticipate, the performance and results of operation of our business and our overall operating results could be adversely affected.

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

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

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

Increasingly, to remain competitive in our practice areas, we must identify and offer the most current technologies and methodologies. This is particularly true of our Technology Solutions Group, in which our success largely depends upon our ability to quickly absorb and apply technological advances in both generic applications and, particularly, those that are specifically required to deliver employee benefits services.

In some cases, significant technology choices and investments are required. If we do not respond correctly, quickly or in a cost-effective manner, our business and operating results might be harmed.

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

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

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

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

Our associate stockholders interests in our business matters, since they are also employees of the company, may not always be consistent with the interests of our non-associate stockholders.

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

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

Authorize the issuance of preferred stock without fixed characteristics that could be issued by our Board of Directors to increase the number of outstanding shares and deter a takeover attempt

Classify our Board of Directors with staggered, three-year terms, which may lengthen the time required to gain control of our Board of Directors

Provide that only the President or our Board of Directors may call a special meeting of stockholders

Prohibit stockholder action by written consent, which requires all actions to be taken at a meeting of the stockholders

Provide that vacancies on our Board of Directors, including new directorships, may be filled only by the Directors then in office

Require super-majority voting for the stockholders to amend our bylaws, the classified board and other provisions of our certificate of incorporation

Prohibit a stockholder from presenting a proposal or director nomination at an annual meeting unless the stockholder provides us with sufficient advance notice

Other

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

Item 2. Properties.

As of June 30, 2005, we operated in 63 offices in principal markets throughout the world. Operations are carried out in leased offices under operating leases that normally do not exceed 10 years in length. We do not anticipate difficulty in meeting our space needs at lease expiration.

The fixed assets owned by Watson Wyatt represented approximately 15 percent of total assets at June 30, 2005, and consisted primarily of computer equipment and software, office furniture and leasehold improvements.

Item 3. Legal Proceedings.

From time to time, we are a party to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. We have received subpoenas and requests for information in connection with government investigations. The matters reported on below involve the most significant pending or potential claims against us.

We reserve for contingent liabilities based on Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5) when it is determined that a liability, inclusive of defense costs, is probable and reasonably estimable.

Government Investigations:

SEC Examination of Investment Advisers. In December 2003, the Securities and Exchange Commission (SEC) formally asked many of the major investment consulting firms, Watson Wyatt Investment Consulting (WWIC) among them, to provide detailed information on their business structures and practices in order to determine if conflicts of interest with money managers exist. In March 2004, WWIC completed its responses to the SEC staff s requests for information. In May 2005, WWIC provided additional information to SEC staff in response to comments made in connection with its inquiry and amended its Form ADV to clarify the scope of its Advanced Investment Solutions service. This inquiry concluded with no adverse action being taken.

Department of Justice Antitrust Investigation. In March 2004, the United States Department of Justice (DOJ) issued a Civil Investigative Demand (CID) to Watson Wyatt and other companies in the employee benefits industry. On January 20, 2005, we received a supplementary CID. The DOJ sought to determine whether firms that have entered into agreements with their clients limiting liability have done so in violation of U.S. antitrust laws. Watson Wyatt provided information to DOJ in response to the CIDs. On June 24, 2005, DOJ entered into a Consent Decree with Professional

Consultants Insurance Company, Inc. (PCIC), a captive malpractice insurance carrier that provides some of our malpractice coverage. PCIC settled without admitting to any violation of antitrust laws. No action has been brought against Watson Wyatt or any of the PCIC members, and we continue to be a stockholder of and to obtain insurance from PCIC. The Consent Decree requires ratification by the court.

New York State Attorney General. On December 17, 2004, the New York State Attorney General issued a subpoena to Watson Wyatt seeking information about override and other insurance placement compensation. Preliminary data indicate that such payments accounted for less than 0.2 percent of Watson Wyatt s revenue over the past four years. Watson Wyatt has provided information to the New York State Attorney General s in response to the subpoena in January 2005. We have received no further inquiries from the New York State Attorney General since responding.

Professional Liability Claims:

Iron Workers Local 25 et al. v. Watson Wyatt & Co. On July 8, 2004, Watson Wyatt was served with an amended complaint filed by a former client in the United States District Court for the Eastern District of Michigan. The complaint alleged malpractice, breach of contract, and related claims in the performance of actuarial consulting. The complaint stated that the plaintiff s pension fund is underfunded as a result of the alleged deficiencies in our work. In response to a discovery request, in January 2005 the plaintiffs disclosed that their minimum damage claim is $53.7 million. We have established a loss and loss expense reserve in the amount of our professional liability insurance self-retention for this case.

SBC Holdings, Inc. On July 23, 2004, we received a demand letter from counsel for a client alleging that errors in valuations for 2001 and subsequent years understated the liabilities of its pension plan and overstated its net worth. As a result, the client claimed it did not annuitize its defined benefit plan and redeemed its stock at an inflated price. On April 15, 2005 we filed a declaratory action in the U.S. District Court for the Eastern District of Michigan to compel arbitration of the matter. On May 5, 2005, SBC filed an answer and counterclaim to the declaratory judgment action, alleging damages in excess of $46 million. We have established a loss and loss expense reserve in the amount of our professional liability insurance self-retention for this case.

Client Demand Letter. On February 8, 2005, we received a demand letter from counsel for a client alleging failure to ensure that the method for performing certain benefit calculations under the pension administration system developed by Watson Wyatt for the client was consistent with the method required under the client s pension equity plan and the summary plan description, and failure to advise the client of the discrepancies between the plan documents and the pension system. The demand letter claimed damages in excess of $13 million and also sought to hold the client s outside Employee Retirement Income Security Act (ERISA) counsel responsible for the damages. On March 3, 2005, we entered into an agreement with the client and the client s ERISA counsel in order to pursue resolution of this matter through mediation. We have established a loss and loss expense reserve in a non-material amount for this case.

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

At a special meeting of the stockholders of the company, held on July 22, 2005, the following proposals were submitted to a vote of stockholders: (I) to approve the issuance of Watson Wyatt & Company Holdings Class A common stock in connection with the acquisition of assets and assumption of liabilities from Watson Wyatt LLP; and (II) to elect one Class III member of the Board of Directors.

23,383,475 shares were present and eligible to vote (32,601,190 shares were outstanding as of the Record Date), and the results of the meeting were as follows with respect to each matter submitted to a vote of stockholders.

Proposal I. To approve the issuance of Watson Wyatt & Company Holdings Class A common stock in connection with the acquisition of assets and assumption of liabilities from Watson Wyatt LLP as contemplated by the business transfer agreement, dated as of April 15, 2005, among Watson Wyatt & Company Holdings, Watson Wyatt (UK) Acquisitions 2 Limited, The Wyatt Company Holdings Limited, both wholly owned subsidiaries of Watson Wyatt & Company Holdings, and Watson Wyatt LLP:

Of the proxies received, the votes were as follows:

For	Against	Abstain	Broker Non-Votes
22,903,623	442,134	37,718	0*

*There were no broker non-votes, since all the proposals were considered non-routine, as per the New York Stock Exchange.

Proposal II. To elect Chandrasekhar Ramamurthy to Class III Director of the board of directors of Watson Wyatt & Company Holdings to serve for a term expiring at the 2006 Annual Meeting of Stockholders, or until the election and qualification of his successor. The election of Mr. Ramamurthy was contingent upon consummation of the acquisition.

Pursuant to the company s Amended and Restated Certificate of Incorporation, the directorships are divided into three classes, Class I, Class II and Class III. The directorships in Class I expire as of the annual stockholders meeting in 2007 and will expire every three years thereafter; the directorships in Class II will expire as of the annual stockholders meeting in 2005 and every three years thereafter; and the directorships in Class III will expire as of the annual stockholders meeting in 2006 and every three years thereafter. As the term of each of the classes of directors expires, directors of the company will be elected to serve for a three-year period and until their respective successors have been duly elected and qualified.

Of the proxies received, the votes were as follows:

Nominee for Class III Director	For	Withheld
Term expiring at the annual meeting of stockholders in 2006		
Chandrasekhar Ramamurthy	22,285,870	1,072,470

The directors serving in Class I, Class II and Class III and their remaining terms are as follows:

Class I Directors

Term expiring at the annual meeting of stockholders in 2007

R. Michael McCullough

Paul N. Thornton

Class II Directors

Term expiring at the annual meeting of stockholders in 2005

John J. Gabarro

John J. Haley

Linda D. Rabbitt

Gene H. Wickes

John C. Wright

Class III Directors

Term expiring at the annual meeting of stockholders in 2006

Gilbert T. Ray

John B. Shoven

Chandrasekhar Ramamurthy

Part II

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

In conjunction with our initial public offering in October 2000, we entered into agreements providing for additional transfer restrictions with major stockholders, executive officers and employee directors. At each of the first four anniversaries of our initial public offering, a portion of these shares became freely transferable. The final 1,665,400 Class A shares became freely transferable in October 2004.

Subsequent to the end of fiscal year 2005, in conjunction with our business acquisition of Watson Wyatt LLP, we issued 9,090,571 Class A shares 4,749,797 of which are subject to sale restrictions. Sale restrictions will expire on 2,339,761 shares on the first anniversary and 2,410,036 shares on the second anniversary of the business acquisition. The payment of up to an additional 1,950,000 Class A shares after June 30, 2007 is contingent upon achievement by the acquired business of certain financial performance goals. Sale of these shares, if issued, will be restricted until the fourth anniversary of the business combination. See Note 2 of Notes to the Consolidated Financial Statements included in Item 15 of this report for further information regarding the acquisition of Watson Wyatt LLP.

Market Information

Watson Wyatt & Company Holdings Class A common stock is currently traded on the New York Stock Exchange under the symbol WW. The following table sets forth the range of high and low closing share prices for each quarter of fiscal years 2005 and 2004, determined by the daily closing stock prices.

	2005		2004	
	High	**Low**	**High**	**Low**
First quarter (July 1 through September 30)	$ 26.87	$ 24.17	$ 23.49	$ 22.30
Second quarter (October 1 through December 31)	27.48	25.21	24.62	22.75
Third quarter (January 1 through March 31)	28.16	25.58	25.43	22.68
Fourth quarter (April 1 through June 30)	27.55	24.90	26.88	25.13

Holders

As of June 30, 2005, there were approximately 530 registered shareholders of our Class A common stock.

Dividends

In May 2004, the Board of Directors of the company approved the initiation of a quarterly cash dividend in the amount of $0.075 per share. Total dividends paid in fiscal year 2005 were $9.8 million.

Subsequent to the end of fiscal year 2005 and in conjunction with the acquisition of WWLLP, the company amended and restated its credit facility (see Note 9 of Notes to the Consolidated Financial Statements, included in Item 15 of this report). This credit facility requires us to observe certain covenants, including requirements for minimum net worth, which act to restrict dividends. The continued payment of cash dividends in the future is at the discretion of our Board of Directors and depends on numerous factors, including, without limitation, our net earnings, financial condition, availability of capital, debt covenant limitations and our other business needs, including those of our subsidiaries and affiliates.

Securities Authorized for Issuance Under Equity Compensation Plans

Our equity compensation plans include the 2000 Long-Term Incentive Plan, which provides for the granting of nonqualified stock options and stock appreciation rights, the 2001 Employee Stock Purchase Plan, the 2001 Deferred Stock Unit Plan for Selected Employees and the Compensation Plan for Outside Directors. We grant deferred stock units to certain senior associates through the Watson Wyatt & Company Performance Share Bonus Incentive Program as a part of their annual discretionary compensation and have discontinued the issuance of stock options. All deferred stock units issued in connection with the 2001 Deferred Stock Unit Plan were fully vested upon issuance. The company anticipates that the deferred stock units expected to be granted in September 2005 will vest immediately. All of our equity compensation plans have been approved by stockholders. See Note 10 of the Notes to the Consolidated Financial Statements for the general terms of these plans.

The following chart gives aggregate information regarding grants under all of the Company s equity compensation plans through June 30, 2005:

Plan Category	**Number of securities to be issued upon exercise of outstanding options**	**Weighted-average exercise price of outstanding options**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)**
Equity compensation plans approved by stockholders	859,405	$ 13.49	4,443,369(1)
Total	859,405	$ 13.49	4,443,369

(1) Includes 2,548,915 shares remaining available for future issuance under the 2000 Long-Term Incentive Plan, 942,683 shares under the 2001 Employee Stock Purchase Plan, 912,082 shares under the 2001 Deferred Stock Unit Plan for Selected Employees, including 82,941 shares for senior executives under the Performance Share Bonus Incentive Program under the Deferred Stock Unit Plan, and 39,689 shares under the Compensation Plan for Outside Directors.

In August 2001, the Board of Directors adopted the company s 2001 Employee Stock Purchase Plan (the ESPP), which subsequently was approved by the stockholders in November 2001. The ESPP is intended to provide employees of the company with additional incentives by permitting them to acquire a proprietary interest in the company through the purchase of shares of the company s common stock. With regard to the Compensation Plan for Outside Directors, an additional 25,000 shares of common stock were authorized and reserved for issuance at the 2004 Annual Meeting of Stockholders in November 2004.

Issuer Purchases of Equity Securities

The company has repurchased shares of common stock, one purpose of which is to offset potential dilution from shares issued in connection with the company s benefit plans. In May 2003, the company announced a plan to purchase up to 1,150,000 shares of our Class A common stock. The plan does not have an expiration date. The table below presents specified information about the company s stock repurchases during the fourth quarter of fiscal year 2005 and the remaining number of shares that may be purchased under the plan:

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
April 1, 2005, through April 30, 2005		$		763,934
May 1, 2005, through May 31, 2005	200,000	25.85	200,000	563,934
June 1, 2005, through June 30, 2005				563,934
Total	200,000	$ 25.85	200,000	

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

The table on the following page sets forth selected consolidated financial data of Watson Wyatt as of June 30, 2005 and for each of the years in the five-year period ended June 30, 2005. The selected consolidated financial data as of June 30, 2005 and 2004, and for each of the three years in the period ended June 30, 2005, were derived from the audited consolidated financial statements of Watson Wyatt included in this Form 10-K. The selected consolidated financial data as of June 30, 2003, 2002 and 2001, and for each of the years ended June 30, 2002 and 2001, were derived from audited consolidated financial statements of Watson Wyatt not included in this Form 10-K.

The consolidated financial data should be read in conjunction with our Consolidated Financial Statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Form 10-K. Amounts are in thousands of U.S. Dollars except per share data.

	Year Ended June 30				
	2005	2004	2003	2002	2001
Statement of Operations Data: (amounts are in thousands, except per share data)					
Revenue	$ 737,421	$ 702,005	$ 709,616	$ 710,480	$ 700,189
Costs of providing services:					
Salaries and employee benefits	397,252	396,775	401,274	404,822	379,645
Professional and subcontracted services	57,810	49,159	47,356	48,724	54,089
Occupancy, communications and other	106,752	105,459	106,224	109,163	114,417
General and administrative expenses	74,612	63,631	57,285	55,517	57,475
Depreciation and amortization	20,210	18,511	19,621	20,049	21,995
	656,636	633,535	631,760	638,275	627,621
Income from operations	80,785	68,470	77,856	72,205	72,568
Income from affiliates	7,146	7,109	5,787	2,866	3,780
Interest income, net	2,172	743	991	1,235	1,711
Other non-operating income	(7,404)	6,222	761	2,166	
Income from continuing operations before income taxes	82,699	82,544	85,395	78,472	78,059
Provision for income taxes	31,303	32,605	35,015	31,388	33,623
Income from continuing operations	51,396	49,939	50,380	47,084	44,436
Discontinued operations (a)	766	654	6,786		
Net income	$ 52,162	$ 50,593	$ 57,166	$ 47,084	$ 44,436
Earnings per share, continuing operations, basic	$ 1.58	$ 1.52	$ 1.52	$ 1.43	$ 1.39
Earnings per share, continuing operations, diluted	$ 1.56	$ 1.50	$ 1.51	$ 1.41	$ 1.37
Earnings per share, discontinued operations, basic	$ 0.02	$ 0.02	$ 0.21	$	$
Earnings per share, discontinued operations, diluted	$ 0.02	$ 0.02	$ 0.21	$	$
Earnings per share, net income, basic	$ 1.60	$ 1.54	$ 1.73	$ 1.43	$ 1.39
Earnings per share, net income, diluted	$ 1.58	$ 1.52	$ 1.72	$ 1.41	$ 1.37
Dividend declared per share	$ 0.30	$ 0.07	$	$	$
Weighted average shares of common stock, basic	32,541	32,866	32,962	32,985	32,068
Weighted average shares of common stock, diluted	32,845	33,207	33,287	33,421	32,363

	As of June 30				
	2005	2004	2003	2002	2001
Balance Sheet Data:					
Cash and cash equivalents	$ 168,076	$ 136,940	$ 115,674	$ 87,974	$ 81,735
Working capital	236,658	207,455	169,308	123,171	96,171
Total assets	618,679	512,168	514,462	436,817	392,016
Note payable					
Dividends declared	9,756	2,441			
Stockholders equity (b)	234,203	245,184	151,737	159,221	111,885
Shares outstanding	32,627	32,317	32,943	32,897	33,033

(a) In fiscal year 2003, 2004 and 2005, we revised our estimates related to the remaining future obligations and costs associated with the discontinuation of our benefits administration outsourcing business. As a result, we reduced the amount of our liability for losses from disposal by $11.4 million, less the associated income tax expense of $4.7 million, by $1.0 million, less the associated income tax expense of $0.4 million, and by $1.25 million, less the associated income tax expense of $0.5 million, respectively. In fiscal years 2003, 2004 and 2005, the company received sublease income of approximately $40,000, $106,000 and $44,000 in excess of lease payments related to this business. These items resulted in a year-to-date income from discontinued operations of $11.5 million, $1.1 million, and $1.3 million, less the associated income tax expense of $4.7 million, $0.5 million and $0.5 million, respectively.

(b) Stockholders equity includes the after-tax effect of the recording of a minimum pension liability in fiscal year 2005, 2004 and 2003 of $68,379, $6,651 and $67,869 respectively.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Special Note Regarding Forward-Looking Statements

This filing contains certain statements that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to the following: the first paragraph of Part I, Item 3 Legal Proceedings on pages 19 and 20; the Executive Overview on pages 27 and 28; the second paragraph under Revenue Recognition on page 29; under the heading Pension Assumptions on pages 31 and 32; under the heading Incurred But Not Reported Claims on page 32 ; the paragraph under Capital Commitments on page 39; under the heading Risk Management on page 41; under the subheading Stock-based Compensation in Note 1 Summary of Significant Accounting Policies on pages 59 and 60; the projected contribution table in Note 6 Retirement Benefits on page 68; the benefit payments table in Note 6 Retirement Benefits on page 72; the benefit payments table in Note 6 Retirement Benefits on page 76; in the second paragraph of Note 10 Employee Stock Plans and Equity on page 78; in the second paragraph under the heading 2001 Deferred Stock Unit Plan for Selected Employees in Note 10 on page 81; and in the second and fifth paragraphs of Note 14 Commitments and Contingent Liabilities on pages 89 and 90. In some cases, you can identify these statements and other forward-looking statements in this filing by words such as may, will, expect, anticipate, believe, estimate, plan, intend, continue or similar words. You should read these statements carefully because they contain pro of our future results of operations or financial condition, or state other forward-looking information. A number of risks and uncertainties exist which could cause actual results to differ materially from the results reflected in these forward-looking statements. Such factors include, but are not limited to risks and uncertainties specific to our acquisition of WWLLP, including adverse effects on the market price of the company s common stock and on the company s operating results because of failure by the parties to successfully integrate their respective businesses, processes and systems in a timely and cost-effective manner, significant transaction costs expected, unknown liabilities relating to the acquisition or the acquired business, the success of the company s marketing, development and sales programs following the acquisition, the company s ability to maintain client relationships and attract new clients following the acquisition, the company s ability to achieve cost reductions after the acquisition, general economic and business conditions that affect the company following the acquisition, the level of capital resources required for ongoing operations and future acquisitions, post-closing sales of the company s common stock received by former Watson Wyatt LLP partners, and other economic, business, competitive and/or regulatory factors affecting the acquisition, and other factors, including but not limited to, our continued ability to recruit and retain highly qualified associates, outcomes of litigation, a significant decrease in the demand for the consulting services we offer as a result of changing economic conditions or other factors, actions by competitors offering human resources consulting services, including public accounting and consulting firms, technology consulting firms and internet/intranet development firms, regulatory, legislative and technological developments that may affect the demand for or costs of our services and other factors discussed under Risk Factors in Item 1 of this Form 10-K. These statements are based on assumptions that may not come true. All forward-looking disclosure is speculative by its nature. The company

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undertakes no obligation to update any of the forward-looking information included in this report, whether as a result of new information, future events, changed expectations or otherwise.

Executive Overview

Watson Wyatt is a global provider of human capital consulting services. We provide services in three principal practice areas: Benefits, Technology Solutions and Human Capital consulting, operating from 20 countries throughout North America, Asia-Pacific and Latin America. As of June 30, we also operated through our affiliates in Europe: Watson Wyatt LLP which conducted operations in the United Kingdom and Ireland and in which we held a 10 percent interest in a defined distribution pool and Watson Wyatt Holdings (Europe) Limited, a holding company through which we conducted Continental European operations. We owned 25 percent of Watson Wyatt Holdings (Europe) Limited and Watson Wyatt LLP owned the remaining 75 percent. We collectively marketed our services globally under the Watson Wyatt Worldwide brand, sharing resources, technologies, processes and business referrals with our alliance partners.

Subsequent to the end of fiscal year 2005, Watson Wyatt and Watson Wyatt LLP consummated a business acquisition. As a result, the company assumed 100% ownership of Watson Wyatt LLP and Watson Wyatt Holdings (Europe) Limited effective July 31, 2005. Since this transaction occurred subsequent to the end of fiscal year 2005, the Consolidated Financial Statements and related information contained herein do not reflect the acquisition except where specifically noted otherwise. For more information regarding this business acquisition, see Note 2 of Notes to the Consolidated Financial Statements included in Item 15 of this report.

We design, develop and implement HR strategies and programs through the following closely-interrelated practice areas:

Benefits Group The Benefits Group, accounting for 63 percent of our total 2005 revenues, is the foundation of our business. Retirement, the core of our Benefits business, is less impacted by discretionary spending reductions than our other segments, mainly due to the recurring nature of client relationships. Our corporate client retention rate within our target market has remained very high, averaging over 95 percent over the past two years. Revenue for our retirement practice is seasonal, with the third and fourth quarters of each fiscal year being the busier periods. Major revenue growth drivers in this practice include changes in regulations, particularly those affecting pension plans, leverage from other practices, an improving economy, increased global demand and increased market share. Revenue from the Benefits Group for fiscal year 2005 increased $15.9 million or 4 percent due to new client wins in the retirement and health care consulting practices. Additionally, existing client revenues for both practices increased for the year.

Technology Solutions Group Our Technology Solutions Group, accounting for 10 percent of our total 2005 revenues, provides information technology services to our customers. Revenue from our Technology Solutions Group decreased $10.8 million or 14 percent during fiscal year 2005. Overall consulting activity was higher, as the decrease reflects time spent customizing administration systems for which US GAAP precludes us from recognizing revenue during the system customization efforts. Related revenue will be recognized as these systems go into service.

Human Capital Group Our Human Capital Group, accounting for 8 percent of our total fiscal year 2005 revenues, generally encompasses short-term projects and as a result is most sensitive to economic conditions. Growth slowed significantly in the second half of fiscal year 2001 and continued to contract in fiscal years 2002, 2003 and 2004. However, revenue grew by 26 percent over the prior-year. This increase reflects demand for executive compensation consulting, strategic rewards consulting and government consulting projects.

In the short term, our revenues are driven by many factors including the general state of the economy and the resulting level of discretionary spending by our clients, the ability of our consultants to attract new clients or cross-sell to existing clients, and the impact of new regulations in the legal and accounting fields that most recently increased demand for our executive compensation and benefits practices.

The human resources consulting industry, although highly fragmented, is highly competitive and is comprised of major human capital consulting firms, specialist firms, consulting arms of accounting firms and information technology consulting firms. We have successfully managed costs throughout the company by leveraging our variable compensation cost structure, initiating targeted job reductions and controlling discretionary spending. We believe we are well-positioned to take advantage of an improvement in the overall economy.

In the long term, we believe that benefits spending will continue to be the largest component of U.S. corporate spending. We believe that the aging workforce, the projected shortfall in workers over the next decade and changing regulations will translate into opportunities for us. We believe that the company s financial results will depend in large part upon how well we succeed in deepening our existing client relationships through thought leadership and focus on cross-practice solutions, actively pursuing new clients in our target markets, cross selling and strategic acquisitions. We believe that the highly- fragmented industry in which we operate represents tremendous growth opportunities for us, because we offer a unique combination of benefits and human capital consulting as well as strategic technology solutions.

Financial Statement Overview

The financial statements contained in this annual report on Form 10-K reflect Watson Wyatt s Consolidated Balance Sheets as of June 30, 2005 and 2004, Consolidated Statements of Operations for the 12-month periods ended June 30, 2005, 2004 and 2003, Consolidated Statements of Cash Flows for the 12-month periods ended June 30, 2005, 2004 and 2003, and a Consolidated Statement of Changes in Stockholders Equity for the 12-month periods ended June 30, 2005, 2004 and 2003.

As further discussed in Note 2 to the Consolidated Financial Statements, on July 31, 2005 we acquired the remaining interest in Watson Wyatt LLP and Watson Wyatt Holdings (Europe) Limited. However, since this transaction was consummated subsequent to the end of fiscal year 2005, the Consolidated Financial Statements reflect the results of operations, financial position and cash flows of Watson Wyatt & Company Holdings. Our share of the results of our affiliates, recorded using the equity method of accounting, is reflected in the Income from affiliates line. As of June 30, 2005, our affiliates were Watson Wyatt LLP, Watson Wyatt Holdings (Europe) Limited and PCIC, our captive insurance company.

We derive substantially all of our revenue from fees for consulting services, which generally are billed at standard hourly rates or on a fixed-fee basis. Clients are typically invoiced on a monthly basis with revenue recognized as services are performed. For the most recent three fiscal years, revenue from U.S. consulting operations has comprised approximately 80 percent of consolidated revenue. No single client accounted for more than four percent of our consolidated revenue for any of the most recent three fiscal years.

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

Professional and subcontracted services represent fees paid to external service providers for employment, marketing and other services. For the most recent three fiscal years, approximately 60 to 70 percent of these professional and subcontracted services were directly incurred on behalf of our clients and were reimbursed by them, with such reimbursements being included in revenue.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. The accounting policies discussed below are critical to the understanding of the use of estimates in the company s financial statements.

Revenue Recognition

Revenue includes fees primarily generated from consulting services provided in the areas of employee benefits, human capital strategies and related technology solutions. We recognize revenue from these consulting engagements when hours are worked, either on a time-and-materials basis or on a fixed-fee basis, depending on the terms and conditions defined at the inception of an engagement with a client. The terms of our contracts with clients are fixed and determinable and can only be changed based on agreement of both parties. Individual consultants billing rates are principally based on a multiple of salary and compensation costs.

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

Our non-recurring system projects are typically found in our Technology Solutions Group. They tend to be more complex, to incur changes in scope as the projects progress and to be longer-term projects. We evaluate, at least quarterly, and more often as needed, project managers estimates to complete to assure that the projects current status is properly accounted for. Contracts are written such that, in the unexpected event that the customer terminates a contract, the company gets paid for work performed through termination.

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

The company has developed various software programs and technologies that we provide to clients in connection with consulting services. In most instances, such software is hosted and maintained by the company and ownership of the technology and rights to the related code remain with the company. Software developed to be utilized in providing services to a client, but for which the client does not have the contractual right to take possession, is capitalized in accordance with the AICPA s Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Revenue associated with the related contract, together with amortization of the related capitalized software, is recognized over the service period. As a result, and in accordance with EITF 00-3, we do not recognize revenue during the customization phase of an engagement.

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

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 104 (SAB 104), Revenue Recognition, which supercedes Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements. The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of Emerging Issues Task Force Issue 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The issuance of SAB 104 has not had an effect on our revenue recognition policies as they are in accordance with SAB 104.

Valuation of Billed and Unbilled Receivables from Clients

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

Discretionary Compensation

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

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

As a result of a $5.6 million pre-tax non-operating gain recorded in the first quarter of fiscal year 2004 related to PCIC, our captive insurance company, the company recorded a $5.6 million supplemental bonus accrual in the first quarter that is incremental to the company s fiscal year end bonus. This supplemental bonus amount, which was paid out in September 2004 with the regular bonus cycle, is included in salaries and employee benefits. Management does not expect this gain or charge to recur.

Income Taxes

Determining the consolidated provision for income tax expense, deferred tax assets and liabilities and the related valuation allowance involves judgment. As a global company, we are required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which we operate. This process involves estimating current tax obligations and exposures in each jurisdiction as well as making judgments regarding the future recoverability of deferred tax assets. Tax costs can involve complex issues and may require an extended period to resolve. Changes in the geographic mix or estimated level of annual pre-tax income, limitations on the use of the company s foreign subsidiary losses, changes in tax laws and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense and net income.

Pension Assumptions

We sponsor both qualified and non-qualified, non-contributory defined benefit pension plans covering substantially all of our associates. Under our principal plans (United States, Canada, Hong Kong and the United Kingdom), benefits are based on our associates years of service and compensation during the five highest-paid consecutive years of service.

Pension and Other Postretirement Employee Benefits (OPEB) costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health-care cost trend rates, benefits earned, interest cost, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Watson Wyatt & Company s pension and other postretirement obligations and future expense.

The company has established a discount rate of 5.25% at year end June 30, 2005, for its U. S. pension and OPEB plans which represents a 100 basis point decrease from the 6.25% discount rate used for the prior year. The decrease in the discount rate is the principal reason the company s U. S. pre-tax pension expense is forecasted to increase from approximately $21 million in fiscal year 2005, excluding any curtailments and settlements, to approximately $30 million in fiscal year 2006. The U.S. OPEB plan expense is expected to increase to $2.5 million for fiscal year 2006 from $2.0 million in fiscal year 2005.

The expected long-term rate of return on assets assumption remained unchanged at 9.00 percent at the end of fiscal year 2005. Selection of the 9.00 percent return assumption was supported by an analysis performed by the company of the weighted-average yield expected to be achieved with the anticipated investment allocations, which is heavily weighted towards equities. The return on assets in fiscal year 2005 was 10 percent, compared to a return of 19 percent in fiscal year 2004.

The decline in interest rates has increased our accumulated benefit obligation, resulting in the accumulated benefit obligation becoming greater than the value of the plan assets for the U.S. qualified pension plans. Our Canadian non-qualified plan had a liability recognized in the financial statements that was less than the accumulated benefit obligation. Both scenarios above require the company to record an additional minimum pension liability for those plans in accordance with Statement of Financial Accounting Standards No. 87 Employers Accounting for Pensions (FAS 87). This resulted in a pension liability of $105.4 million, intangible assets of $0.6 million, a non-cash charge to Stockholders Equity of $62.0 million (reflected in accumulated other comprehensive loss) and an increase in deferred tax assets of $42.8 million. A decrease in long-term interest rates and/or market deterioration in future periods could make the additional minimum pension liability larger. Conversely, an increase in long-term interest rates and/or market gains in future periods could reverse a portion or all of this charge. Our U.K. plan has had an additional minimum pension liability since fiscal year 2003 and currently represents a liability of $9.1 million at June 30, 2005. Our Hong Kong pension plan assets are greater than their associated accumulated benefit obligation as of June 30, 2005, and thus does not require the recording of additional minimum pension liability.

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

Change in Assumption		**Effect on FY2006 Pre-Tax Pension Expense**
25 basis point decrease in discount rate	$	+3.3 million
25 basis point increase in discount rate	$	-3.2 million
25 basis point decrease in expected return on assets	$	+1.0 million
25 basis point increase in expected return on assets	$	-1.0 million

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

Incurred But Not Reported Claims

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

Results of Operations

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

	Year ended June 30 2005	2004	2003
Revenue	100.0%	100.0%	100.0%
Costs of providing services:			
Salaries and employee benefits	53.9	56.5	56.5
Professional and subcontracted services	7.8	7.0	6.7
Occupancy, communications and other	14.5	15.0	14.9
General and administrative expenses	10.1	9.1	8.1
Depreciation and amortization	2.7	2.6	2.8
	89.0	90.2	89.0
Income from operations	11.0	9.8	11.0
Income from affiliates	1.0	1.0	0.8
Interest income, net	0.2	0.1	0.1
Other non-operating income	(1.0)	0.9	0.1
Income from continuing operations before income taxes	11.2	11.8	12.0
Provision for income taxes	4.2	4.7	4.9
Income from continuing operations	7.0%	7.1%	7.1%

Fiscal Year Ended June 30, 2005, Compared to Fiscal Year Ended June 30, 2004

Revenue

Revenues for fiscal year 2005 were $737.4 million, an increase of 5 percent from $702.0 million during fiscal year 2004.

The Benefits Group increased revenue by $15.9 million or 4 percent during fiscal year 2005 due to new client wins in the retirement and health care consulting practices. Additionally, existing client revenues for both practices increased for the year. Revenue from our Technology Solutions Group decreased by $10.8 million or 14 percent. Overall consulting activity for this practice was higher, and the decline in revenue is mainly due to the exclusion of $13.7 million of consultant time spent customizing administration systems, in accordance with AICPA s Statement of Position 98-1. Revenue from our Human Capital Group increased $11.6 million or 26 percent during fiscal year 2005, reflecting increased demand for executive compensation consulting, strategic rewards consulting and government consulting projects. Our international segment finished the fiscal year with revenue growth of $7.4 million or 9 percent. However, revenue was up 5% after adjusting for the impact of the weakening U.S. dollar. International revenue growth for the year came largely from China, the Philippines, Taiwan, Mexico and Brazil. Revenue for other practice areas in North America increased by $0.9 million or 2 percent during fiscal year 2005.

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Salaries and Employee Benefits

Salaries and employee benefit expenses for fiscal year 2005 were $397.3 million, an increase of $0.5 million from $396.8 million in fiscal year 2004, and decreased as a percentage of revenue to 53.9 percent from 56.5 percent. Salaries and employee benefit expenses for fiscal year 2004 included severance charges of $3.2 million related to job reductions in North America and the $5.6 million supplemental bonus related to PCIC. Exclusive of these charges, salaries and employee benefit expenses increased $9.3 million, or 2.4%. The increase, exclusive of these charges, was mainly due to a higher accrual for discretionary compensation of $13.6 million, higher salaries of $6.8 million, higher profit sharing expenses of $3.1 million, which reflects the re-instatement of the company s 401(k) match, and higher benefits expense of $3.1 million, partially offset by the capitalization of time spent customizing in-house administration systems of $10.0 million, in accordance with AICPA s Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use , and lower pension and post-retirement costs of $7.4 million.

Professional and Subcontracted Services

Professional and subcontracted services were $57.8 million for fiscal year 2005, an increase of 17 percent from $49.2 million in the prior period, and increased as a percentage of revenue to 7.8 percent from 7.0 percent. The increase is attributable to higher reimbursable expenses incurred on behalf of clients.

Occupancy, Communications and Other

Occupancy, communications and other expenses were $106.8 million for fiscal year 2005, an increase of 1 percent from $105.5 million during fiscal year 2004, and decreased as a percentage of revenue to 14.5 percent from 15.0 percent. The increase in expenses is mainly due to miscellaneous expenses, including travel, promotional expenses, office supplies, repairs and maintenance and dues and entertainment, partially offset by a reduction in rent and utilities, which is partially due to a lease termination during fiscal year 2004.

General and Administrative Expenses

General and administrative expenses were $74.6 million for fiscal year 2005, an increase of 17 percent from $63.6 million during fiscal year 2004, and increased as a percentage of revenue to 10.1 percent from 9.1 percent. The increase is mainly due to higher insurance costs of $6.1 million, higher expenses of $1.3 million associated with compliance with the Sarbanes-Oxley Act of 2002 and related SEC rules, and increased legal expenses of $2.0 million, primarily related to work associated with the government investigations outlined in the legal proceedings section of this 10-K.

Depreciation and Amortization

Depreciation and amortization expense was $20.2 million for fiscal year 2005, an increase of 9 percent from $18.5 million during fiscal year 2004, and increased as a percentage of revenue to 2.7 percent from 2.6 percent. The increase was due to depreciation on major software placed in service in March 2005 to support our Benefits segment.

Income From Affiliates

Income from affiliates remained at $7.1 million for fiscal year 2005 compared to fiscal year 2004. During fiscal year 2005, our share of operating results of Watson Wyatt LLP increased $1.0 million, our share of operating results of WWHE increased $0.4 million, and our equity income in PCIC decreased $1.5 million.

Interest Income, Net

Interest income, net was $2.2 million for fiscal year 2005, an increase of $1.5 million from $0.7 million during fiscal year 2004. The increase was due to higher interest earned on our investments as a result of higher interest rates and lower expenses due to the reduced size of the credit agreement in existence during fiscal year 2005.

Other Non-Operating (Loss) Income

During fiscal year 2005, the company recorded a $4.8 million loss associated with a foreign exchange forward contract entered into in conjunction with the acquisition of WWLLP (see Note 2 of the Notes to the Consolidated Financial Statements), recognized a settlement cost of $2.2 million related to a claim by a former joint venture partner, and spent $0.4 million to external advisors for strategic consulting. Non-operating income for fiscal year 2004 includes a $5.6 million gain the company recorded in the first quarter of fiscal year 2004 related to PCIC. See Note 18 of the Notes to the Consolidated Financial Statements for more information about this non-operating gain. During fiscal year 2004, the company also received cash payments of $0.6 million in connection with the fiscal year 2002 sale of our U.S.-based public retirement business to GRS. All payments received in connection with this sale were contingent upon the successful transition of certain clients to the purchaser and upon their retention by the purchaser.

Provision for Income Taxes

Provision for income taxes was $31.3 million for fiscal year 2005, compared to $32.6 million for the prior period. Our effective tax rate was 37.9 percent for fiscal year 2005, compared to 39.5 percent for fiscal year 2004. The change in rate was principally due to the recognition of US foreign tax credits and the favorable mix of geographic income.

Income From Continuing Operations

Income from continuing operations was $51.4 million, an increase of 3 percent from $49.9 million during fiscal year 2004. As a percentage of revenue, income from continuing operations decreased to 7.0 percent from 7.1 percent.

Earnings Per Share, Income From Continuing Operations

Diluted earnings per share, income from continuing operations was $1.56 for fiscal year 2005, compared to $1.50 for fiscal year 2004.

Discontinued Operations

Discontinued operations for fiscal years 2005 and 2004 reflect the reduction of the company s accrual for the estimated remaining future obligations and costs related to the exit from Wellspring by $1.25 million and $1.0 million, respectively, less the associated income tax expenses. Also, during fiscal year 2005 and 2004, the company received sublease income of approximately $44,000 and $106,000, respectively, in excess of lease payments related to Wellspring. See Note 16 of the Notes to the Consolidated Financial Statements for more information related to Wellspring.

Fiscal Year Ended June 30, 2004, Compared to Fiscal Year Ended June 30, 2003

Revenue

Revenues for fiscal year 2004 were $702.0 million, a decrease of 1 percent from $709.6 million in the prior period.

The Benefits Group increased revenue by $17.8 million or 4 percent during fiscal year 2004 due to new client wins, as well as growth in the health care consulting group related to retainer contracts and consumer driven health plan design. Revenue from our Technology Solutions Group decreased by $17.3 million or 18 percent, reflecting a delay in starting certain projects as well as the exclusion of $2.7 million of consultant time spent customizing administration systems. Revenue from our Human Capital Group decreased $1.6 million or 3 percent during fiscal year 2004, reflecting increased demand in executive compensation consulting offset by weak results in organization effectiveness consulting. Our international segment finished the fiscal year with revenue growth of $6.7 million or 9 percent. However, revenue was up 1 percent after adjusting for the impact of the weakening U.S. dollar. Revenue for other practice areas in North America decreased by $5.9 million or 12 percent during fiscal year 2004.

Salaries and Employee Benefits

Salaries and employee benefit expenses for fiscal year 2004 were $396.8 million, a decrease of 1 percent from $401.3 million in the prior period, and remained at 56.5 percent as a percentage of revenue. Salaries and employee benefit expenses for fiscal year 2004 include severance charges of $3.2 million related to the company s job reductions in North America, compare to severance charges of $1.8 million in fiscal year 2003. The $5.9 million decrease, exclusive of these charges, was due to lower benefits costs of $9.1 million, which reflects the suspension of the company match on our defined contribution retirement plan and reduced health care costs to the company, and to lower salaries of $5.1 million, which reflects the company s targeted job reductions net of modest salary increases. These decreases are partially offset by higher pension and post-retirement expenses of $5.7 million and by a higher accrual for discretionary compensation of $2.9 million.

Professional and Subcontracted Services

Professional and subcontracted services were $49.2 million for fiscal year 2004, an increase of 4 percent from $47.4 million in the prior period, and increased as a percentage of revenue to 7.0 percent from 6.7 percent. The increase is the result of legal provisions recorded to meet the company s self-insured retention where specific estimated losses are considered probable and estimable.

Occupancy, Communications and Other

Occupancy, communications and other expenses were $105.5 million for fiscal year 2004, a decrease of 1 percent from $106.2 million in the prior period, and increased as a percentage of revenue to 15.0 percent from 14.9 percent. Occupancy, communications and other expenses include a $1.9 million charge resulting from a lease termination as further described below under Off-Balance Sheet Arrangements and Contractual Obligations Operating Leases. The decrease, exclusive of this charge, reflects the company s cost containment measures, as evidenced through lower expenses in many categories including office supplies, telephone, general office and promotional expenses.

General and Administrative Expenses

General and administrative expenses were $63.6 million for fiscal year 2004, an increase of 11 percent from $57.3 million in the prior period, and increased as a percentage of revenue to 9.1 percent from 8.1 percent. The increase is mainly due to higher insurance costs of $5.5 million, a $1.3 million charge resulting from a lease termination as further described below under Off-Balance Sheet Arrangements and Contractual Obligations Operating Leases and expenses associated with compliance with the Sarbanes-Oxley Act of 2002 and related SEC requirements of $1.4 million.

Depreciation and Amortization

Depreciation and amortization expense was $18.5 million for fiscal year 2004, a decrease of 6 percent from $19.6 million in the prior period, and decreased as a percentage of revenue to 2.6 percent from 2.8 percent. The decrease was due to lower capital spending during fiscal year 2003.

Income From Affiliates

Income from affiliates was $7.1 million, an increase of 22 percent from $5.8 million in the prior period. The increase was due to the company s interest in higher operating results of Watson Wyatt LLP of $1.0 million and WWHE of $0.2 million, partially offset by lower equity income of PCIC of $0.2 million.

Interest Income, Net

Interest income, net was $0.7 million for fiscal year 2004, a decrease of 30 percent from $1.0 million in the prior period. The decrease was attributable to lower interest rates earned on our cash and cash equivalents.

Other Non-Operating Income

Other non-operating income was $6.2 million for fiscal year 2004, which is principally attributable to the $5.6 million non-operating gain the company recorded related to PCIC which the company does not expect to recur. See Note 18 of the Notes to the Consolidated Financial Statements for more information about this non-operating gain. During fiscal years 2004 and 2003, the company also received cash payments of $0.6 million in connection with the fiscal year 2002 sale of our U.S.-based public retirement business to GRS. All payments received in connection with this sale were contingent upon the successful transition of certain clients to the purchaser and upon their retention by the purchaser.

Provision for Income Taxes

Provision for income taxes was $32.6 million for fiscal year 2004, compared to $35.0 million for the prior period. Our effective tax rate was 39.5 percent for fiscal year 2004, compared to 41.0 percent for fiscal year 2003. The change in rate was principally due to the realization of tax credits claimed on previously filed amended returns.

Income From Continuing Operations

Income from continuing operations was $49.9 million, a decrease of 1 percent from $50.4 million in the prior period. As a percentage of revenue, income from continuing operations remained at 7.1 percent.

Earnings Per Share, Income From Continuing Operations

Diluted earnings per share, income from continuing operations was $1.50 for fiscal year 2004, compared to $1.51 in the prior period. Included in the 2004 earning per share amount is a $3.2 million lease loss, or $0.06 per share.

Discontinued Operations

Discontinued operations for fiscal years 2004 and 2003 reflect the reduction of the company s accrual for the estimated remaining future obligations and costs related to the exit from Wellspring by $1.0 million and $11.4 million, respectively, less the associated income tax expenses. Also, during fiscal year 2004 and 2003, the company received sublease income of approximately $106,000 and $40,000, respectively, in excess of lease payments related to Wellspring. See Note 16 of the Notes to the Consolidated Financial Statements for more information related to Wellspring.

Liquidity and Capital Resources

Our cash and cash equivalents and marketable securities at June 30, 2005 totaled $168.1 million, compared to $156.9 million at June 30, 2004. During fiscal year 2005, we paid $34.8 million in previously accrued discretionary compensation, $43.4 million in corporate taxes, $34.7 million in capital expenditures, contributed $10.0 million to our U.S. defined benefit pension plan and paid dividends of $9.8 million. These outflows of cash were more than offset by positive cash flow from consulting operations.

Cash From Operating Activities

Cash from operating activities for fiscal year 2005 was $68.1 million, compared to cash from operating activities of $59.5 million for fiscal year 2004.

The allowance for doubtful accounts increased $0.9 million and the allowance for work in process decreased $0.2 million from June 30, 2004 to June 30, 2005. The number of days of accounts receivable and work in process outstanding was 80 at June 30, 2005, up from 78 at June 30, 2004.

Cash from operating activities for fiscal year 2004 was $59.5 million, compared to cash from operating activities of $74.7 million for fiscal year 2003. The variance is primarily due to the increase in accounts receivable, the timing of insurance payments and higher pension accruals (excluding the effect of the minimum pension liability), net of higher corporate tax payments and higher payments to retirees in fiscal year 2004 and a lower payment of discretionary compensation in fiscal year 2003.

Cash Used in Investing Activities

Cash used in investing activities for fiscal year 2005 was $29.7 million, compared to $14.5 million for fiscal year 2004. The increase can be primarily attributed to higher purchases of fixed assets of $11.1 million and costs associated with the capitalization of time spent customizing in-house administration systems of $14.3 million, in accordance with AICPA s Statement of Position 98-1, and higher net sales and maturities of marketable securities of $11.3 million. We have made reclassifications to our Consolidated Statement of Cash Flows for the twelve months ended June 30, 2004 to reflect the gross purchases and sales of Dutch auction rate securities as investing activities rather than as a component of cash and cash equivalents. Refer to Note 1 to the Consolidated Financial Statements for additional information.

Cash used in investing activities for fiscal year 2004 was $14.5 million, compared to $42.9 million for fiscal year 2003. We have made reclassifications to our Consolidated Statement of Cash Flows for the twelve months ended June 30, 2003 and 2004 to reflect the gross purchases and sales of Dutch auction rate securities as investing activities rather than as a component of cash and cash equivalents.

Cash Used in Financing Activities

Cash used in financing activities was $9.0 million for fiscal year 2005, compared to $24.9 million for fiscal year 2004. The decrease was primarily attributable to fewer repurchases of common stock , which was mainly due to the tender offer during fiscal year 2004 discussed below and in Note 10, partially offset by dividends paid during fiscal year 2005.

Cash used in financing activities was $24.9 million for fiscal year 2004, compared to $6.7 million for fiscal year 2003. The increase was primarily attributable to the $21.0 million purchase of 830,802 shares in the company s publicly announced tender offer.

Capital Commitments

Expenditures of capital funds were $59.6 million for fiscal year 2005, including fixed assets of $34.7 million, deferred salary costs of $14.3 million and dividends of $9.8 million. Anticipated commitments of capital funds for Watson Wyatt are estimated at $50 million for fiscal year 2006, which includes fixed assets of $26 million, dividends of $13 million and deferred software salary costs of $10 million. We expect cash from operations to adequately provide for these cash needs. These capital commitments do not include capital needs for WWLLP in fiscal year 2006.

Dividends

In May 2004, the Board of Directors of the company approved the initiation of a quarterly cash dividend in the amount of $0.075 per share. Total dividends paid in fiscal year 2005 were $9.8 million.

Under our credit facility in effect as of June 30, 2005 (see Note 9 of Notes to the Consolidated Financial Statements included in Item 15 of this report), we are required to observe certain covenants (including requirements for a fixed coverage charge, cash flow leverage ratio and asset coverage) that affect the amounts available for the declaration or payment of dividends. The continued payment of cash dividends in the future is at the discretion of our Board of Directors and depends on numerous factors, including, without limitation, our net earnings, financial condition, availability of capital, debt covenant limitations and our other business needs, including those of our subsidiaries and affiliates.

Off-Balance Sheet Arrangements and Contractual Obligations

Operating Leases. We lease office space, furniture and selected computer equipment under operating lease agreements with terms ranging from one to ten years. Future expected payments for Watson Wyatt are as follows:

Contractual Cash Obligations	Total	Remaining payments due by fiscal year as of June 30, 2005 Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Lease commitments	$ 248,858	$ 35,113	$ 63,760	$ 50,322	$ 99,663

Management has determined that there is not a large concentration of leases that will expire in any one fiscal year. Consequently, management anticipates that any increase in future rent expense will be mainly market driven.

The figures above do not reflect future lease commitments associated with WWLLP s leases. Disclosure of WWLLP s lease commitments will be incorporated into the consolidated financial statements in fiscal year 2006.

Guarantees

Wellspring Leases. The Company continues to guarantee certain leases for office premises and equipment for Wellspring. At June 30, 2005, minimum remaining payments guaranteed under these leases, which expire at various dates through 2007, totaled $11.6 million, excluding anticipated sublease income. The leases are currently generating positive cash flows of less than $0.1 million per fiscal year. In the third quarter of fiscal year 2005, the company reduced its accrual for the estimated remaining future obligations and costs related to the exit from Wellspring by $1.25 million, less the associated income tax expenses. Management will continue to evaluate the adequacy of these provisions and make adjustments as appropriate. See Note 16 of the Notes to the Consolidated Financial Statements for more information related to Wellspring.

Affiliate Agreements. In connection with the establishment of our alliance with WWLLP in 1995, the company terminated its then existing office space in London and a new lease was entered into by WWLLP that expires in 2015. The company agreed to guarantee WWLLP s performance under this new lease. However, as a result of the business acquisition between Watson Wyatt and Watson Wyatt LLP, this lease will be assumed by Watson Wyatt effective July 31, 2005 and will no longer represent a third party guarantee.

Credit Agreement

As of June 30, 2005, Watson Wyatt had a $50 million credit facility provided by a syndicate of banks. Interest rates associated with this facility vary with LIBOR and/or the Prime Rate and are based on our leverage ratio, as defined by the credit agreement. We are charged a quarterly commitment fee, currently 0.20 percent of the facility that varies with our financial leverage and is paid on the unused portion of the credit facility. No amounts were outstanding under the company s revolving credit facility as of June 30, 2005 or 2004. Credit under the facility is available upon demand, although the credit facility requires us to observe certain covenants (including requirements for a fixed coverage charge, cash flow leverage ratio and asset coverage) and is collateralized with a pledge of stock of material subsidiaries. We were in compliance with all covenants under the credit facility as of June 30, 2005.

A portion of the revolving facility is used to support required letters of credit issued under the credit line. As a result, $7.5 million of the facility was unavailable for operating needs as of June 30, 2005. We are also charged a fee for outstanding letters of credit that also fluctuates based on our leverage ratio.

In order to secure funding necessary for the business acquisition discussed in Note 2, during July 2005 the company amended and restated its credit facility to provide for a new revolving credit facility in an aggregate principle amount of $300 million. Interest rates associated with this facility vary with LIBOR and/or the Prime Rate and are based on our leverage ratio, as defined by the new credit agreement. The company also pays a 0.15% commitment fee on the unused portion of the facility. Credit under the facility is available upon demand, although the credit facility requires us to observe certain covenants (including requirements for minimum net worth, which act to restrict dividends, cash flow leverage ratio and a fixed coverage charge). The company borrowed $85 million from this credit facility in order to fund the acquisition of WWLLP at July 31, 2005. This facility is scheduled to mature on June 30, 2010.

Risk Management

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

In formulating its premium structure, PCIC estimates the amount it expects to pay for losses (and loss expenses) for all the members as a whole and then allocates that amount to the member firms based on the individual member s expected losses. PCIC bases premium calculations, which are determined annually based on experience through March of each year, on relative risk of the various lines of business performed by each of the owner companies, past claim experience of each owner company, growth of each of those companies, industry risk profiles in general and the overall insurance markets. As of July 1, 2005, the captive insurance company carries reinsurance for 100% of losses it insures above $25 million.

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

The company will continue to provide for the self-insured retention where specific estimated losses and loss expenses for known claims in excess of $1 million are considered probable and reasonably estimable.

Although the company maintains professional liability insurance coverage, this insurance does not cover claims made after expiration of our current insurance contracts. Generally accepted accounting principles require that we record a liability for incurred but not reported (IBNR) professional liability claims if they are estimable and probable, and for which we have not yet contracted for insurance coverage. The company uses actuarial assumptions to estimate and record its IBNR liability and has a $13.9 million IBNR liability recorded as of June 30, 2005.

Recent insurance market conditions for our industry include increases in overall premium cost, higher self-insured retentions and constraints on aggregate excess coverages, trends that are anticipated to continue. We expect these recent conditions to recur periodically and to be reflected in our future annual insurance renewals. As a result, we will continue to assess our ability to secure future insurance coverage. In anticipation of the possibility of future reductions in risk transfer from PCIC to re-insurers, as well as the hardening insurance market conditions in recent years, the firms that own PCIC, including the company, have increased PCIC s capital over the past couple of years, with the most recent capital contributions ($1.5 million in cash and a letter of credit for $3.1 million from the company) being made in July 2005.

In light of increasing worldwide litigation, including litigation against professionals, the company has implemented a requirement that all client relationships be documented by engagement letters containing specific risk mitigation clauses that were not included in all historical client agreements. Nearly 100 percent of the company s U.S. corporate clients have signed engagement letters including mitigation clauses, and initiatives to maintain that process both in the United States and complete it elsewhere are underway. The company has disengaged from certain client relationships where satisfactory engagement terms could not be achieved.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, which clarifies the financial reporting guidance associated with the consolidation of another entity. In December 2003, the FASB revised and superceded FIN 46 with the issuance of FIN 46R in order to address certain implementation issues. The company adopted FIN 46R effective March 31, 2004 and has included appropriate disclosure in this Form 10-K. Adoption of FIN 46R has not resulted in a change in our accounting. See Note 4 of the Consolidated Financial Statements for further information regarding the impact of adopting FIN 46R.

Emerging Issues Task Force Issue 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21), was effective for the company beginning July 1, 2003. There was no change in revenue recognized in the current portfolio of client engagements due to our adoption of EITF 00-21.

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 104 (SAB 104), Revenue Recognition, which supercedes Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements. SAB 104 s primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The issuance of SAB 104 has not had an effect on our revenue recognition policies as they are in accordance with SAB 104.

In December 2003, the Financial Accounting Standards Board (FASB) published revisions to Statement of Financial Accounting Standards No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits (SFAS 132). SFAS 132 revisions retain the original disclosures but require additional annual disclosures about assets, obligations, cash flows and interim disclosures about net periodic benefit costs of defined benefit pension plans and other postretirement plans. The statement was effective for fiscal years ending after December 15, 2003. The company has adopted SFAS 132 as revised and included appropriate disclosure in the form 10-K.

In May 2004, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. 106-2 Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) (SFAS 106-2), which was effective as of the first quarter beginning after June 15, 2004. The Act includes a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent (as defined in the Act) to Medicare Part D. The adoption of SFAS 106-2 has not had a material effect on the financial condition or results of operations of the company.

In June 2004, the Emerging Issues Task Force (EITF) issued EITF 02-14 Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock if the Investor Has the Ability to Exercise Significant Influence Over the Operating and Financial Policies of the Investee. This EITF indicates that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The issuance of EITF 02-14 has not had an effect on our accounting for equity investments which has been in accordance with EITF 02-14.

In December 2004, the Financial Accounting Standards Board (FASB) published revisions to Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123R). SFAS 123R requires companies to account for share-based payment transactions with employees using a fair-value based method, thereby eliminating the disclosure-only provisions of SFAS 123. In April 2005, the SEC issued a rule amending the compliance date which allows companies to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005. As a result, the company will implement SFAS 123R in the reporting period starting July 1, 2005. The company does not expect that the adoption will have a material effect on its financial statements.

In April 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107, Share-Based Payments (SAB 107) in which the SEC expressed views regarding the interaction between SFAS 123R and certain SEC rules and regulations and provide the staff s views regarding the valuation of share-based payment arrangements for public companies.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a one-time election to exclude 85 percent of foreign unrepatriated earnings in either fiscal year 2005 or 2006. The company has evaluated the effect of the repatriation provision. However, it is currently not practical to estimate a range of income taxes associated with any future repatriation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks in the ordinary course of business. These risks include interest rate risk and foreign currency exchange risk. We have examined our exposure to these risks and concluded that none of our exposures in these areas are material to fair values, cash flows or earnings. See Note 2 of the Notes to the Consolidated Financial Statements for further information regarding our handling of risk associated with the business acquisition of Watson Wyatt LLP.

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data are included as Item 15 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There are no changes in accountants or disagreements with accountants on accounting principles and financial disclosures required to be disclosed in this Item 9.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the chief executive officer, or CEO, and chief financial officer, or CFO, of the effectiveness of the design and operation of our disclosure procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2005.

Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting in the fourth quarter of 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and overseen by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has used the framework set forth in the report entitled Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission to evaluate the effectiveness of the Company s internal control over financial reporting.

Management has concluded that the Company s internal control over financial reporting was effective as of June 30, 2005.

Our management s assessment of the effectiveness of our internal control over financial reporting as of June 30, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Part III

Item 10. Directors, Executive Officers, and Audit Committee of the Registrant.

The response to this item will be included in a definitive proxy statement filed within 120 days after the end of the company s fiscal year, and that information is incorporated herein by this reference.

Item 11. Executive Compensation.

The response to this item will be included in a definitive proxy statement filed within 120 days after the end of the company s fiscal year, and that information is incorporated herein by this reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The response to this item will be included in a definitive proxy statement filed within 120 days after the end of the company s fiscal year, and that information is incorporated herein by this reference.

Item 13. Certain Relationships and Related Transactions.

The response to this item will be included in a definitive proxy statement filed within 120 days after the end of the company s fiscal year, and that information is incorporated herein by this reference.

Item 14. Principal Auditor Fees and Services.

The response to this item will be included in a definitive proxy statement filed within 120 days after the end of the Company s fiscal year, and that information is incorporated herein by this reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

a) Financial Information

(1) Consolidated Financial Statements of Watson Wyatt & Company Holdings

(2) Consolidated Financial Statement Schedule for each of the three years in the period ended June 30, 2005

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits

See (b) below.

b) Exhibits

See Exhibit Index on page 96.

c) Financial Statement Schedules

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WATSON WYATT & COMPANY HOLDINGS
(Registrant)

Date: August 24, 2005	By:	/s/ John J. Haley John J. Haley President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John J. Haley John J. Haley	President, Chief Executive Officer and Director	8/24/05
/s/ Carl D. Mautz Carl D. Mautz	Vice President and Chief Financial Officer	8/24/05
/s/ Peter L. Childs Peter L. Childs	Controller	8/24/05
/s/ John J. Gabarro John J. Gabarro	Director	8/24/05
/s/ R. Michael McCullough R. Michael McCullough	Director	8/24/05
/s/ Linda D. Rabbitt Linda D. Rabbitt	Director	8/24/05
/s/Chandrasekhar Ramamurthy Chandrasekhar Ramamurthy	Director	8/24/05
/s/ Gilbert T. Ray Gilbert T. Ray	Director	8/24/05

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/s/ John B. Shoven John B. Shoven	Director	8/24/05
/s/ Paul N. Thornton Paul N. Thornton	Director	8/24/05
/s/ Gene H. Wickes Gene H. Wickes	Vice President and Director	8/24/05
/s/ John C. Wright John C. Wright	Director	8/24/05

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Watson Wyatt & Company Holdings, Inc.

We have completed an integrated audit of Watson Wyatt & Company Holdings, Inc. 2005 consolidated financial statements and of its internal control over financial reporting as of June 30, 2005 and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Watson Wyatt & Company Holdings, Inc. and its subsidiaries at June 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of June 30, 2005 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2005 based on criteria established in *Internal Control Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
McLean, Virginia
August 24, 2005

WATSON WYATT & COMPANY HOLDINGS

Consolidated Statements of Operations

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

	Year Ended June 30 2005	2004	2003
Revenue	$ 737,421	$ 702,005	$ 709,616
Costs of providing services:			
Salaries and employee benefits	397,252	396,775	401,274
Professional and subcontracted services	57,810	49,159	47,356
Occupancy, communications and other	106,752	105,459	106,224
General and administrative expenses	74,612	63,631	57,285
Depreciation and amortization	20,210	18,511	19,621
	656,636	633,535	631,760
Income from operations	80,785	68,470	77,856
Income from affiliates	7,146	7,109	5,787
Interest income, net	2,172	743	991
Other non-operating (loss) income	(7,404)	6,222	761
Income from continuing operations before income taxes	82,699	82,544	85,395
Provision for (benefit from) income taxes:			
Current	33,725	42,722	47,666
Deferred	(2,422)	(10,117)	(12,651)
	31,303	32,605	35,015
Income from continuing operations	51,396	49,939	50,380
Discontinued operations:			
Adjustment to reduce estimated loss on disposal of discontinued operations, less applicable income tax expense of $511, $409 and $4,671 for the years ended June 30, 2005, 2004 and 2003	739	592	6,764
Sublease income from discontinued operations, less applicable income tax expense of $18, $43 and $16 for the years ended June 30, 2005, 2004 and 2003	27	62	22
Net income	$ 52,162	$ 50,593	$ 57,166
Basic earnings per share:			
Income from continuing operations	$ 1.58	$ 1.52	$ 1.52
Income from discontinued operations	0.02		