

WATSON WYATT & CO HOLDINGS  
Form 10-Q  
November 09, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-16159

**WATSON WYATT & COMPANY HOLDINGS**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**52-2211537**  
(I.R.S. Employer Identification No.)

**1717 H Street NW**  
**Washington, D.C. 20006-3900**  
(Address of principal executive offices, including zip code)

**(202) 715-7000**  
(Registrant's telephone number, including area code)

Edgar Filing: WATSON WYATT & CO HOLDINGS - Form 10-Q

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

Yes  No

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 31, 2004.

Class	Number of Shares
Class A Common Stock, \$.01 par value	32,437,920

---

**WATSON WYATT & COMPANY HOLDINGS  
INDEX TO FORM 10-Q**

For the Three Months Ended September 30, 2004

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

Consolidated Statements of Operations Three months ended September 30, 2004 and 2003

Consolidated Balance Sheets September 30, 2004 and June 30, 2004

Consolidated Statements of Cash Flows Three months ended September 30, 2004 and 2003

Consolidated Statement of Changes in Stockholders' Equity Three months ended September 30, 2004

Notes to the Consolidated Financial Statements

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

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

**Item 4. Controls and Procedures**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

**Item 3. Defaults Upon Senior Securities**

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

**Item 5. Other Information**

**Item 6. Exhibits and Reports on Form 8-K**

**Signatures**

**Certifications**

---

## WATSON WYATT &amp; COMPANY HOLDINGS

## Consolidated Statements of Operations

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

	Three months ended September 30	
	2004	2003
	(Unaudited)	
Revenue	\$ 175,391	\$ 170,983
Costs of providing services:		
Salaries and employee benefits	97,076	105,073
Professional and subcontracted services	11,979	9,086
Occupancy, communications and other	24,100	23,518
General and administrative expenses	16,888	15,601
Depreciation and amortization	4,683	4,652
	154,726	157,930
Income from operations	20,665	13,053
Income from affiliates	2,206	1,790
Interest income, net	455	214
Other non-operating income	28	6,125
Income from continuing operations before income taxes	23,354	21,182
Provision for income taxes	9,603	8,685
Income from continuing operations	13,751	12,497
Discontinued operations:		
Sublease income from discontinued operations, less applicable income tax expense for the three months ended September 30, 2004 and 2003	2	10
Net income	\$ 13,753	\$ 12,507
Basic earnings per share:		
Income from continuing operations	\$ 0.42	\$ 0.38
Income from discontinued operations		
Net income	\$ 0.42	\$ 0.38
Diluted earnings per share:		
Income from continuing operations	\$ 0.42	\$ 0.37
Income from discontinued operations		
Net income	\$ 0.42	\$ 0.37
Weighted average shares of common stock, basic (000)	32,358	33,078
Weighted average shares of common stock, diluted (000)	32,679	33,424

See accompanying notes to the consolidated financial statements



## WATSON WYATT &amp; COMPANY HOLDINGS

## Consolidated Balance Sheets

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

	September 30, 2004 (unaudited)	June 30, 2004
<b>Assets</b>		
Cash and cash equivalents	\$ 107,125	\$ 156,940
Receivables from clients:		
Billed, net of allowances of \$3,145 and \$1,241	91,420	86,726
Unbilled, net of allowances of \$1,241 and \$456	66,062	63,108
	157,482	149,834
Deferred income taxes	7,079	15,052
Other current assets	39,361	11,388
<b>Total current assets</b>	<b>311,047</b>	<b>333,214</b>
Investment in affiliates	30,834	30,235
Fixed assets, net	65,410	65,438
Deferred income taxes	54,988	55,240
Goodwill and intangible assets	21,272	20,909
Other assets	9,482	7,132
<b>Total Assets</b>	<b>\$ 493,033</b>	<b>\$ 512,168</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities, including discretionary compensation	\$ 80,047	\$ 113,233
Income taxes payable	10,515	12,526
<b>Total current liabilities</b>	<b>90,562</b>	<b>125,759</b>
Accrued retirement benefits	100,960	97,984
Deferred rent and accrued lease losses	10,239	10,199
Deferred income taxes	365	628
Other noncurrent liabilities	31,261	32,414
<b>Total Liabilities</b>	<b>233,387</b>	<b>266,984</b>
Commitments and contingencies		
<b>Stockholders Equity</b>		
Preferred Stock - No par value: 1,000,000 shares authorized; none issued and outstanding		
Class A Common Stock - \$.01 par value: 69,000,000 shares authorized; 33,372,880 and 33,372,880 issued and 32,419,031 and 32,317,156 outstanding	334	334
Additional paid-in capital	149,387	149,508
Treasury stock, at cost - 953,849 and 1,055,724 shares	(23,711)	(26,149)
Retained earnings	137,007	125,669
Accumulated other comprehensive loss	(3,371)	(4,178)
<b>Total Stockholders Equity</b>	<b>259,646</b>	<b>245,184</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 493,033</b>	<b>\$ 512,168</b>

See accompanying notes to the  
consolidated financial statements

## WATSON WYATT &amp; COMPANY HOLDINGS

## Consolidated Statements of Cash Flows

(Thousands of U.S. Dollars)

	Three months ended September 30	
	2004	2003
	(Unaudited)	
Cash flows used in operating activities:		
Net income	\$ 13,753	\$ 12,507
Adjustments to reconcile net income to net cash used in operating activities:		
Other non-operating gain related to PCIC		(5,600)
Income from discontinued operations, net of income tax expense	(2)	(10)
Provision for doubtful receivables from clients	3,463	2,586
Depreciation	4,610	4,570
Amortization of intangible assets	73	82
Provision for deferred income taxes	(6,717)	5,998
Income from affiliates	(2,206)	(1,790)
Distributions from affiliates	1,491	1,065
Other, net	43	(544)
Changes in operating assets and liabilities (net of discontinued operations)		
Receivables from clients	(11,110)	(9,926)
Other current assets	(13,294)	(7,487)
Other assets	(2,350)	600
Accounts payable and accrued liabilities	(28,938)	(22,022)
Income taxes payable	(2,013)	(14,687)
Accrued retirement benefits	2,976	8,128
Deferred rent and accrued lease losses	40	561
Other noncurrent liabilities	(1,134)	433
Net cash used in operating activities	(41,315)	(25,536)
Cash flows used in investing activities:		
Purchases of fixed assets	(4,504)	(3,593)
Proceeds from divestitures	28	525
Acquisitions and contingent consideration payments	(41)	(43)
Net cash used in investing activities	(4,517)	(3,111)
Cash flows (used in) from financing activities:		
Issuances of common stock - exercises of stock options	424	305
Issuances of common stock - employee stock purchase plan	1,793	1,608
Dividends paid	(2,424)	
Repurchases of common stock	(4,188)	
Net cash (used in) from financing activities	(4,395)	1,913
Effect of exchange rates on cash	412	663
Decrease in cash and cash equivalents	(49,815)	(26,071)
Cash and cash equivalents at beginning of period	156,940	144,374