

Watson Wyatt Worldwide, Inc.
Form 10-Q
November 09, 2006

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, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 001-16159

WATSON WYATT WORLDWIDE, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

**901 N. Glebe Road
Arlington, VA**

(Address of principal executive offices)

52-2211537

(I.R.S. Employer Identification No.)

22203

(zip code)

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(703) 258-8000

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 31, 2006.

Class	Outstanding at October 31, 2006
Class A Common Stock, \$.01 par value per share	42,381,532 shares

WATSON WYATT WORLDWIDE, INC.
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For the Three Months Ended September 30, 2006

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WATSON WYATT WORLDWIDE, INC.
Consolidated Statements of Operations
(Thousands of U.S. Dollars, Except Per Share Data)

	Three months ended September 30	
	2006	2005
	(Unaudited)	
Revenue	\$ 336,004	\$ 265,886
Costs of providing services:		
Salaries and employee benefits	185,595	147,550
Professional and subcontracted services	20,035	19,011
Occupancy, communications and other	40,951	32,853
General and administrative expenses	38,099	31,389
Depreciation and amortization	12,751	9,677
	297,431	240,480
Income from operations	38,573	25,406
(Loss)/income from affiliates	(229)	1,351
Interest expense	(443)	(876)
Interest income	1,450	788
Other non-operating income/(loss)	36	(1,862)
Income from continuing operations before income taxes	39,387	24,807
Provision for income taxes	14,573	10,915
Income from continuing operations	24,814	13,892
Discontinued operations:		
Sublease income from discontinued operations, less applicable income tax expense for the three months ended September 30, 2006 and 2005		9
Net income	\$ 24,814	\$ 13,901
Basic earnings per share:		
Income from continuing operations	\$ 0.59	\$ 0.36
Income from discontinued operations		
Net income	\$ 0.59	\$ 0.36
Diluted earnings per share:		
Income from continuing operations	\$ 0.56	\$ 0.36
Income from discontinued operations		
Net income	\$ 0.56	\$ 0.36
Weighted average shares of common stock, basic (000)	42,396	38,841
Weighted average shares of common stock, diluted (000)	44,388	39,095

See accompanying notes to the
consolidated financial statements

WATSON WYATT WORLDWIDE, INC.
Consolidated Balance Sheets
(Thousands of U.S. Dollars, Except Share and Per Share Data)

	September 30, 2006 (unaudited)	June 30, 2006
Assets		
Cash and cash equivalents	\$ 63,394	\$ 165,345
Receivables from clients:		
Billed, net of allowances of \$6,570 and \$3,678	177,052	180,533
Unbilled, at estimated net realizable value	140,588	123,044
	317,640	303,577
Deferred income taxes	4,366	567
Other current assets	46,847	24,158
Total current assets	432,247	493,647
Investment in affiliates	8,224	8,564
Fixed assets, net	152,568	147,738
Deferred income taxes	75,300	70,417
Goodwill	328,526	324,041
Intangible assets	187,115	187,075
Other assets	8,707	8,877
Total Assets	\$ 1,192,687	\$ 1,240,359
Liabilities		
Accounts payable and accrued liabilities, including discretionary compensation	\$ 206,261	\$ 288,396
Deferred income taxes		168
Income taxes payable	16,434	7,771
Total current liabilities	222,695	296,335
Note payable	25,000	30,000
Accrued retirement benefits	165,370	162,505
Deferred rent and accrued lease losses	28,864	28,982
Deferred income taxes	443	480
Other noncurrent liabilities	77,619	73,296
Total Liabilities	519,991	591,598
Commitments and contingencies		
Stockholders Equity		
Preferred Stock - No par value:		
1,000,000 shares authorized; none issued and outstanding		
Class A Common Stock - \$.01 par value:		
99,000,000 shares authorized; 42,513,451 and 42,463,451 issued and 42,329,814 and 42,385,513 outstanding	425	425
Additional paid-in capital	387,344	386,392
Treasury stock, at cost - 183,637 and 77,938 shares	(7,329)	(2,134)
Retained earnings	264,237	242,599
Accumulated other comprehensive income	28,019	21,479
Total Stockholders Equity	672,696	648,761
Total Liabilities and Stockholders Equity	\$ 1,192,687	\$ 1,240,359

See accompanying notes to the
consolidated financial statements

WATSON WYATT WORLDWIDE, INC.
Consolidated Statements of Cash Flows
(Thousands of U.S. Dollars)

	Three months ended September 30	
	2006	2005
	(Unaudited)	
Cash flows used in operating activities:		
Net income	\$ 24,814	\$ 13,901
Adjustments to reconcile net income to net cash used in operating activities:		
Loss on foreign currency forward contract		3,602
Income from discontinued operations, net of income tax expense		(9)
Provision for doubtful receivables from clients	8,187	5,832
Depreciation	10,460	8,157
Amortization of intangible assets	2,291	1,520
Provision for deferred income taxes	(8,576)	(281)
Income from affiliates	229	(1,351)
Distributions from affiliates		1,639
Other, net	216	(1,070)
Changes in operating assets and liabilities (net of discontinued operations):		
Receivables from clients	(20,509)	(2,398)
Other current assets	(23,457)	(21,919)
Other assets	178	(517)
Accounts payable and accrued liabilities	(71,987	