

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2001

OR

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

For the transition period from _____ to _____

Commission File Number: 001-16159

WATSON WYATT & COMPANY HOLDINGS

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-2211537

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

1717 H Street NW

Washington, DC 20006-3900

(Address of principal executive offices, including zip code)

(202) 715-7000

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 2, 2001.

<u>Class A Common Stock, \$.01 par value</u>	<u>6,440,000</u>
<u>Class B Common Stock, \$.01 par value</u>	<u>26,488,710</u>
Class	Number of Shares

This Form 10-Q/A for the quarter ended March 31, 2001 is being filed to correct an error in the heading of the Company's Consolidated Statements of Cash Flows for the nine months ended March 31, 2001 and 2000 on page F-3.

WATSON WYATT & COMPANY HOLDINGS
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For the Three Months Ended March 31, 2001

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WATSON WYATT & COMPANY HOLDINGS

Consolidated Statements of Operations

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
Revenue	\$ 176,345	\$ 157,502	\$ 515,819	\$ 456,236
Costs of providing services:				
Salaries and employee benefits	93,493	85,871	274,917	246,624
Stock incentive bonus plan	-	8,200	-	23,200
Professional and subcontracted services	13,803	9,082	40,558	34,009
Occupancy, communications and other	27,706	26,561	81,200	73,284
General and administrative expenses	17,730	16,214	50,781	44,116
Depreciation and amortization	6,139	5,483	18,175	15,000
	<u>158,871</u>	<u>151,411</u>	<u>465,631</u>	<u>436,233</u>
Income from operations	17,474	6,091	50,188	20,003
Other:				
Interest income	601	232	2,025	1,484
Interest expense	(316)	(431)	(1,331)	(1,519)
Income from affiliates	<u>1,483</u>	<u>481</u>	<u>3,661</u>	<u>2,624</u>
Income before income taxes and minority interest	19,242	6,373	54,543	22,592
Provision for income taxes	<u>8,255</u>	<u>2,806</u>	<u>23,399</u>	<u>10,641</u>
Income before minority interest	10,987	3,567	31,144	11,951
Minority interest in net (income) loss of consolidated subsidiaries	<u>(72)</u>	<u>(9)</u>	<u>(157)</u>	<u>167</u>
Net income	<u>\$ 10,915</u>	<u>\$ 3,558</u>	<u>\$ 30,987</u>	<u>\$ 12,118</u>
Basic earnings per share, net income	<u>\$ 0.33</u>	<u>\$ 0.12</u>	<u>\$ 0.98</u>	<u>\$ 0.40</u>
Diluted earnings per share, net income	<u>\$ 0.33</u>	<u>\$ 0.12</u>	<u>\$ 0.97</u>	<u>\$ 0.40</u>
Weighted average shares of Common Stock, basic	<u>32,929</u>	<u>29,702</u>	<u>31,770</u>	<u>30,102</u>
Weighted average shares of Common Stock, diluted	<u>33,310</u>	<u>29,702</u>	<u>32,028</u>	<u>30,102</u>

See accompanying notes

WATSON WYATT & COMPANY HOLDINGS
Consolidated Balance Sheets
(Thousands of U.S. Dollars)

	March 31, 2001 (Unaudited)	June 30, 2000
Assets		
Cash and cash equivalents	\$ 46,327	\$ 41,410
Receivables from clients:		
Billed, net of allowances of \$5,671 and \$2,832	88,546	76,729
Unbilled, net of allowances of \$2,495 and \$676	68,048	66,009
	156,594	142,738
Other current assets	13,302	11,705
Total current assets	216,223	195,853
Investment in affiliates	16,700	16,615
Fixed assets, net of accumulated depreciation of \$93,640 and \$83,211	43,002	45,237
Deferred income taxes	53,355	53,355
Intangible assets, net of accumulated amortization of \$17,010 and \$15,288	13,032	8,721
Other assets	10,783	10,179
Total Assets	<u>\$ 353,095</u>	<u>\$ 329,960</u>
Liabilities and Stockholders' Equity		
Accounts payable and accrued liabilities	\$ 127,624	\$ 167,803
Line of credit and book overdrafts	23	30
Income taxes payable	11,749	11,843
Total current liabilities	139,396	179,676
Accrued retirement benefits	78,761	79,462
Deferred rent and accrued lease losses	3,585	5,456
Other noncurrent liabilities	24,418	23,657
Minority interest in subsidiaries	603	498
Redeemable Common Stock - \$1 par value:		
50,000,000 shares authorized;		
14,845,145 issued and outstanding;		
at redemption value		115,480
Permanent stockholders' equity:		
Adjustment for redemption value greater than amounts paid in by stockholders		(6,097)
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;		
6,440,000 issued and outstanding	64	
Class B-1 Common Stock - \$.01 par value:		
15,000,000 shares authorized;		
13,244,355 issued and outstanding	132	
Class B-2 Common Stock - \$.01 par value:		
15,000,000 shares authorized;		
13,244,355 issued and outstanding	132	
Additional paid-in capital	144,807	
Retained deficit	(33,342)	(64,223)
Cumulative translation adjustment (accumulated other comprehensive loss)	(5,461)	(3,949)
Commitments and contingencies		
Total Liabilities and Stockholders' Equity	<u>\$ 353,095</u>	<u>\$ 329,960</u>

WATSON WYATT & COMPANY HOLDINGS

Consolidated Statements of Cash Flows

(Thousands of U.S. Dollars)

	Nine Months Ended March 31,	
	2001	2000
	(Unaudited)	
Cash flows used for operating activities:		
Net income	30,987	12,118
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful receivables from clients	9,630	9,190
Depreciation	16,281	13,595
Non cash compensation charge	751	0
Amortization of intangible assets	1,894	1,405
Income from affiliates	(3,661)	(2,624)
Minority interest in net income (loss) of consolidated subsidiaries	157	(167)
(Increase) decrease in assets (net of discontinued operations):		
Receivables from clients	(23,486)	(22,379)
Other current assets	(1,597)	1,841
Other assets	1,974	1,017
(Decrease) increase in liabilities (net of discontinued operations):		
Accounts payable and accrued liabilities	(39,745)	(8,012)
Income taxes payable	(94)	(7,498)
Accrued retirement benefits	(701)	(7,006)
Deferred rent and accrued lease losses	(1,871)	(2,733)
Other noncurrent liabilities	1,148	567
Other, net	721	(110)
Discontinued operations, net	(433)	(895)
Net cash used for operating activities	<u>(8,045)</u>	<u>(11,691)</u>
Cash flows used in investing activities:		
Purchases of fixed assets	(17,763)	(10,217)
Proceeds from sales of fixed assets and investments	443	0
Acquisitions and contingent consideration payments	(7,040)	(2,900)
Distributions from affiliates	2,745	891
Net cash used in investing activities	<u>(21,615)</u>	<u>(12,226)</u>
Cash flows from financing activities:		
Borrowings and book overdrafts	(7)	9,973
Issuances of Common Stock in the initial public offering	35,025	0
Other issuances of Redeemable Common Stock	134	166
Repurchases of Redeemable Common Stock	(250)	(9,079)
Net cash from financing activities	<u>34,902</u>	<u>1,060</u>
Effect of exchange rates on cash	<u>(325)</u>	<u>196</u>
Increase (decrease) in cash and cash equivalents	4,917	(22,661)
Cash and cash equivalents at beginning of period	<u>41,410</u>	<u>35,985</u>
Cash and cash equivalents at end of period	<u><u>46,327</u></u>	<u><u>13,324</u></u>

See accompanying notes

WATSON WYATT & COMPANY HOLDINGS

Consolidated Statement of Changes in Permanent Stockholders' Equity and Redeemable Common Stock

(Thousands of U.S. Dollars)

(Unaudited)

	Redeemable Common Stock	Retained Deficit	Cumulative Translation Loss	Adjustment for Redemption Value Greater Than Amounts Paid in by Stockholders	Par Value Class A Common Stock	Par Value Class B-1 Common Stock	Par Value Class B-2 Common Stock	Additional Paid in Capital	Total
Balance at June 30, 2000	\$ 115,480	\$ (64,223)	\$ (3,949)	\$ (6,097)					\$ (74,269)
Comprehensive Income for the quarter ended September 30, 2000:									
Net income		13,335							13,335
Foreign currency translation adjustment			(1,224)						(1,224)
Total Comprehensive Income for the quarter ended September 30, 2000									12,111
Effect of repurchases of 17,839 shares of Redeemable Common Stock	(146)	(106)		106					-
Effect of issuance of 20,000 shares of Redeemable Common Stock	134								-
Adjustment of redemption value for change in Formula Book Value per share				(118)					(118)
Balance prior to corporate reorganization	115,468	(50,994)	(5,173)	(6,109)	\$ -	\$ -	\$ -	\$ -	(62,276)
Elimination of redeemable feature of Common Stock and 2-for-1 share exchange (see Note 2)	(115,468)			6,109		148	148	109,063	115,468
Reclassification for sale of 3,118,500 shares by existing stockholders					32	(16)	(16)		-
Proceeds from sale of 3,321,500 shares by the Company, net of offering costs					32			34,993	35,025
Non cash compensation charge related to the sale of 44,796 shares of Redeemable Common Stock prior to the initial public offering								751	751
Comprehensive Income for the six months ended March 31, 2001:									
Net income		17,652							17,652
Foreign currency translation adjustment			(288)						(288)
Total Comprehensive Income for the six months ended March 31, 2001:									17,364
Balance at March 31, 2001	\$ -	\$ (33,342)	\$ (5,461)	\$ -	\$ 64	\$ 132	\$ 132	\$ 144,807	\$ 106,332

See accompanying notes

WATSON WYATT & COMPANY HOLDINGS

Notes to the Consolidated Financial Statements (Unaudited)

1. The accompanying unaudited quarterly consolidated financial statements of Watson Wyatt & Company Holdings and our subsidiaries, (collectively referred to as "we," "Watson Wyatt" or the "Company"), are presented in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and do not include all of the disclosures normally required by Generally Accepted Accounting Principles. In the opinion of management, these statements reflect all adjustments, including recurring adjustments, which are necessary for a fair presentation of the consolidated financial statements for the interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2000, and the Company's prospectus dated October 11, 2000, both of which are filed with the SEC and may be accessed via EDGAR on the SEC's web site at www.sec.gov. The results of operations for the three and nine months ended March 31, 2001 are not necessarily indicative of the results that can be expected for the entire fiscal year ending June 30, 2001. The results reflect bonuses ultimately accrued at the discretion of the Company's Board of Directors and anticipated tax rates. Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. In October 2000, we completed an initial public offering ("IPO") of our class A common stock. In conjunction with this offering, on October 16, 2000 we completed changes in our corporate structure involving the merger of Watson Wyatt & Company with WW Merger Subsidiary, Inc., a wholly-owned subsidiary of Watson Wyatt & Company Holdings. As a result, Watson Wyatt & Company is now a wholly-owned subsidiary of Watson Wyatt & Company Holdings.

At the time of the reorganization, each share of Watson Wyatt & Company's Redeemable Common Stock was converted into one share of class B-1 common stock and one share of class B-2 common stock of Watson Wyatt & Company Holdings. The class B common stock is divided into two classes to accommodate different transfer restriction periods. The class B-1 shares are subject to a transfer restriction period of 12 months following the public offering date, while the class B-2 shares are subject to a transfer restriction period of 24 months following the public offering date, unless waived by the Board of Directors. The Board of Directors waived the transfer restrictions on a total of 1,559,250 class B-1 and 1,559,250 class B-2 shares to allow for conversion into the class A shares sold by selling stockholders in the initial public offering described below. Following the expiration or waiver of the respective transfer restriction periods, the remaining class B-1 and class B-2 shares will automatically convert into class A common stock.

In conjunction with our initial public offering, we entered into agreements providing for additional transfer restrictions with major stockholders, executive officers and employee directors affecting approximately 36% of our remaining class B common stock. The agreements restrict transfers of all shares held by such persons immediately following the offering, and the restrictions terminate as to 25% of such shares on each of the first, second, third and fourth anniversaries of the consummation of the public offering.

The two-for-one share conversion, the elimination of the redeemable feature of Watson Wyatt & Company's Redeemable Common Stock and the reclassification of stock to permanent stockholders' equity has been reflected in the Consolidated Balance Sheet as of March 31, 2001, and has also been reflected in all earnings per share data on the Consolidated Statements of Operations for the three and nine months ended March 31, 2001 and 2000, as if the conversion were effective at the beginning of each period.

A total of 5,600,000 shares of class A common stock was offered and sold in our initial public offering at an offering price of \$12.50 per share. Of the shares included in this transaction, Watson Wyatt & Company Holdings offered 2,800,000 newly-issued shares and the selling stockholders offered the remaining 2,800,000 shares. On November 8, 2000, our underwriters exercised their over-allotment option. As a result, the underwriters purchased 840,000 shares of class A common stock from us and from the selling stockholders at the initial public offering price of \$12.50 per share less the underwriting discount. Of the shares included in this transaction, Watson Wyatt & Company Holdings sold 521,500 newly-issued shares and the selling stockholders sold 318,500 shares.

Net proceeds to the Company from these transactions were \$35.0 million, net of underwriting discounts, commissions and other offering, merger and restructuring costs. We did not receive any proceeds from the sale of shares by the selling stockholders. We also paid \$2.7 million to selling stockholders as reimbursement for commission payments resulting from the sale of their shares. This amount was recorded in the salaries and employee benefits line for the nine months ended March 31, 2001.

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

4. We have adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." During the second quarter of fiscal year 2001, we changed the structure of our internal organization in a manner that caused the composition of our reportable segments to change. In order to better position the Company to deliver the integrated, global solutions that have the largest impact on our growth, management consolidated our three U.S. regions into a single region. As a result of this consolidation, and because we also use a practice-based matrix form of organization for our North American regions, we have changed our reportable segments to reflect our practice-based structure. After the change, we have five reportable segments:

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

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

The table below presents specified information about reported segments as of and for the three months ended March 31, 2001 (in thousands):

	<u>Benefits Group</u>	<u>HR Technologies Group</u>	<u>Human Capital Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$ 97,106	\$ 23,768	\$ 13,597	\$ 16,880	\$ 16,841	\$168,192
Net operating income	27,266	5,694	549	1,769	(93)	35,185
Receivables	95,465	16,052	13,230	15,727	13,020	153,494

The table below presents specified information about reported segments as of and for the three months ended March 31, 2000 (in thousands):

	<u>Benefits Group</u>	<u>HR Technologies Group</u>	<u>Human Capital Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$ 85,584	\$ 18,919	\$ 13,037	\$ 17,156	\$ 15,288	\$149,984
Net operating income	21,829	3,706	1,386	2,950	1,057	30,928
Receivables	87,798	19,342	13,107	17,750	11,452	149,449

The table below presents specified information about reported segments as of and for the nine months ended March 31, 2001 (in thousands):

	<u>Benefits Group</u>	<u>HR Technologies Group</u>	<u>Human Capital Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$270,027	\$ 73,209	\$ 42,083	\$ 52,794	\$ 54,024	\$492,137
Net operating income	66,014	21,528	5,728	6,821	5,871	105,962
Receivables	95,465	16,052	13,230	15,727	13,020	153,494

The table below presents specified information about reported segments as of and for the nine months ended March 31, 2000 (in thousands):

	<u>Benefits Group</u>	<u>HR Technologies Group</u>	<u>Human Capital Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$244,233	\$ 59,411	\$ 36,638	\$ 47,087	\$ 46,428	\$433,797
Net operating income	53,828	14,278	3,900	5,418	4,356	81,780
Receivables	87,798	19,342	13,107	17,750	11,452	149,449

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

A reconciliation of the information reported by segment to the consolidated amounts follow for the three and nine-month periods ended March 31, 2001 and 2000 (in thousands):

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
<u>Revenue:</u>				
Total segment revenue	\$ 168,192	\$ 149,984	\$ 492,137	\$ 433,797
Reimbursable expenses not included in total segment revenue	8,765	6,996	25,438	22,377
Other, net	<u>(612)</u>	<u>522</u>	<u>(1,756)</u>	<u>62</u>
Consolidated revenue	<u>\$ 176,345</u>	<u>\$ 157,502</u>	<u>\$ 515,819</u>	<u>\$ 456,236</u>
<u>Net Operating Income:</u>				
Total segment net operating income	\$ 35,185	\$ 30,928	\$ 105,962	\$ 81,780
Income from affiliates	1,483	481	3,661	2,624
Differences in allocation methods for depreciation, G&A and pension costs	1,946	(200)	(1,748)	2,312
Gain on sale of business units	-	-	696	-
Discretionary compensation (including stock incentive bonus plan during the three and nine months ended March 31, 2000 only)	(15,930)	(21,450)	(49,030)	(63,200)
IPO-related compensation charge	-	-	(3,480)	-
Other, net	<u>(3,442)</u>	<u>(3,386)</u>	<u>(1,518)</u>	<u>(924)</u>
Consolidated pretax income from continuing operations	<u>\$ 19,242</u>	<u>\$ 6,373</u>	<u>\$ 54,543</u>	<u>\$ 22,592</u>
<u>Receivables:</u>				
Total segment receivables – billed and unbilled	\$ 153,494	\$ 149,449	\$ 153,494	\$ 149,449
Net valuation differences	<u>3,100</u>	<u>(394)</u>	<u>3,100</u>	<u>(394)</u>
Total billed and unbilled receivables	156,594	149,055	156,594	149,055
Assets not reported by segment	<u>196,501</u>	<u>150,360</u>	<u>196,501</u>	<u>150,360</u>
Consolidated assets	<u>\$ 353,095</u>	<u>\$ 299,415</u>	<u>\$ 353,095</u>	<u>\$ 299,415</u>

5. In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which summarizes certain of the staff's views on revenue recognition. Our revenue recognition policies have been and continue to be in accordance with SAB 101.

6. In June 1998, the Financial Accounting Standards Board issued Statement ("FAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities," which requires an entity to recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. Effective July 1, 2000, we adopted FAS 133, and it has no impact on fair values or earnings. We do not use derivative instruments as a hedging strategy or for any other purpose.

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

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net income	\$ 10,915	\$ 3,558	\$ 30,987	\$ 12,118
Weighted average outstanding shares of common stock	32,929	29,702	31,770	30,102
Dilutive effect of employee stock options	<u>381</u>	<u>-</u>	<u>258</u>	<u>-</u>
Common stock and stock equivalents	<u>33,310</u>	<u>29,702</u>	<u>32,028</u>	<u>30,102</u>
Earnings per share:				
Basic	<u>\$ 0.33</u>	<u>\$ 0.12</u>	<u>\$ 0.98</u>	<u>\$ 0.40</u>
Diluted	<u>\$ 0.33</u>	<u>\$ 0.12</u>	<u>\$ 0.97</u>	<u>\$ 0.40</u>

Earnings per share data for the three and nine-month periods ended March 31, 2000 have been restated to reflect the corporate reorganization and two-for-one share conversion as if the corporate reorganization and two-for-one share conversion were effective at the beginning of each period. See Note 2 of the Consolidated Financial Statements for further information regarding the initial public offering.

8. We are a defendant in certain lawsuits arising in the normal course of business. Management believes that these matters will not have a material adverse impact on our financial statements, but claims which are possible in our business could be material to the financial results for a particular period and could affect the cost of insurance.

We carry substantial professional liability insurance with a self-insured retention of \$1 million per occurrence, which provides coverage for professional liability claims including the cost of defending such claims. We also carry employment practices liability insurance.

9. On March 19, 2001 the Board of Directors approved the creation of an employee stock purchase plan for all associates and a restricted stock program for senior associates.

The proposed employee stock purchase plan and the restricted stock program will be implemented for fiscal 2002 subject to approval by a majority of stockholders at the annual stockholders' meeting currently scheduled for November 2001. Management believes that these programs will not dilute earnings per share.

10. The Company has adopted SFAS No. 130 "Reporting Comprehensive Income." Comprehensive income includes net income and changes in the cumulative translation adjustment gain or loss. For the three months ended March 31, 2001, comprehensive income totaled \$11.1 million compared with \$2.7 million for the three months ended March 31, 2000. For the nine months ended March 31, 2001, comprehensive income totaled \$29.5 million compared with \$12.3 million for the nine months ended March 31, 2000.

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

General

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

In October 2000, we moved our principal executive offices to 1717 H Street NW, Washington, DC 20006, from 6707 Democracy Boulevard, Suite 800, Bethesda, MD 20817. Our web site is www.watsonwyatt.com.

Global Operations

We employ approximately 4,100 associates as follows:

Benefits Group	1,480
HR Technologies Group	380
Human Capital Group	260
International	900
Other (Including Data Services and Communications)	790
Corporate	<u>290</u>
Total	<u>4,100</u>

Principal Services

We focus on the following core consulting areas:

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

HR Technologies: The HR Technologies group develops technology-based solutions to reduce employer costs and improve employee service in human resources administration, including web-based applications.

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

International: Our consultants, working internationally, operate on a geographic basis from 23 offices in 16 countries and provide consulting services in the practice areas mentioned herein.

Other: While we focus our consulting services in the areas described above, management believes that one of our primary strengths is our ability to draw upon consultants from our different practices to deliver integrated services to meet the needs of our clients. Examples include:

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

(2) Data Services: Watson Wyatt Data Services produces custom and standard compensation and benefits surveys and human resource reference materials for use by global and local companies in 70 countries. Over 7,500 companies participate in our surveys and our products include over 100 compensation, benefits and employment practices references and survey reports.

Watson Wyatt Worldwide Alliance

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

The Watson Wyatt Worldwide global alliance maintains 88 offices in 30 countries and employs over 5,900 employees. Watson Wyatt & Company operates 62 offices in 18 countries in North America, Asia-Pacific and Latin America. Watson Wyatt Partners operates 11 offices in the United Kingdom, Ireland and Africa. The alliance operates 15 offices in 9 continental European countries principally through a jointly owned holding company, Watson Wyatt Holdings (Europe) Limited, which is 25% owned by Watson Wyatt and 75% owned by Watson Wyatt Partners.

Financial Statement Overview

Watson Wyatt's fiscal year ends June 30. The financial statements contained in this quarterly report reflect a Consolidated Balance Sheet as of the end of the third quarter of fiscal year 2001 (March 31, 2001), reflecting the changes in our capital structure as a result of our reorganization and initial public offering, a Consolidated Balance Sheet as of the end of fiscal year 2000 (June 30, 2000), Consolidated Statements of Operations for the three and nine-month periods ended March 31, 2001 and 2000, Consolidated Statements of Cash Flows for the nine-month periods ended March 31, 2001 and 2000 and a Consolidated Statement of Changes in Permanent Stockholders' Equity and Redeemable Common Stock for the nine-month period ended March 31, 2001, reflecting the changes in our capital structure as a result of our reorganization and initial public offering.

Although we operate globally as an alliance with our affiliates, the revenues and operating expenses in the Consolidated Statements of Operations reflect solely the results of operations of Watson Wyatt & Company Holdings. Our share of the results of our affiliates, recorded using the equity method of accounting is reflected in the "Income from affiliates" line. Our principal affiliates are Watson Wyatt Partners, in which we hold a 10% interest in a defined distribution pool, and Watson Wyatt Holdings (Europe) Limited, a holding company through which we conduct continental European operations. We own 25% of Watson Wyatt Holdings (Europe) Limited and Watson Wyatt Partners owns the remaining 75%.

We derive substantially all of our revenue from fees for consulting services, which generally are billed at standard hourly rates or on a fixed-fee basis; management believes the approximate percentages are 60% and 40%, respectively. Clients are typically invoiced on a monthly basis with revenue recognized as services are performed. For the most recent three fiscal years, revenue from U.S. consulting operations have comprised approximately 80% of consolidated revenue. No single client accounted for more than 5% 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. In addition, professional and subcontracted services represent fees paid to external service providers for legal, marketing and other services, approximately 50% of which are directly incurred on behalf of our clients and are reimbursed by them and included in revenue.

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

Historically, we have paid incentive bonuses to associates under a fiscal year-end bonus program. Beginning in fiscal year 1999 and continuing through fiscal year 2000, in addition to annual fiscal year-end bonuses, we provided supplemental bonus compensation to our employee stockholders pursuant to our stock incentive bonus plan in an amount representing all income in excess of a targeted amount. The supplemental bonus compensation pursuant to our stock incentive bonus plan was accrued in fiscal year 1999 and fiscal year 2000. The payment of the amount accrued in fiscal year 2000 was made in January 2001. We terminated the stock incentive bonus plan in conjunction with our initial public offering.

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

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Revenue				
Costs of providing services:				
Salaries and employee benefits	53.0	54.5	53.4	54.1
Stock incentive bonus plan	--	5.2	--	5.1
Professional and subcontracted services	7.8	5.8	7.9	7.4
Occupancy, communications and other	15.7	16.8	15.7	16.1
General and administrative expenses	10.1	10.3	9.8	9.7
Depreciation and amortization	3.5	3.5	3.5	3.3
	<u>90.1</u>	<u>96.1</u>	<u>90.3</u>	<u>95.7</u>
Income from operations	9.9	3.9	9.7	4.3
Other:				
Interest income	0.3	0.1	0.4	0.3
Interest expense	(0.2)	(0.3)	(0.3)	(0.3)
Income from affiliates	<u>0.9</u>	<u>0.3</u>	<u>0.7</u>	<u>0.6</u>
Income before income taxes and minority interest	10.9	4.0	10.5	4.9
Provision for income taxes	<u>4.7</u>	<u>1.8</u>	<u>4.5</u>	<u>2.3</u>
Income before minority interest	6.2	2.2	6.0	2.6
Minority interest in net (income) loss of consolidated subsidiaries	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net income	<u>6.2 %</u>	<u>2.2 %</u>	<u>6.0 %</u>	<u>2.6 %</u>

Nine Months Ended March 31, 2001 Compared to Nine Months Ended March 31, 2000 and Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Revenue. Revenue from continuing operations was \$515.8 million for the first nine months of fiscal year 2001, compared to \$456.2 million for the first nine months of fiscal year 2000, an increase of \$59.6 million, or 13%. This revenue growth was comprised of a \$25.8 million, or 11% increase in our Benefits Group, a \$13.8 million, or 23% increase in our HR Technologies Group, a \$5.4 million, or 15% increase in our Human Capital Group, a \$5.7 million, or 12% increase in International and a \$7.6 million, or 16% increase in Other practice areas in North America. Revenue for the third quarter of fiscal year 2001 was \$176.3 million, compared to \$157.5 million for the third quarter of fiscal year 2000, an increase of \$18.8 million, or 12%. The revenue increase was comprised of a \$11.5 million, or 13% increase in our Benefits Group, a \$4.9 million, or 26% increase in our HR Technologies Group, a \$0.6 million, or 4% increase in our Human Capital Group, a \$0.3 million, or 2% decrease in International and a \$1.6 million, or 10% increase in Other practice areas in North America. The revenue increase for the North American practices in both periods was mainly due to the realization of net rate increases, reflecting our continued focus on large value-added projects, to increased chargeable hours and to improved management of the scope of projects.

Salaries and Employee Benefits. Salaries and employee benefit expenses for the first nine months of fiscal year 2001 were \$274.9 million, compared to \$246.6 million for the first nine months of fiscal year 2000, an increase of \$28.3 million, or 11%. Salaries and employee benefit expenses for the nine months ended March 31, 2001 include the \$3.5 million compensation charge the Company incurred resulting from agreements with our employee stockholders related to our initial public offering. The remaining increase was mainly due to a \$24.8 million increase in compensation, which is partly the result of annual salary increases averaging 6%, coupled with an 8% increase in headcount. As a percentage of revenue, salaries and employee benefits decreased to 53.4% from 54.1%. The \$3.5 million compensation charge mentioned above accounted for 0.7% of revenue for the nine-month period ended March 31, 2001. Salaries and employee benefit expenses for the third quarter of fiscal year 2001 were \$93.5 million, compared to \$85.9 million for the third quarter of fiscal year 2000, an increase of \$7.6 million, or 9%. The increase was mainly due to an increase in compensation, which is partly the result of annual salary increases averaging 6%, coupled with an 11% increase in headcount. As a percentage of revenue, salaries and employee benefits decreased to 53.0% from 54.5%.

Stock Incentive Bonus Plan. The stock incentive bonus plan was discontinued in conjunction with our initial public offering. Accordingly, there was no accrued bonus under this plan for the three or nine months ended March 31, 2001.

Professional and Subcontracted Services. Professional and subcontracted services used in consulting operations were \$40.6 million for the first nine months of fiscal year 2001, compared to \$34.0 million for the first nine months of fiscal year 2000, an increase of \$6.6 million, or 19%. The increase was mainly due to higher reimbursable services generated on behalf of clients of \$3.1 million, a \$2.5 million increase in our consulting office's use of resources from our national practice groups and charges of \$1.6 million related to claims settlements, partially offset by lower professional services in our Canadian offices of \$0.8 million. As a percentage of revenue, professional and subcontracted services increased to 7.9% from 7.4%. Professional and subcontracted services used in consulting operations were \$13.8 million for the third quarter of fiscal year 2001, compared to \$9.1 million for the third quarter of fiscal year 2000, an increase of \$4.7 million, or 52%. The variance in the third quarter is primarily due to higher reimbursable services generated on behalf of clients of \$1.7 million, \$1.6 million in charges related to claims settlements and a \$0.8 million increase due to the use of resources from our national practice groups by our consulting offices. As a percentage of revenue, professional and subcontracted services increased to 7.8% from 5.8% for the quarter.

Occupancy, Communications and Other. Occupancy, communications and other expenses were \$81.2 million for the first nine months of fiscal year 2001, compared to \$73.3 million for the first nine months of fiscal year 2000, an increase of \$7.9 million, or 11%. The increase was mainly due to a \$3.7 million increase in rent expense, attributable to an increase in the amount of space required to support our expanding operations and higher real estate tax and operating expenses, a \$1.8 million increase in travel expenses incurred in the first quarter of fiscal year 2001 relative to our annual leadership conference held in Europe this year, a \$1.0 million investment in a strategic relationship, a \$0.6 million increase in general office expenses which are evenly spread throughout our consulting offices and a \$0.6 million increase in equipment rental expenses. As a percentage of revenue, occupancy, communications and other expenses decreased to 15.7% from 16.1%. Occupancy, communications and other expenses were \$27.7 million for the third quarter of fiscal year 2001, compared to \$26.6 million for the third quarter of fiscal year 2000, an increase of \$1.1 million, or 4%. The increase was mainly due to higher rent expense of \$0.6 million, attributable to an increase in the amount of space required to support our expanding operations and higher real estate tax and operating expenses, a \$0.4 million increase in promotional expenses and a \$0.2 million increase in equipment rental expenses. As a percentage of revenue, occupancy, communications and other expenses decreased to 15.7% from 16.8%.

General and Administrative Expenses. General and administrative expenses for the first nine months of fiscal year 2001 were \$50.8 million, compared to \$44.1 million for the first nine months of fiscal year 2000, an increase of \$6.7 million, or 15%. The increase was mainly due to higher compensation of \$3.9 million and higher professional services of \$1.4 million, both of which are due to the planning and implementation of corporate initiatives involving knowledge management, systems infrastructure and human resources. The remainder of the increase can be attributed to increased insurance expenses of \$0.8 million and higher travel and hotel costs of \$0.7 million, which is mainly due to higher costs related to our annual client conference. As a percentage of revenue, general and administrative expenses increased slightly to 9.8% from 9.7%. General and administrative expenses for the third quarter of fiscal year 2001 were \$17.7 million, compared to \$16.2 million for the third quarter of fiscal year 2000, an increase of \$1.5 million, or 9%. The increase was mainly due to higher compensation of \$1.5 million, which is due to the planning and implementation of corporate initiatives involving knowledge management, systems infrastructure and human resources. As a percentage of revenue, general and administrative expenses decreased to 10.1% from 10.3%.

Depreciation and Amortization. Depreciation and amortization expense for the first nine months of fiscal year 2001 was \$18.2 million, compared to \$15.0 million for the first nine months of fiscal year 2000, an increase of \$3.2 million, or 21%. Depreciation and amortization expense for the third quarter of fiscal year 2001 was \$6.1 million, compared to \$5.5 million for the third quarter of fiscal year 2000, an increase of \$0.6 million, or 11%. The variance in both periods is primarily due to increased additions to our capital base and an increase in amortization of intangibles, which is mainly due to recent acquisitions. As a percentage of revenue, depreciation and amortization expenses increased to 3.5% from 3.3% for the year and remained at 3.5% for the quarter.

Interest Income. Interest income for the first nine months of fiscal year 2001 was \$2.0 million, compared to \$1.5 million for the first nine months of fiscal year 2000, an increase of \$0.5 million, or 33%. The increase was attributable to interest earned on a higher average investment balance during the first nine months of fiscal year 2001, partially offset by the receipt of interest of \$0.5 million related to a federal tax refund received during the first quarter of fiscal year 2000. Interest income for the third quarter of fiscal year 2001 was \$0.6 million, compared to \$0.2 million for the third quarter of fiscal year 2000, an increase of \$0.4 million, or 200%. The increase is due to interest earned on a higher average investment balance during the quarter. The higher average investment balance can be attributed to proceeds received from the initial public offering.

Interest Expense. Interest expense for the first nine months of fiscal year 2001 was \$1.3 million, compared to \$1.5 million for the first nine months of fiscal year 2000, a decrease of \$0.2 million, or 13%. The decrease is mainly due to lower borrowings against our line of credit, partially offset by fees associated with the amendment to our Credit Agreement due to our initial public offering. Interest expense for the third quarter of fiscal year 2001 was \$0.3 million, which is comprised of bank service charges, fees associated with our credit facility and miscellaneous interest expenses. Interest expense was \$0.4 million for the third quarter of fiscal year 2000.

Income from Affiliates. Income from affiliates for the first nine months of fiscal year 2001 was \$3.7 million, compared to \$2.6 million for the first nine months of fiscal year 2000, an increase of \$1.1 million, or 42%. Income from affiliates for the third quarter of fiscal year 2001 was \$1.5 million, compared to \$0.5 million for the third quarter of fiscal year 2000, an increase of \$1.0 million, or 200%. The variance in both periods is mainly due to improved operating income of Watson Wyatt Partners and Watson Wyatt Holdings (Europe).

Provision for Income Taxes. Income taxes for the first nine months of fiscal year 2001 were \$23.4 million, compared to \$10.6 million for the first nine months of fiscal year 2000. Our effective tax rate was 42.9% for the third quarter of fiscal year 2001, compared to 47.1% for the third quarter of fiscal year 2000. The change was due to a decrease in operating losses of certain foreign affiliates, a decrease in non-deductible expenses and higher pre-tax earnings. Our effective tax rate was also affected by differing foreign tax rates in various jurisdictions. We record a tax benefit on foreign net operating loss carryovers and foreign deferred expenses only if it is more likely than not that a benefit will be realized.

Net Income. Net income for the first nine months of fiscal year 2001 was \$31.0 million, compared to \$12.1 million for the first nine months of fiscal year 2000, an increase of \$18.9 million, or 156%. As a percentage of revenue, net income increased to 6.0% from 2.6%. Net income for the third quarter of fiscal year 2001 was \$10.9 million, compared to \$3.6 million for the third quarter of fiscal year 2000, an increase of \$7.3 million, or 203%. As a percentage of revenue, net income increased to 6.2% from 2.2% for the quarter. The increase in both periods is mainly due to our revenue growth and the absence of the stock incentive bonus plan accrual in fiscal year 2001. Net income for the nine-month period ended March 31, 2001 includes the \$3.5 million charge the Company incurred resulting from agreements with our employee stockholders related to our initial public offering.

Liquidity and Capital Resources

Our cash and cash equivalents at March 31, 2001 totaled \$46.3 million, compared to \$41.4 million at June 30, 2000. The \$4.9 million increase in cash from June 30, 2000 to March 31, 2001 was mainly attributable to \$99.9 million in cash generated from our ongoing operations, before bonuses, taxes and stockholder reimbursements, and \$35.0 million of net proceeds from the initial public offering, partially offset by fiscal year 2000 bonus payments of \$51.3 million, the payment of supplemental bonus compensation to our employee stockholders pursuant to our stock incentive bonus plan of \$30.3 million, \$24.8 million spent for fixed assets and acquisitions, \$20.5 million of corporate tax payments and the \$2.7 million that we paid to selling stockholders as reimbursement for commission payments resulting from the sale of their shares in our initial public offering.

Cash Used for Operating Activities. Cash used for operating activities for the first nine months of fiscal year 2001 was \$8.0 million, compared to cash used for operating activities of \$11.7 million for the first nine months of fiscal year 2000. The variance is primarily due to an increase of cash received from the Company's consulting operations of \$14.6 million and lower payments to retirees of \$9.5 million, partially offset by \$7.7 million in higher supplemental bonus compensation to our employee stockholders pursuant to our stock incentive bonus plan, \$6.7 million in higher fiscal year-end bonuses, higher corporate taxes of \$3.4 million and the \$2.7 million that we paid to selling stockholders as reimbursement for commission payments resulting from the sale of their shares in our initial public offering.

The allowance for doubtful accounts increased \$2.8 million and the allowance for work in process increased \$1.8 million from June 30, 2000 to March 31, 2001. The number of days of accounts receivable and work in process outstanding was 86 at March 31, 2001 and 94 at March 31, 2000. Typically, our receivables, work in process and related allowances are substantially reduced at year-end from an increased emphasis on billings and collections. The receivable and work in process balances and the related allowances usually decrease in the last three months of the fiscal year.

Cash Used in Investing Activities. Cash used in investing activities for the first nine months of fiscal year 2001 was \$21.6 million, compared to \$12.2 million for the first nine months of fiscal year 2000. The increase in cash usage can be attributed to higher fixed asset purchases of \$7.5 million and higher acquisition costs of \$4.1 million compared to the prior period, partially offset by higher distributions from affiliates of \$1.9 million. The higher acquisition costs are mainly due to higher contingent consideration payments associated with recent acquisitions and a strategic investment made in conjunction with our business initiative targeted towards emerging growth companies.

Cash From Financing Activities. Cash from financing activities was \$34.9 million for the first nine months of fiscal year 2001, compared to \$1.1 million cash from financing activities for the first nine months of fiscal year 2000. This change reflects the sale of stock in our initial public offering.

We have a \$109.3 million senior secured credit facility, of which \$95.0 million is revolving for working capital needs, and the remainder of which is available for existing stockholder loans. Of the \$95.0 million of the credit line that is allocated for operating needs, \$3.0 million is unavailable as a result of support required for letters of credit issued under the credit line. The credit facility was amended on October 6, 2000 to reflect changes due to the initial public offering. There were no borrowings outstanding at March 31, 2001 or June 30, 2000.

Anticipated commitments of funds for capital expenditures are estimated at \$12.1 million for the remainder of fiscal year 2001, mainly for computer hardware purchases, office relocations and renovations, development and upgrade of financial and knowledge management systems, and acquisition-related payments. Capital expenditures will be required in conjunction with office lease renewals and relocations required to support our growth strategy. Additionally, our consultants require access to hardware and software that will support servicing our clients. In a rapidly changing technological environment, management anticipates we will need to make continued investments in our knowledge sharing and financial systems infrastructure. We expect cash from operations in conjunction with the net proceeds from our initial public offering and our existing credit facility to adequately provide for these cash needs.

Our foreign operations do not materially impact liquidity or capital resources. At March 31, 2001, \$17.2 million of the total cash balance of \$46.3 million was held outside of North America, which we have the ability to readily utilize, if necessary. There are no significant repatriation restrictions other than local or U.S. taxes associated with repatriation. Our foreign operations in total are substantially self-sufficient for their working capital needs.

The Company continues to guarantee certain leases for office premises and equipment for Wellspring. Minimum remaining payments guaranteed under these leases at March 31, 2001, which expire at various dates through 2007 total \$41.5 million, not including sublease income. These leases are also jointly and severally guaranteed by the Company's former partner in Wellspring, State Street Bank and Trust Company. The estimated loss from the potential exercise of these guarantees was included in the fiscal year 1998 loss on disposal of the benefits administration outsourcing business.

Disclaimer Regarding Forward-Looking Statements

This filing contains certain statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to the following: Note 3 on page 6; Note 8 on page 10; the seventh paragraph under *Liquidity and Capital Resources* on page 20; and the first paragraph of Part II, Item 1 "Legal Proceedings" on page 22. In some cases, you can identify these statements and other forward-looking statements in this filing by words such as "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend," "continue," or similar words. You should read these statements carefully because they contain projections of our future results of operations or financial condition, or state other "forward-looking" information. A number of risks and uncertainties exist which could cause actual results to differ materially from the results reflected in these forward-looking statements. Such factors include, but are not limited to our continued ability to recruit and retain highly qualified associates, outcomes of litigation, a significant decrease in the demand for the consulting services we offer as a result of changing economic conditions or other factors, actions by competitors offering human resources consulting services, including public accounting and consulting firms, technology consulting firms and internet/intranet development firms, regulatory, legislative and technological developments that may affect the demand for or costs of our services and other factors discussed under "risk factors" in our prospectus dated October 11, 2000, which is filed with the SEC and may be accessed via EDGAR on the SEC's web site at www.sec.gov. These statements are based on assumptions that may not come true. All forward-looking disclosure is speculative by its nature. The Company undertakes no obligation to update any of the forward-looking information included in this report, whether as a result of new information, future events, changed expectations or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of business. These risks include interest rate risk and foreign currency exchange risk. We have examined our exposure to these risks and concluded that none of our exposures in these areas are material to fair values, cash flows or earnings.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. These disputes typically involve claims relating to employment matters or the rendering of professional services. The matters reported on below involve the most significant pending or potential claims against us. We are incorporating, by reference, the descriptions of the legal proceedings that appear under the caption "Legal Proceedings" beginning on page 17 of the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2000 and page 18 of the Quarterly Report on Form 10-Q of the Company for the period ended December 31, 2000. Management believes, based on currently available information, that the results of all such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but claims which are possible in our business could be material to the financial results for a particular period.

Regina, Saskatchewan Police. The trial in this case began on January 8, 2001, and is continuing.

Connecticut Carpenters Pension Fund. A jury trial began on January 30, 2001. On February 23, 2001, the jury returned a verdict in favor of the Fund and awarded \$32 million in damages to the Fund, plus a pre-judgment interest amount of approximately \$7 million. Watson Wyatt has filed post trial motions with the trial court disputing the damages amount.

Societe Internationale de Telecommunications Aeronautique S.C. (SITA). We filed our statement of defense on February 7, 2001.

Pacific Group Medical Association. During a mediation conducted in Honolulu the week of March 19, 2001, Watson Wyatt and the Hawaii Insurance Commissioner, acting as liquidator of PGMA, reached a tentative settlement of the liquidator's claims against Watson Wyatt. We are negotiating the terms and conditions of a written settlement agreement.

Insurance Coverage

We carry substantial professional liability insurance with a self-insured retention of \$1 million per occurrence, which provides coverage for professional liability claims including the cost of defending such claims. We also carry employment practices liability insurance.

Item 2. Changes in Securities and Use of Proceeds

On October 10, 2000, our Registration Statement on Form S-3 (File No. 333-94973), registering for sale up to 6,440,000 shares of class A common stock at \$12.50 per share to be issued in connection with our initial public offering, was declared effective. On October 16, 2000, we completed changes in our corporate structure in conjunction with the initial public offering. The changes in corporate structure involved the merger of Watson Wyatt & Company with WW Merger Subsidiary, Inc., a wholly-owned subsidiary of Watson Wyatt & Company Holdings. Watson Wyatt & Company is now a wholly-owned subsidiary of Watson Wyatt & Company Holdings.

At the time of the reorganization, each share of Watson Wyatt & Company's Redeemable Common Stock was converted into one share of class B-1 common stock and one share of class B-2 common stock of Watson Wyatt & Company Holdings. The class B common stock is divided into two classes to accommodate different transfer restriction periods. The class B-1 shares are subject to a transfer restriction period of 12 months following the public offering date, while the class B-2 shares are subject to a transfer restriction period of 24 months following the public offering date, unless waived by the Board of Directors. The Company waived the transfer restrictions on a total of 1,559,250 class B-1 and 1,559,250 class B-2 shares to allow for conversion into the class A shares sold by selling stockholders in the initial public offering described below. Following the expiration or waiver of the respective transfer restriction periods, the remaining class B-1 and class B-2 shares will automatically convert into class A common stock.

In conjunction with our initial public offering, we entered into agreements providing for additional transfer restrictions with major stockholders, executive officers and employee directors affecting approximately 36% of our remaining class B common stock. The agreements restrict transfers of all shares held by such persons immediately following the offering, and the restrictions terminate as to 25% of such shares on each of the first, second, third and fourth anniversaries of the consummation of the public offering.

A total of 5,600,000 shares of class A common stock were offered and sold in our initial public offering at an offering price of \$12.50 per share, for an aggregate offering price of \$70.0 million. Of the shares included in this transaction, Watson Wyatt & Company Holdings offered 2,800,000 newly-issued shares and the selling stockholders offered the remaining 2,800,000 shares. On November 8, 2000, our underwriters exercised their over-allotment option. As a result, the underwriters purchased 840,000 shares of class A common stock from us and from the selling stockholders at the initial public offering price of \$12.50 per share less the underwriting discount, for an aggregate offering price of \$10.5 million. Of the shares included in this transaction, Watson Wyatt & Company Holdings sold 521,500 newly-issued shares and the selling stockholders sold 318,500 shares. The managing underwriters of the offering were Deutsche Banc Alex. Brown, Banc of America Securities LLC, and Robert W. Baird & Co.

As a result of these transactions and upon completion of the offering, we received gross proceeds of \$41.5 million, and the selling stockholders received gross proceeds of \$39.0 million. Net proceeds to the Company were \$35.0 million, which is net of \$6.5 million in underwriting discounts, commissions and other offering costs. Also, we paid \$2.7 million to selling stockholders as reimbursement for commission payments resulting from the sale of their shares.

From the time of receipt through March 31, 2001, proceeds from the offering of \$17.7 million were applied to the repayment of short-term debt, \$16.5 million were used for capital expenditures and a \$0.8 million installment payment was made for an acquisition related to our HR Technologies group.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

- a. Exhibits
 - 3.1 Amended and Restated Certificate of Incorporation of Watson Wyatt & Company Holdings¹
 - 3.2 Amended and Restated Bylaws of Watson Wyatt & Company Holdings
 - 4 Form of Certificate Representing Common Stock¹
 - 10.1 Amended Credit Agreement Among Bank of America, N.A. and Others dated October 6, 2000²
 - 10.2 Form of agreement among Watson Wyatt & Company, Watson Wyatt & Company Holdings and employee directors, executive officers and significant stockholders restricting the transfer of shares³
 - 10.3 Agreement with David B. Friend, M.D. dated October 22, 1999¹
- b. Reports on Form 8-K
 - Reports on Form 8-K filed February 27, 2001 and March 16, 2001

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

² Incorporated by reference from Registrant's Form 10-Q, filed on November 14, 2000

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

Signatures

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

Watson Wyatt & Company Holdings
(Registrant)

/S/ John J.Haley

May 2, 2001

Name: John J. Haley
Title: President and Chief
Executive Officer

Date

/S/ Carl D.Mautz

May 2, 2001

Name: Carl D. Mautz
Title: Vice President and Chief
Financial Officer

Date

/S/ Peter L. Childs

May 2, 2001

Name: Peter L. Childs
Title: Controller

Date

**AMENDED AND RESTATED
BY-LAWS

OF

WATSON WYATT & COMPANY HOLDINGS
(Includes Changes Approved Through February 23, 2001)**

**ARTICLE I

STOCKHOLDERS**

Section 1.1 Annual Meetings. An annual meeting of stockholders shall be held for the election of directors at such date, time and place either within or without the State of Delaware designated by the Board of Directors from time to time. Any other business properly brought before the meeting may be transacted at the annual meeting.

Section 1.2 Special Meetings. Special meetings of stockholders may be called at any time by, and only by, the President or by the Board of Directors pursuant to a resolution adopted by a majority of the members of the Board of Directors, to be held at such date, time and place either within or without the State of Delaware as is stated in the notice of the meeting.

Section 1.3 Nominations and Stockholder Business.

(a) To properly be brought before an annual meeting of stockholders, nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders at an annual meeting of stockholders must either be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (ii) brought before the annual meeting by or at the direction of the President, the Chairman of the Board of Directors or by vote of a majority of the full Board of Directors, or (iii) brought before the annual meeting by any stockholder of the Corporation who is a stockholder of record on the date of the giving of the notice provided for in Section 1.4, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 1.3(b).

(b) For nominations or other business to be properly brought before an annual meeting by a stockholder under this Section 1.3(a), the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such business must be a proper subject for stockholder action under the Delaware General Corporation Law ("the DGCL"). To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the Corporation not less than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is advanced by more than 40 days or delayed by more than 40 days from such anniversary date, then notice by the stockholder to be timely must be delivered not later than the close of business on the later of the 120th day prior to the annual meeting or the 10th day following the day on which public announcement is first made of the date of the meeting. Such stockholder's notice must set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owners, if any, on whose behalf the nomination or proposal is made (A) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (B) the number of shares of the Corporation which are owned (beneficially or of record) by such stockholder and such beneficial owner, (C) a description of all arrangements or understandings between such stockholder and such beneficial owner and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder and of such beneficial owner in such business, and (D) a representation that such stockholder or its agent or designee intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

(c) Notwithstanding anything in this Section 1.3 to the contrary, if the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement specifying the size of the increased Board of Directors made by the Corporation at least 120 days prior to the first anniversary of the preceding year's annual meeting, then a stockholder's notice required by this Section 1.3(b) will also be considered timely, but only with respect to nominees for any new positions created by such increase, if it is delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(d) Only such business may be conducted at a special meeting of stockholders as has been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is a stockholder of record at the time of giving the notice required by Section 1.4, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 1.3. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice required by this Section 1.3 is delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of the 120th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(e) Only those persons who are nominated in accordance with the procedures set forth in Section 1.3 will be eligible for election as directors at any meeting of stockholders. Only business brought before the meeting in accordance with the procedures set forth in this Section 1.3 may be conducted at a meeting of stockholders. The chairman of the meeting has the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 1.3 and, if any proposed nomination or business is not in compliance with this Section 1.3, to declare that such defective proposal shall be disregarded.

(f) For purposes of Section 1.3, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to the Exchange Act.

(g) Notwithstanding the foregoing provisions of this Section 1.3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.3. Nothing in this Section 1.3 shall be deemed to remove any obligation of stockholders to comply with the requirements of Rule 14a-8 under the Exchange Act with respect to proposals requested to be included in the Corporation's proxy statement pursuant to said Rule 14a-8.

Section 1.4 Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting must be given, stating the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise required by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation.

Section 1.5 Adjournments. Any meeting of stockholders, annual or special, may be adjourned from time to time, to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting must be given to each stockholder of record entitled to vote at the meeting.

Section 1.6 Quorum. At each meeting of stockholders, except where otherwise required by law, the certificate of incorporation or these by-laws, the holders of a majority of the outstanding shares of stock entitled to vote on a matter at the meeting, present in person or represented by proxy, shall constitute a quorum. For purposes of the foregoing, where a separate vote by class or classes is required for any matter, the holders of a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum to take action with respect to that vote on that matter. Two or more classes or series of stock shall be considered a single class if the holders of such classes or series of stock are entitled to vote together as a single class at the meeting. In the absence of a quorum of the holders of any class of stock entitled to vote on a matter, the meeting of such class may be adjourned from time to time in the manner provided by Sections 1.4 and 1.6 of these by-laws until a quorum of such class is so present or represented.

Section 1.7 Voting; Proxies. Unless otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders is entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy will be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power, regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary. Voting at meetings of stockholders need not be by written ballot unless so directed by the chairman of the meeting or the Board of Directors. Directors must be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. In all other matters, unless otherwise required by law, the certificate of incorporation or these by-laws, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter will be the act of the stockholders. Where a separate vote by class or classes is required, the affirmative vote of the holders of a majority (or, in the case of an election of directors, a plurality) of the shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class or classes, except as otherwise required by law, the certificate of incorporation or these by-laws.

Section 1.8 Organization. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in the absence of a Chairman of the Board, by the President or other person designated by the President. The Secretary, or in the absence of the Secretary an Assistant Secretary or other person designated by the President, shall act as secretary of the meeting. The order of business at each such meeting shall be as determined by the chairman of the meeting. The chairman of the meeting shall have the right and authority to adjourn a meeting of stockholders without a vote of stockholders and to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting and are not inconsistent with any rules or regulations adopted by the Board of Directors pursuant to the provisions of the certificate of incorporation, including the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof and the opening and closing of the voting polls for each item upon which a vote is to be taken.

Section 1.9 Inspectors. Prior to any meeting of stockholders, the Board of Directors, Chairman of the Board, President or any other officer designated by the Board shall appoint one or more inspectors to act at such meeting and make a written report of the meeting. If no inspector or alternate is able to act at the meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, must take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall ascertain the number of shares outstanding and the voting power of each, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots, determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons to assist them in the performance of their duties. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxy or vote, nor any revocation thereof or change thereto, may be accepted by the inspectors after the closing of the polls. In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted therewith, any information provided by a stockholder who submits a proxy by telegram, cablegram or other electronic transmission from which it can be determined that the proxy was authorized by the stockholder, ballots and the regular books and records of the Corporation, and they may also consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record.

Section 1.10 Fixing Date for Determining Stockholders of Record. In order for the Corporation to determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment of the meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date must be no more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders will apply to any adjournment of the meeting, *provided* the Board of Directors may fix a new record date for the adjourned meeting. In order for the Corporation to determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date may not precede the date upon which the resolution fixing the record date is adopted, and which record date must be no more than sixty days prior to the action for which a record date is being established. If no record date is fixed, the record date for determining stockholders for any such purpose will be at the close of business on the day on which the Board of Directors adopts the related resolution.

Section 1.11 List of Stockholders Entitled to Vote. The Secretary will prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list will be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place must be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list also must be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

ARTICLE 2

DIRECTORS

Section 2.1 Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise required by law or provided in the certificate of incorporation. The number of directors which shall constitute the whole Board of Directors shall not be less than 7 nor more than 25. The exact number of directors of the Corporation and the number of directors in each class of directors shall be fixed only by resolution of a majority of the members of the Board of Directors from time to time. If the holders of any class or classes of stock or series thereof are entitled by the certificate of incorporation to elect one or more directors, the preceding sentence shall not apply to such directors, and the number of such directors shall be as provided in the terms of such stock. Directors need not be stockholders.

Section 2.2 Election; Term of Office; Resignation; Removal; Vacancies.

(a) Each director shall hold office until the next election of the class or category for which such director shall have been chosen, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Notwithstanding the foregoing, for any director who is an employee of the Corporation or any of its affiliates at the time of election to the Board it is a qualification for service as a director that such director remain so employed, so that the term of any such director automatically will terminate upon termination of such director's employment with the Corporation or such affiliate for any reason, unless the Board, by majority of the members of the Board of Directors, otherwise determines.

(b) Any director may resign at any time upon written notice to the Board of Directors or to the Chairman of the Board, if any, or the President. Such resignation shall take effect at the time specified in the notice of resignation, and unless otherwise specified in the notice of resignation, no acceptance of such resignation is necessary to make it effective.

(c) No director may be removed except as provided in the certificate of incorporation or as provided in Section 2.2(a) of these by-laws.

(d) Vacancies and newly created directorships resulting from any increase in the authorized number of directors (other than any directors elected in the manner described in the next sentence) or from any other cause shall be filled by, and only by, a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Whenever the holders of any class or classes of stock or series thereof are entitled by the certificate of incorporation to elect one or more directors, vacancies and newly created directorships of such class or classes or series may be filled by, and only by, a majority of the directors elected by such class or classes or series then in office, or by the sole remaining director so elected. Any director elected or appointed to fill a vacancy or a newly created directorship shall hold office until the next election of the class of directors of the director which such director replaced or the class of directors to which such director was appointed, and until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Section 2.3 Regular Meetings. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board may from time to time determine.

Section 2.4 Special Meetings. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by a Chairman of the Board, if any, by the President, or at the request in writing of a majority of the members of the Board of Directors.

Section 2.5 Notices of Board of Directors Meetings. Notice of any regular or special meeting, unless waived, must be given by mail or facsimile or courier to each director at his address as the same appears on the records of the Corporation not less than one (1) day prior to the day on which such meeting is to be held if such notice is by facsimile or courier, and not less than five (5) business days prior to the day on which the meeting is to be held if such notice is by mail. If the Secretary fails or refuses to give such notice, then the notice may be given by the officer or any one of the directors making the call. Any such meeting may be held at such place as the Board may fix from time to time or as may be specified or fixed in such notice. Notice may be waived in writing by any director, either before or after the meeting. Any meeting of the Board of Directors will be a legal meeting without any notice having been given, if all the directors shall be present at the meeting, and no notice of a meeting is required to be given to any director who shall attend such meeting.

Section 2.6 Quorum and Manner of Acting. Except as otherwise provided in these by-laws, a majority of the members of the Board of Directors constitutes a quorum at any regular or special meeting of the Board of Directors. Except as otherwise provided by the Delaware General Corporation Law ("DGCL"), the certificate of incorporation or by these by-laws, the act of a majority of the directors present at any meeting at which a quorum is present is the act of the Board of Directors. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum be had. Notice of any adjourned meeting need not be given.

Section 2.7 Participation in Meetings by Conference Telephone Permitted. Members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this by-law shall constitute presence in person at such meeting.

Section 2.8 Organization. Meetings of the Board of Directors will be presided over by a Chairman of the Board, if any, or in the absence of a Chairman of the Board by the President, or in the absence of the President, by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in the absence of the Secretary the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.9 Committees of Directors. Any duly constituted and authorized committee of the Board of Directors may exercise such powers as have been delegated to it by the Board of Directors, without a meeting by the unanimous execution of an instrument in writing. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation which, to the extent provided by resolution of the Board of Directors, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation; but no such committee shall have the power or authority in reference to the following matters: (a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval or (b) adopting, amending or repealing any by-laws of the Corporation. Such committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors and, when required by the Board, shall keep regular minutes of their proceedings and report the same to the Board. Subject to legal or other requirements, Board committees may include one or more persons who are not directors, *provided* that to the extent any such committee exercises powers of the Board of Directors that have been specifically delegated to it, such committee shall act solely by vote of members of the committee who are also members of the Board of Directors.

Section 2.10 Compensation of Directors. Directors who are employees shall not receive any stated salary for their services as directors, but, pursuant to normal corporate expense reimbursement policies, shall receive reimbursement for expenses of attendance at such meetings; provided that nothing herein contained may be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefore. Directors who are not employees shall receive compensation for their services as directors, in such amounts as the Board of Directors from time to time determines.

ARTICLE 3

OFFICERS

Section 3.1 Officers Designated. The officers of the Corporation shall be elected by the Board of Directors at its annual meeting or any special meeting. They may include a Chairman of the Board and shall include a President, a Secretary, and such other officers as the Board of Directors may determine. One person may hold any two offices except the offices of President and Secretary.

Section 3.2 Tenure of Office. The officers of the Corporation will hold office until the next annual meeting of the Board of Directors and until their respective successors are elected and qualified, except (a) that the term of office of any officer who is an employee of the Corporation automatically terminates upon termination of such officer's employment by the Corporation for any reason and (b) in case of the officer's prior resignation, death or removal. The Board of Directors also may remove any officer at any time with or without cause by the vote of a majority of the members of the Board of Directors. Additional officers appointed by the President in accordance with Section 3.4 may be removed by the President.

Section 3.3 Powers and Duties of Officers. The officers of the Corporation will have such powers and duties in the management of the Corporation as may be prescribed by the Board of Directors or delegated by the President and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the Board of Directors.

Section 3.4 Additional Officers. The President of the Corporation may appoint such Assistant Vice Presidents, Assistant Secretaries, Assistant Treasurers, or other Officers, and such agents as the President may determine, to hold office for such period, and with such authority and to perform such duties as the President from time to time determines.

Section 3.5 Resignations. Any officer may resign at any time by giving written notice to the Board of Directors or to the President or the Secretary of the Corporation. Any such resignation will take effect at the time specified in the notice of resignation. Unless otherwise specified in the notice of resignation, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.6 Vacancies. A vacancy in the office of President or Secretary for any reason must be filled. A vacancy in any other office may be filled. Any vacancy which is filled will be filled for the unexpired portion of the term in the same manner in which an officer to fill said office may be chosen pursuant to Sections 3.1, 3.2 and 3.4.

ARTICLE 4

SHARES OF STOCK

Section 4.1 Certificates; Uncertificated Shares.

(a) The shares of Class A Common Stock of the Corporation shall be represented by certificates, and the shares of Class B Common Stock of the Corporation shall be uncertificated.

(b) The Board of Directors of the Corporation may provide by resolution or resolutions from time to time that some or all of any or all classes or series of its stock shall be uncertificated shares, *provided* any such resolution shall not apply to any such shares represented by a certificate previously issued until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution or resolutions by the Board of Directors of the Corporation, every holder of stock represented by certificates, and upon request every holder of uncertificated shares, shall be entitled to have a certificate signed by or in the name of the Corporation by a Chairman of the Board or the President, and by the Treasurer, Secretary or Assistant Secretary, representing the number of shares of stock in the Corporation owned by such holder. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile.

(c) In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate ceases to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

(d) Certificates representing shares of stock of the Corporation may bear such legends regarding restrictions on transfer or other matters as any officer or officers of the Corporation may determine to be appropriate and lawful.

(e) If the Corporation is authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications or restrictions of such preferences and/or rights must be set forth in full or summarized on the face or back of the certificate which the Corporation issues to represent such class or series of stock, *provided* that, except as otherwise required by law, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation issues to represent such class or series of stock a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of such class or series of stock and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable period of time after the issuance or transfer of uncertificated shares of any class or series of stock, the Corporation will send to the registered owner of such shares a written notice containing the information required by law to be set forth or stated on certificates representing shares of such class or series or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of such class or series and the qualifications, limitations or restrictions of such preferences and/or rights.

(f) Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

Section 4.2 Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates. The Corporation may issue a new certificate of stock in the place of any certificate previously issued by it, alleged to have been lost, stolen or destroyed. The Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

ARTICLE 5

MISCELLANEOUS PROVISIONS

Section 5.1 Fiscal Year. The fiscal year of the Corporation will be determined by the Board of Directors.

Section 5.2 Waiver of Notice of Meetings of Stockholders, Directors and Committees. Whenever notice is required to be given by law or under any provision of the certificate of incorporation or these by-laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, is deemed equivalent to notice. Attendance of a person at a meeting constitutes a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice unless so required by the certificate of incorporation or these by-laws.

Section 5.3 Facsimiles. Any copy, facsimile telecommunication or other reliable reproduction of a writing, transmission or signature may be substituted or used in lieu of the original writing, transmission or signature for any and all purposes for which the original writing, transmission or signature could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing, transmission or signature, as the case may be.

Section 5.4 Books and Records. The books of the Corporation may be kept (subject to any provision contained in the DGCL) within or without the State of Delaware at such place or places as may be designated from time to time by the Board of Directors.

Section 5.5 Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

Section 5.6 Depositories. The Board of Directors, the Chairman of the Board, if any, the President, and such other officers as may be delegated authority by the Board of Directors or one of the foregoing officers, and each of them, may designate the banks, trust companies, or other depositories in which shall be deposited from time to time, the money or securities of the Corporation. In the case of a designation by the aforementioned officers, any such designation shall require the approval of two of such officers, one of whom shall be the Treasurer or the Vice President and Chief Financial Officer.

Section 5.7 Checks, Drafts, Notes, etc. All checks, drafts or other orders for the payment of money and all notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers or agent or agents as from time to time is designated by the Board of Directors or by any two of the Chairman of the Board, if any, the President, and the Chief Financial Officer, or one of the foregoing officers and another officer elected by the Board of Directors.

Section 5.8 Contracts, etc., How Executed. The Board of Directors may authorize any officer, agent or agents, to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 5.9 Stock in Other Corporations. Any shares of stock in any other corporation which may from time to time be held by the Corporation may be represented and voted at any meeting of stockholders of such other corporation by the President, the Treasurer or the Secretary of the Corporation or by any other person or persons thereunto authorized by the Board of Directors or designated by the President, or by any proxy designated by written instrument of appointment executed in the name of this Corporation by its President or by such officers as may be designated by him and attested by the Secretary or Assistant Secretary.

Section 5.10 Indemnification.

(a) Each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding or alternative dispute resolution procedure, whether civil, criminal, administrative or investigative (hereinafter a “proceeding”), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was a director or officer serving at the request of the Corporation as a director, manager, officer, partner, trustee, employee or agent of another corporation or of a partnership, limited liability company, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the laws of Delaware as the same now or may hereafter exist (but, in the case of any change, only to the extent that such change authorizes the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such change) against all costs, charges, expenses, liabilities and losses (including attorneys’ fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators. Until such time as there has been a final judgment to the contrary, a person shall be presumed to be entitled to be indemnified under this Section 5.10(a). The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that the director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers. Notwithstanding anything contained in this Section 5.10, except for proceedings to enforce rights provided in this Section 5.10, the Corporation shall not be obligated under this Section 5.10 to provide any indemnification or any payment or reimbursement of expenses to any director, officer or other person in connection with a proceeding (or part thereof) initiated by such person (which shall not include counterclaims or crossclaims initiated by others) unless the Board of Directors has authorized or consented to such proceeding (or part thereof) in a resolution adopted by the Board.

(b) If a claim under subsection (a) of this Section is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he or she has met such standard of conduct, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such standard of conduct, nor the termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall be a defense to the action or create a presumption that the claimant has failed to meet the required standard of conduct.

(c) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, by-laws, agreement, vote of stockholders or disinterested directors or otherwise.

(d) The Corporation may maintain insurance, at its expense, to protect itself and any director, manager, officer, partner, trustee, employee or agent of the Corporation or another corporation, partnership, limited liability company, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under Delaware law.

(e) To the extent that any director, officer, employee or agent of the Corporation is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any proceeding, he or she shall be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

(f) Notwithstanding any amendment of this section which may have been approved by the stockholders, this section may be added to, altered, amended or repealed pursuant to Section 5.11 of these by-laws.

(g) Any amendment, repeal or modification of any provision of this Section by the stockholders or the directors of the Corporation shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such amendment, repeal or modification.

Section 5.11 Amendment of By-Laws. These by-laws may be amended, modified or repealed, and new by-laws may be adopted at any time, by the Board of Directors. Stockholders of the Corporation may adopt additional by-laws and amend, modify or repeal any by-law whether or not adopted by them, but only in accordance with Article 6 of the certificate of incorporation.