Towers Watson & Co.
Form 10-K
August 15, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2014
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: 001-34594

TOWERS WATSON & CO.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-0676603 (I.R.S. Employer Identification No.)

901 N. Glebe Road, Arlington, VA 22203
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, $0.01 par value	New York Stock Exchange and NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of

this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant was approximately $8,933,271,686 based on the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, December 31, 2013.

As of August 6, 2014, there were 70,214,854 outstanding shares of Class A common stock at a par value of $0.01.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report.

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Special Note Regarding Forward-Looking Statements

This Annual Report contains a number of "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among others, statements regarding revenue drivers, growth opportunities and operational cost savings; the Executive Overview; Critical Accounting Policies and Estimates; the discussion of our capital expenditures; Off-Balance Sheet Arrangements and Contractual Obligations; Liquidity and Capital Resources; Risk Management; and Part I, Item 3 "Legal Proceedings". You can identify these statements and other forward-looking statements in this filing by words such as "may", "will", "expect", "anticipate", "believe", "estimate", "p "intend", "continue", or similar words, expressions or the negative of such terms or other comparable terminology. 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 that could cause actual results to differ materially from the results reflected in these forward-looking statements are identified under "Risk Factors" in Item 1A of this Annual Report on Form 10-K. These statements are based on assumptions that may not come true. All forward-looking disclosure is speculative by its nature. Except where required by law, we undertake no obligation to update any of the forward-looking information included in this Annual Report, whether as a result of new information, future events, changed expectations or otherwise.

PART I

Item 1. Business.

The Company

Towers Watson & Co. (referred to herein as "Towers Watson", the "Company" or "we") is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. We offer consulting, technology and solutions in the areas of benefits, talent management, rewards, and risk and capital management. We provide clients with comprehensive services across four business segments – Benefits, Risk and Financial Services, Talent and Rewards, and Exchange Solutions – through a strong talent pool of approximately 14,800 full-time associates in 37 countries. Our professional employees, including fully accredited actuaries, are trusted advisors and experts in their fields. Towers Watson was formed on January 1, 2010, from the merger (the "Merger") of Towers, Perrin, Forster & Crosby, Inc. ("Towers Perrin") and Watson Wyatt Worldwide, Inc. ("Watson Wyatt"), two leading professional services firms that traced their roots back more than 100 years.

We help our clients enhance business performance in a variety of ways. We help employers improve their ability to attract, retain and motivate qualified employees. We deliver consulting services and solutions that help organizations anticipate, identify and capitalize on emerging opportunities in benefit and human capital management. We advise the insurance industry on a wide range of strategic and risk management issues. We provide investment advice and solutions to help our clients develop and implement disciplined, efficient strategies to meet their investment goals. Also, we help employers make smart decisions with regard to employee benefit plans, including decisions regarding the use of private health insurance exchanges in the U.S. These decisions and others enable organizations to realize cost savings related to their workforce and retiree health plans, while providing plan participants with improved choice and control over their health benefits.

Our target market is generally large, multi-national and domestic companies, with particular focus on the insurance industry for our risk consulting business. Our clients include many of the world's leading corporations, including approximately 92% of the Fortune Global 500 companies and 84% of the Fortune 1000. We also advise more than three-quarters of the world's leading insurance companies. We work with major corporations, emerging growth companies, governmental agencies and not-for-profit institutions in a wide variety of industries.

Business Overview

As leading economies worldwide become more service-oriented and interconnected, effective human resource management and financial management are increasingly sources of competitive advantage for organizations. Employers, regardless of geography or industry, are facing unprecedented challenges involving the management of their people. Changing technology, expectations for innovation and quality enhancements, changing risks, skill shortages in selected areas, and an aging population in many developed countries have increased employers' focus on attracting and retaining talented employees. Further, employers are focused on improving productivity and effectively managing the size and volatility of their labor costs. The growing demand for employee benefit and human capital management services is directly related to the size and complexity of human resource programs and the changes associated with their design, financial management and administration, including health care reform in the U.S. Additionally, as organizations focus on improving business performance, they want to combine risk management and operational improvements within their overall financial management framework. It is crucial for employers, including insurance carriers, to link risk, capital and value in order to manage value creation and balance risk and return. These are among the primary business issues that lead employers to seek Towers Watson's advice and solutions.

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The Benefits segment is our largest segment. It provides benefits consulting and administration services through four lines of business. Retirement and Health and Group Benefits support organizations worldwide in designing, financing, and administering (in conjunction with our Technology and Administration Solutions line of business) all types of retirement and health and group benefit plans. The International Consulting group supports multinational companies as they look to govern these plans globally and bring global strategies, efficiencies and risk management techniques to bear. The group also provides support for mergers, acquisitions and other corporate transactions. Through our Technology and Administration Solutions line of business, we deliver benefits outsourcing solutions, including administration technology and call center support. A significant portion of this segment’s revenue is from recurring work, driven in large part by our clients’ ongoing needs for these services. The segment also generates revenue by helping our clients with various changes driven by legislation, regulation, and changes in work force preferences. The Benefits segment contributed 59% of Towers Watson’s segment revenue during the fiscal year ended June 30, 2014.

The Risk and Financial Services segment, our second largest, has two lines of business united by an approach that focuses on risk, capital and value. Our aim is to help clients improve business performance by effectively integrating risk management into their overall financial management framework. Risk Consulting and Software provides risk consulting and financial modeling software solutions primarily to the insurance industry. Investment provides consulting and solutions focused on investment strategy, risk assessment, asset allocation, manager selection and investment execution to institutional investors, primarily pension plans. A significant portion of the revenue in this segment is from recurring work, driven in large part by the heavily regulated nature of the insurance industry and ongoing demand for investment consulting services. The Risk and Financial Services segment, exclusive of our Reinsurance and Property and Casualty Insurance Brokerage business ("Brokerage"), which was sold in November 2013, contributed 19% of Towers Watson’s segment revenue during the fiscal year ended June 30, 2014.

The Talent and Rewards segment has three lines of business that help clients improve workforce and business performance, with a focus on getting and keeping the right people, and having them do the right things at the right cost. Executive Compensation advises our clients’ management and boards of directors on executive pay and incentive programs. Rewards, Talent and Communication provides a broad array of services including designing and implementing pay and other human resource programs and processes that influence employees’ behavior, engagement and performance. Data, Surveys and Technology enhances workforce management programs through reward administration and talent management technology, compensation benchmarking, employee opinion surveys, and human resource (HR) function metrics. The revenues in this segment come from project-based work, technology services, and implementation and data products that are provided to a stable client base. The Talent and Rewards segment contributed 17% of Towers Watson’s segment revenue during the fiscal year ended June 30, 2014.

We created our fourth segment, Exchange Solutions, when we acquired Extend Health on May 29, 2012. Liazon Corporation, a leader in the active group exchange market, became part of the segment after we acquired it effective November 22, 2013. We broadly define our exchange product as ‘OneExchange,’ and Liazon is now a critical component of our OneExchange Active solution where we believe we have created one of the broadest offerings in the active exchange marketplace, capable of serving clients across the size and complexity spectrum, while offering either self or fully insured financing of healthcare costs. Our OneExchange Retiree solution operates the largest private Medicare insurance exchange in the U.S. Our retiree solution enables employers to transition their retirees to individual, defined contribution health plans at an annual cost that the employer controls - versus group-based, defined benefit health plans, which have uncertain annual costs. By moving to a defined contribution approach, our clients can provide their retirees with the same or better health care benefits as in the past, but at a lower overall cost. Revenues in our Exchange Solutions segment come predominantly from the commissions and overrides we receive from insurance carriers for enrolling individuals into their health plans. This revenue increases as the number of enrolled members grows. The Exchange Solutions segment contributed 5% of Towers Watson’s segment revenue during the fiscal year ended June 30, 2014.

Towers Watson is recognized for its thought leadership and proprietary solutions. Our insights, derived from our extensive research across our four business segments, are a core part of our brand identity and are widely cited by major news outlets, including The Wall Street Journal, The New York Times, the Financial Times, BBC News and CNBC. We publish proprietary studies and white papers on topics that include employee attitudes toward the workplace, executive pay trends, health care quality and costs, the impact of enterprise risk management on business performance, and strategies for managing pension risk and investments.

While we are focused on maintaining our deep expertise in products and services in the areas described above, we believe our ability to link the products and services from our various consulting areas is a key to comprehensively meeting our clients’ complex needs.

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Below are total Towers Watson revenues and long-lived assets by geographic area for the fiscal years ended June 30, 2014, 2013 and 2012:

	Revenue			Long-Lived Assets		
	2014	2013	2012	2014	2013	2012
North America	$2,046,488	$1,972,981	$1,760,749	$2,484,019	$2,293,045	$2,263,592
Europe	1,162,888	1,161,973	1,205,519	1,211,700	1,193,188	1,110,367
Rest of World	272,536	297,561	291,630	44,466	47,308	66,131
	$3,481,912	$3,432,515	$3,257,898	$3,740,185	$3,533,541	$3,440,090

Principal Services

As noted earlier, our global operations include four segments: Benefits, Risk and Financial Services, Talent and Rewards, and Exchange Solutions. The percentages of segment revenue generated by the various groups are as follows (all years presented on a continuing operations basis):

	Year ended June 30,					
	2014		2013		2012	
Benefits	59	%	60	%	61	%
Risk and Financial Services	19		20		21	
Talent and Rewards	17		17		18	
Exchange Solutions	5		3		N/A*	
Total Segment Revenue	100	%	100	%	100	%

* The Exchange Solutions segment contributed $3.6 million, or less than 1 percent, of revenue, for the one month of operations included in our fiscal year 2012 results.

Benefits Segment

The Benefits segment is our largest, with over 7,300 associates. The Benefits segment generated approximately 59% of Towers Watson’s segment revenue for the fiscal year ended June 30, 2014. This segment has grown organically and through business combinations. Benefits consultants work with clients to create and manage cost-effective benefit programs that help them attract, retain and motivate a talented workforce, while managing the costs and financial risks associated with these programs.

The lines of business within the Benefits segment are:

- Retirement
- Health and Group Benefits
- Technology and Administration Solutions
- International Consulting

The Benefits lines of business often work closely together on client assignments, along with consultants from the Talent and Rewards and Risk and Financial Services segments. Examples of such client assignments include mergers and acquisitions, total reward program design, retiree benefit strategy, benefit program de-risking, benefits administration and benefit-related communication and change management.

Retirement

As one of the world’s leading advisors on retirement plans, we provide actuarial and consulting services for large defined benefit and defined contribution plans, including consulting on plan design, funding and risk management strategies. We also help our clients assess the costs and risks of retirement plans on cash flow, earnings and the balance sheet, the effects of changing workforce demographics on their retirement plans and retiree benefit adequacy and security.

Towers Watson is the named actuary for many of the world’s largest retirement plan sponsors. We provide actuarial services to more of the top 300 pension funds worldwide than any other consulting firm. In the U.S., we provide actuarial services to five of the six largest corporate-sponsored defined benefit plans (based on total pension plan assets), and, in the U.K., we advise 37 of the 100 largest corporate pension funds. We also have market-leading positions in Canada, Germany and the Netherlands. In 2012, we won actuarial employer of the year with three Towers Watson associates voted among the Top 30 Actuaries under 30 by Actuarial Post magazine in the U.K. We offer clients a full range of integrated, innovative retirement consulting services to meet the needs of all types of employers —

including those that continue to offer defined benefit plans and those that are reexamining their retirement benefit strategies. For clients that want to outsource some or all of their pension plan management,

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we offer integrated solutions that combine investment consulting, pension administration, core actuarial services, and communication and change management assistance.

Our retirement consulting services include:

- Retirement strategy and plan design
- Actuarial services and related support
- Retirement plan financial management
- Settlement solutions such as lump sum cash outs, longevity swaps and annuity purchases
- Compliance and governance strategies
- Risk management such as liability-driven investment changes
- Defined contribution solutions

Much of our recent consulting with clients relates to defining and managing pension plans to achieve a desired status (maintaining ongoing plans, continuing to sponsor frozen plans, exiting from plan sponsorship), managing risk and cost volatility, various regulatory changes (global accounting reform and U.S. and European pension funding legislation), and a broad-based desire on the part of many employers to reexamine their retirement design approach. Using in-depth data analysis, we provide perspective on the overall environment and help our clients make plan design decisions. As we have tracked the retirement designs of the largest public companies around the world over many years, we provide clients with data to better understand the true magnitude of the movement from defined benefit to defined contribution plan designs.

To ensure the consistency and efficiency of our retirement consulting service delivery in all of our offices worldwide, we dedicate significant resources to technology systems and tools. We also maintain extensive proprietary databases that enable our clients to track and benchmark benefit plan provisions. Our retirement consulting relationships are generally long-term in nature, and client retention rates for this line of business are high. Revenue for the retirement business is typically seasonal, as most of our work pertains to calendar-year-end reporting and compliance related to the completion of pension plan valuations; thus, the third quarter of our fiscal year is typically the strongest quarter. Major revenue growth drivers in this line of business include changes in regulations, capital market conditions, increased global demand and increased market share.

Health and Group Benefits

Health and Group Benefits is the second-largest line of business in the Benefits segment. We provide plan management consulting across the full spectrum of health and group benefit programs, including health, dental, disability, life and other coverage. We provide services to large and mid-size organizations. Our consulting relationships are generally long-term in nature, and client retention rates for this line of business are high.

Our consulting approach in this business includes:

- Broad and deep plan management and actuarial expertise
- Robust databases of plan designs and plan performance metrics used to diagnose program performance and inform solutions
- Investment in innovation and thought leadership to drive new market approaches
- A continuum-of-service approaches that allow clients to choose from among packaged yet customized solutions
- Deep specialty expertise in the areas of health management, pharmacy, absence and disability management, and benefit plan audit and measurement

Globally, many health care systems are strained by shrinking resources and increasing demand due to population aging and changes in employees’ health status — factors that have increased benefit costs for employers. Our health and group benefits consulting services help employers provide health and welfare benefits designed to attract and retain qualified employees, while controlling costs and enhancing workforce health and productivity. In order to meet our clients' global health and group benefit needs, we are expanding our geographic footprint of health and group benefit operations. In the last 12 months, we have opened health and group benefit operations — including obtaining brokerage licenses — in Mexico, the Philippines and Singapore, and are working on setting up operations in several additional countries. Between our own operations and third party broking partners, we can provide health and group benefits advice and services in over 100 countries.

In the U.S., the Patient Protection and Affordable Care Act (PPACA) has prompted employers to reevaluate their health plan strategies in light of expanded coverage requirements and new tax considerations. Our consultants are helping clients with these strategic decisions, including how to optimize their programs and evaluate emerging coverage options, specifically publicly subsidized health insurance exchanges and private exchanges.

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Given continued above-inflation-rate increases in health care costs, our consultants help employers find proven solutions for managing plan costs and engaging members in health management and cost-control. An increasing number of employers are adopting account-based approaches, increasing their emphasis on employee health engagement, and using behavior-based approaches in the design of their programs. In the U.S., the PPACA has also spawned new approaches in the ways that providers are paid. These approaches are intended to improve outcomes via more efficient care and service utilization. These models put employees in charge of spending their own health care dollars and provide them with appropriate incentives, tools and information to make wise health purchasing decisions. In addition to our consulting services, we manage a number of collective purchasing initiatives (e.g., pharmacy, stop-loss) that enable employers to realize greater value from third-party service providers than they can on their own. We recently announced GlobalAccess, a platform for the provision of pre-packaged health and group benefits plans in over 30 countries. Under GlobalAccess, our clients can select one of three plan designs in a covered country. The plan designs are benchmarked to local conditions with pre-negotiated pricing and terms with leading insurers globally. We also support OneExchange Active, our private health insurance exchange for active employees. This offering is integrated with other health insurance exchange offerings, OneExchange Retiree and OneExchange Access, which are provided within the Exchange Solutions segment. We have designed our health insurance exchange based on the same high performance plan principles underlying our advice to clients who choose to self-manage their health programs. Our clients now have the choice of continuing to self-manage and using our consulting services or to access our private exchange high performance platform. Our first OneExchange Active clients went live in our fiscal year 2014.

Our global services include:

- Program strategy, design and pricing
- Employee engagement in health benefits
- Health condition management consulting
- Pharmacy benefit management consulting
- Absence and disability management consulting
- Workforce well-being evaluation and wellness and health promotion consulting
- Performance measurement and monitoring
- Development of funding strategies and forecasting, budgeting and reserve setting
- Vendor evaluation, selection and management
- Claims audits and pre- and post-implementation audits
- Regulatory compliance

Technology and Administration Solutions

Our Technology and Administration Solutions line of business, our third largest within the Benefits segment, provides benefits outsourcing services to hundreds of clients across multiple industries. Our services are supported by our robust technology platforms, including our BenefitConnect system in the U.S., and our dedicated, onshore benefits call centers.

Supporting more than eight million plan participants and their family members, we provide:

Pension

- Pension and retirement plan administration
- Pension de-risking
- Pension payroll administration
- Treasury and accounting administration
- Flexible benefits plan administration
- Trustee services
- Data clean-up
- Benefits call centers

Health & Welfare

- Health and welfare administration
- Private health insurance exchange

- Dependent eligibility verification

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- COBRA administration
- Benefit billing

We have more than three decades of success in benefits outsourcing and were ranked a leader for the third year in a row on the Global Outsourcing 100 list. In the last three years, we were also ranked #1 and #2 in the Diversified Outsourcing Services category on Fortune magazine's list of "World's Most Admired Companies." To help meet the needs of all employers, we provide flexible benefits administration delivery model options, ranging from co-sourcing to full outsourcing for pension and health and welfare benefits.

In the U.S., we are a top-tier benefits outsourcing provider and a market leader for defined benefit and health and welfare administration. Our administration technology, BenefitConnect, includes case management and administration tools to help plan sponsors manage the entire life cycle, from new hire to retirement, and employee self-service tools that enhance employees' understanding of their benefits. BenefitConnect is also the administration engine for our U.S. private health insurance exchange. We deliver fully outsourced services through three U.S. service center locations, with representatives equipped with a recently upgraded, fully integrated technology suite and training that leverages the breadth of Towers Watson's benefits expertise. Within the U.S., participant satisfaction with our Technology and Administration Solutions customer service centers was approximately 98% for the fiscal year ending June 30, 2014.

In the U.K., we are a leader in retirement administration outsourcing and flexible benefits administration services to the private sector. We use highly automated processes and web technology to enable benefit plan members to access their records and improve their understanding of their benefits. Our technology also provides trustees and human resources departments with timely management information to monitor activity levels and reduce administration costs.

In markets outside the U.K. with more complex defined contribution arrangements, we have deployed sophisticated defined contribution technology, processes and controls. Our defined contribution administration model used in Germany and the U.K. leverages web technology and provides clients with "back office" reconciliation, while offering clients the option to outsource or co-source front-office operations as needed. Participants can access their data directly and thereby be self-sufficient in managing their portfolios.

International Consulting

To help multinational companies address the challenges of operating in the global marketplace, Towers Watson provides expertise in dealing with international human capital management, as well as related benefits and compensation advice for corporate headquarters and their overseas subsidiaries. Multinationals increasingly need to manage and govern compensation and benefit policies and practices from a global perspective, and our international consultants work with the headquarters of multinationals to develop such strategies and implement them. In addition, activities within multinationals are increasingly global in nature (e.g. mergers, acquisitions and other corporate transactions, or the implementation of a more integrated and effective global benefits management system). Our global specialists, in cooperation with their colleagues in our local offices worldwide, help clients manage and ensure the success of such projects.

In addition to global strategy, governance and oversight, our services include:

- Global actuarial services to over 260 companies, which is a market leading position
- Global total rewards and benefit design
- Global workforce health and wellbeing
- Defined contribution plan oversight
- Defined benefit plan risk management and reduction strategies
- More efficient and effective financing of employee benefits through pooling and captives and our enhanced local capabilities
- The optimization of global employee benefit management and spend

Towers Watson also has a global service offering with client-ready teams of experienced M&A practitioners across all our segments. The team has worked on hundreds of transactions across industry sectors and geographic borders and has participated in every phase, from target evaluation, through due diligence, to post-deal integration. This breadth of experience, coupled with our extensive knowledge of the employee mindset and the insurance sector, gives us a strong foundation to help organizations achieve their deal objectives. Our M&A team brings together a strong set of services to help clients evaluate and address the critical people-related issues, assets, liabilities, risks and opportunities

surrounding a transaction from due diligence through full integration.
Risk and Financial Services Segment
Risk and Financial Services ("RFS") is our second-largest segment. Exclusive of our Reinsurance and Property and Casualty Insurance Brokerage business ("Brokerage"), which was sold in November, 2013, Risk and Financial Services segment

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revenues were approximately 19% of Towers Watson's segment revenue for the fiscal year ended June 30, 2014. This segment includes two lines of business:

- Risk Consulting and Software
- Investment

We work with chief financial officers, treasurers, chief risk officers, senior actuaries, pension plan sponsors and trustees of our clients' organizations. Risk Consulting and Software has a particular focus on the insurance industry, while Investment focuses primarily on pension plans. The two lines of business also apply their expertise to serve broader markets.

We believe that we deliver significant value to our clients by bringing together capabilities from across RFS and other parts of Towers Watson to address their key issues. Our investment experts often work with colleagues in our Benefits segment on retirement financial management issues. In the future, we will look for more opportunities to combine our services to anticipate and address client needs in innovative ways.

We combine Towers Watson's innovative actuarial thinking with a range of financial modeling software products. The combination offers comprehensive solutions that enable our insurance clients to price their products, measure value, manage risk and monitor capital adequacy. We use these tools internally for consulting projects and license them to clients around the world.

Risk Consulting and Software

Our Risk Consulting and Software business serves the insurance industry as well as corporate clients with respect to their insurance and risk management needs. Our associates use strong analytical skills, proven consulting techniques and software solutions to help our clients improve business performance. We advise more than three-quarters of the world's leading insurers and believe we are a leading provider of financial modeling software to the insurance industry. We have more actuaries serving the insurance industry than any other consulting firm.

Our Risk Consulting and Software services include:

- Financial and regulatory reporting
- Enterprise risk and capital management
- M&A and corporate restructuring (including actuarial valuation, capital analysis and due diligence)
- Product and market strategies (including pricing and predictive modeling)
- Financial modeling
- Strategy and performance improvement
- Software solutions (including financial and capital modeling, pricing and reserving)

We provide a wide range of enterprise risk management services to help insurance companies identify and control risks, enhance risk-adjusted returns and meet strategic objectives. We are a major provider of actuarial valuation and due diligence support for insurance industry mergers, acquisitions and restructurings. We help our clients evaluate their liabilities and economic capital requirements for financial reporting and management purposes. We also help them respond to regulatory changes that affect financial reporting. And we provide other services, including product development, predictive modeling, strategies for entry into new markets, claim consulting and catastrophe modeling.

We help non-insurance entities with risk management issues, such as evaluating and optimizing their insurance programs as part of their overall risk and capital management processes, and designing and implementing risk mitigation strategies to align their risk profile with overall financial objectives. And we are extending our offerings into new areas — including telematics and usage-based insurance — building on our traditional strengths in modeling and data analysis. We also have an ongoing alliance with JLT Towers Re to offer integrated consulting and risk transfer services.

Investment

Our Investment business helps our clients manage investment complexity, establish their risk tolerance and improve governance.

We have one of the industry's largest investment consulting businesses. Our business is focused on creating value for institutional investors by providing objective, best-in-class investment advice. We provide coordinated investment advice and solutions — based on our expertise in risk assessment, asset-liability modeling, strategic asset allocation policy setting, manager selection and investment execution — to some of the world's largest pension funds and institutional investors.

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Our Investment services include:

- Investment policy, governance and risk assessment
- Investment strategy
- Structured products design
- Manager structure and selection
- Manager monitoring and evaluation (including performance reporting)
- Delegated investment services including pooled fund solutions

Approximately 150 investment research professionals across the world's major markets are experienced in economic, capital market and manager research. With deep specialist expertise in asset management, economic forecasting and actuarial science, we provide practical advice tailored to meet the specific needs of each advisory client. For clients looking to outsource responsibility for investment decision-making and/or implementation, our delegated investment services enable investors to build and maintain diversified investment portfolios customized to their risk preferences.

While our Investment clients primarily include defined benefit and defined contribution pension plans, we have seen significant growth potential in expanding our services to other institutional investors including insurance companies, wealth management companies, endowment funds and sovereign wealth funds, and we are continuing to enhance our capabilities in these areas. The addition of pooled fund solutions has enabled us to expand our delegated investment services to clients.

Talent and Rewards Segment

Our third segment, Talent and Rewards, generated approximately 17% of Towers Watson's segment revenue for the fiscal year ended June 30, 2014. This segment includes three lines of business:

- Executive Compensation
- Rewards, Talent and Communication
- Data, Surveys and Technology

Executive Compensation

We advise our clients' management and boards of directors on all aspects of executive pay programs, including base pay, annual bonuses, long-term incentives, perquisites and other benefits. We help clients understand market practices in these areas. Given that companies in all world regions face scrutiny of executive pay from shareholders, regulators and other stakeholders, our focus is on aligning pay plans with the organization's business strategy and driving desired performance. Our services include executive compensation philosophy and strategy development, modeling and valuation of pay plan elements, performance measurement selection and calibration, board of director compensation and plan design, advice on change-in-control and severance programs, and total compensation assessment and benchmarking. We also provide clients with executive pay-related support associated with various transactions, including mergers, acquisitions, divestitures, executive transitions and business restructuring.

Our global network of executive pay practitioners — including consultants on the ground in key countries worldwide supported by research and data covering the world's top markets — provides comprehensive solutions to our clients. We have dedicated in-house experts on legislative and regulatory requirements, tax and accounting issues, proxy advisor policies, disclosure rules and other considerations in designing executive pay programs. Whether we are retained by the board's compensation committee or by management, our extensive consulting protocols help ensure that our clients receive fully independent, objective advice.

Rewards, Talent and Communication

This line of business offers a broad array of advisory services focused on designing and implementing Rewards and Talent Management programs and processes. Our solutions help companies attract and deploy talent, engage them over time, manage and reward their performance, develop their skills, provide them with relevant career paths, communicate with them and manage organizational change initiatives.

Our primary practice areas are:

- Talent Management. We help organizations define their human capital strategies to support business goals; develop integrated talent programs and processes; assess and develop leaders and managers; and gain insight from human capital analytics.
-

Rewards. We provide the tools, advisory services and execution support to help organizations design and administer effective compensation programs. We help clients optimize their reward spend and ensure their programs drive the

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behaviors and performance required to meet business goals. Specialized teams focus on sales effectiveness and rewards, health care, high technology and financial services industries.

- Communication and Change Management. Applying their deep expertise in change management, organizational effectiveness and communication, our communication and change management consultants helps our clients drive employee engagement, align employee behavior with business results, and communicate HR programs and processes.

Data, Surveys and Technology

This line of business provides benchmarking data, employee surveys and HR software to help companies administer and manage their talent management and reward programs.

It includes our global compensation databases; offerings in employee surveys, human capital metrics and analytics benchmarking and HR service delivery consulting, as well as software applications for talent, performance and compensation management. These services generate recurring revenue by leveraging data, technology and a pool of staff resources that is flexibly deployed.

We provide data on compensation, benefits, and HR policies and practices in 110 countries across six continents, covering over 40 industry sectors, 50 functions/job families and 4,200 international general industry and 9,900 industry-specific jobs (disciplines/career levels). Underpinned by our extensive network of regional survey experts and local consulting offices, each country’s surveys provide decision-quality data and interpretation reflecting local laws and practices. Our survey data support global clients wherever they do business.

Our HR service delivery consulting services help employers design and implement the human resource organizational structure, service delivery model, staff and technology they need to meet the needs of the organization and employees efficiently and effectively. We support clients in developing HR technology strategy, implementing Workday, and providing consulting support related to implementation of other platforms. Our capabilities include business case development, project planning, requirements definition, process design and implementation services supported by our change management expertise.

We also provide a broad array of proprietary Software as a Service ("SaaS") based HR software solutions, including:

- Talent|REWARD, an integrated suite of applications for recruiting, performance management, global job leveling, compensation planning and administration, succession planning, career development, and learning management
- Total rewards portals and statements
- Onboarding applications
- HR and employee portals

Exchange Solutions Segment

Our fourth segment, Exchange Solutions, generated 5% of Towers Watson’s segment revenue for the fiscal year ended June 30, 2014. This segment includes two lines of business:

- Retiree & Access Exchanges
- Liazon

We are redefining the manner in which active employee and retiree health benefits are offered and delivered. Our solutions create cost savings for our employer clients and provide our individual customers with improved choice and control over their health benefits.

In November 2013, the segment was expanded through the acquisition of Liazon Corporation, a company specialized in developing and delivering private benefit exchanges for active employees. The Liazon solution complements the existing OneExchange Active offering by helping organizations of all sizes deliver self- and fully-insured benefits to employees in new and cost effective ways.

Our most mature solution within this segment, OneExchange Retiree, enables our employer clients to transition their retirees to individual, defined contribution health plans that provide individuals with a tax-free allowance or 'contribution' to spend on health care services at an annual cost that the employer controls as opposed to group-based, defined benefit health plans that provide groups of individuals with healthcare benefits at an uncertain annual cost. With our OneExchange Retiree solution, our clients can provide their retirees with the same or better healthcare benefits at a lower cost. We have provided an effective alternative to traditional group Medicare health plans for private and public sector clients, including Fortune 500 companies. We have helped hundreds of thousands of retirees and their dependents navigate the individual retiree medical insurance market, and evaluate and choose a health plan using our proprietary exchange platform and decision support tools. In addition, this line of business is developing and expanding its offerings to address the pre-65 individual retiree, or early retiree, and are working on exchange opportunities for individual, active employees.

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The Retiree & Access Exchanges line of business provides solutions through a proprietary technology platform, which integrates patented call routing technology, efficient quoting and an enrollment engine, a custom-developed Customer Relationship Management ("CRM") system and comprehensive insurance carrier connectivity. The Retiree & Access solution services include:

- Analyzing and optimizing employer healthcare benefit subsidies and developing healthcare coverage strategies that enables our clients to predict their healthcare liabilities and realize significant cost savings by transitioning their retirees to defined contribution plans
- Managing an exchange of over 100 national and regional insurance carriers offering thousands of health plans that compete on price, coverage and quality
- Simplifying the complexities of Medicare and the pre-65 individual market by helping individuals navigate through a meaningful choice of health plans using our proprietary software to analyze employer subsidies, health plan details and individuals' doctor, hospital and prescription drug needs
- Offering enrollment services that match an individual's health status and financial resources to a specific plan while giving unbiased guidance about these expanded healthcare options
- Providing lifelong advocacy and support services for all enrollees as they engage with insurance carriers beginning with their initial enrollment and continuing as their healthcare needs evolve

Liazon delivers benefits technology and merchandising for employers in the small- to mid-sized market through its Bright Choices Exchange. Bright Choices helps employers set predictable benefit budgets and receive more from their benefit investments by helping them deploy defined contribution funding strategies. Employees then use the money provided by their employers to shop in the Bright Choices on-line benefits store, to build a personalized benefits portfolio, and to make smarter, more economical benefits decisions.

Liazon distributes its products and services through an extensive group of brokers and benefits consultants. Liazon serves employers and their employees through:

- Flexible defined contributions capabilities and planning tools for employers and brokers
- The Bright Choices Exchange, where employees are assisted in making informed decisions using educational tools and a simple online questionnaire that guides them to create a personalized portfolio of benefits from a wide variety of options, and provides access to year-round benefits information and education
- Extensive carrier relationships with leading insurance brands that allow Bright Choices to provide robust marketplaces with a wide range of benefits that employees value, including health care plans across a range of price points, Health Savings and Flexible Spending accounts, dental, vision, life, disability, critical illness, wellness, legal plans, and even pet insurance and telemedicine
- Year-round, on-line and telephonic support for employers and employees

On January 23, 2014, Towers Watson announced plans to expand the Exchange Solutions segment by combining operations and associates primarily from portions of the TAS North America line of business with the Retiree & Access Exchanges and Liazon lines of business to better align their respective strategic goals. The restructuring took effect on July 1, 2014. We are still evaluating the impact of this restructuring to our operating segments and the related disclosures.

Competition

The human capital and risk management consulting industries are highly competitive. We believe there are significant barriers to entry, and we have developed competitive advantages in providing HR consulting services. However, we face strong competition from several sources.

Our principal competitors in the global HR consulting industry are Mercer HR Consulting (a Marsh & McLennan company) and Aon Hewitt Consulting (an Aon company). The industry also includes other benefit and compensation firms and the human resource consulting divisions of diversified professional service firms, including Deloitte, Accenture, EY and PricewaterhouseCoopers. Our competitors in the area of HR software include SuccessFactors (an SAP company), Oracle Taleo and IBM Kenexa. Beyond these large players, the global HR consulting industry is highly fragmented.

Our major competitors in the insurance consulting and software industry include Milliman, Oliver Wyman (a Marsh & McLennan company), the big four accounting firms and SunGard. Aon Hewitt, Buck Consultants (a Xerox Company), Connextions (a United Healthcare company) and Mercer (a Marsh & McLennan company) are our primary competitors in the insurance exchange industry. With the implementation of the Patient Protection and Affordable Care Act, we also compete with the public exchanges run by the U.S. federal and state governments.

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The market for our services is subject to change as a result of economic, regulatory and legislative changes, technological developments, and increased competition from established and new competitors. Regulatory and legislative actions, along with continuously evolving technological developments will likely have the greatest impact on the overall market for our exchange products. We believe the primary factors in selecting a human resources or risk management consulting firm include reputation, the ability to provide measurable increases to shareholder value and return on investment, global scale, quality of service and the ability to tailor services to clients' unique needs. With regard to the market for exchanges, we believe that clients base their decisions on a variety of factors that include the ability of the provider to deliver measurable cost savings for clients, a strong reputation for efficient execution, a provider's capability in delivering a broad number of configurations to serve various population segments and financing options, and an innovative service delivery model and platform. For our traditional consulting and risk management services and the rapidly evolving exchange products, we believe we compete favorably with respect to these factors.

Executive Officers of the Company

As of August 14, 2014, the following individuals were executive officers of the Company:

James K. Foreman (age 56) has served as Managing Director of the Exchange Solutions business segment since February 1, 2014, and prior to that, as Managing Director, The Americas of Towers Watson since April 1, 2011. Immediately prior to that, he served as Managing Director of the North America region. Prior to the Merger, Mr. Foreman served as Managing Director of the Human Capital Group of Towers Perrin beginning June 2007, with overall responsibility for the global lines of business and geographic operations of Towers Perrin's Human Capital Group. Mr. Foreman joined Towers Perrin in 1985 and worked for almost 20 years at Towers Perrin in a number of leadership positions, including Managing Director of Towers Perrin's Health & Welfare practice and member of Towers Perrin's board of directors from 2003 to 2005, before joining Aetna Inc. in 2005 to become the executive vice president of its national businesses division. He rejoined Towers Perrin in June 2007. Mr. Foreman holds a B.A. in Business Economics from the University of California at Los Angeles.

Julie J. Gebauer (age 53) has served as Managing Director of Towers Watson's Talent and Rewards business segment since January 1, 2010. Beginning in 2002, she served as a Managing Director of Towers Perrin and led Towers Perrin's global Workforce Effectiveness Practice and the global Towers Perrin-International Survey Research Corporation line of business. Ms. Gebauer was a member of Towers Perrin's board of directors from 2003 through 2006. She joined Towers Perrin in 1986 as a consultant and held several leadership positions at Towers Perrin, serving as the Managing Principal for the New York office from 1999 to 2001 and the U.S. East Region Leader for the Human Capital Group from 2002 to 2006. Ms. Gebauer is a fellow of the Society of Actuaries and is an Enrolled Actuary in the Joint Board for Enrolled Actuaries. Ms. Gebauer graduated Phi Beta Kappa from the University of Nebraska-Lincoln with a B.S. in Mathematics.

Patricia L. Guinn (age 59) has served as Managing Director of the Risk and Financial Services business segment of Towers Watson since January 1, 2010. Previously, she served as Managing Director of the Risk and Financial Services business group of Towers Perrin beginning in 2001. She was a member of Towers Perrin's board of directors from 2001 through 2004 and from 2007 until the consummation of the Merger. She joined Towers Perrin in 1976 and has held a number of leadership positions at the company. She is a fellow of the Society of Actuaries and a member of the American Academy of Actuaries. Ms. Guinn graduated with honors from Hendrix College with a B.A. degree in Mathematics.

John J. Haley (age 64) has served as the Chief Executive Officer and Chairman of the Board of Directors of Towers Watson since January 1, 2010, and as President since October 3, 2011. Previously, he served as President and Chief Executive Officer of Watson Wyatt beginning on January 1, 1999, as Chairman of the Board of Watson Wyatt beginning in 1999 and as a director of Watson Wyatt beginning in 1992. Mr. Haley joined Watson Wyatt in 1977. Prior to becoming President and Chief Executive Officer of Watson Wyatt, he was the Global Director of the Benefits Group at Watson Wyatt. Mr. Haley is a Fellow of the Society of Actuaries, and a member of the American Academy of Actuaries and the Conference of Consulting Actuaries. He is also a co-author of Fundamentals of Private Pensions (University of Pennsylvania Press). Mr. Haley also serves on the boards of MAXIMUS, Inc., a provider of health and human services program management, consulting services and system solutions, and Hudson Global, Inc., an executive search, specialty staffing and related consulting services firm. He has an A.B. in Mathematics from Rutgers College and studied under a Fellowship at the Graduate School of Mathematics at Yale University.

Carl A. Hess (age 52) has served as Managing Director, The Americas of Towers Watson since February 1, 2014, and prior to that he served as the Managing Director of Towers Watson's Investment business since January 1, 2010. Prior to that, he worked in a variety of roles over 20 years at Watson Wyatt, lastly as Global Practice Director of Watson Wyatt's investment business. Mr. Hess is a fellow of the Society of Actuaries and the Conference of Consulting Actuaries, and a Chartered Enterprise Risk Analyst. He has a B.A. cum laude in Logic and Language from Yale University.

Kirkland L. Hicks (age 42) has served as Vice President, General Counsel and Secretary of Towers Watson since November 2012. From July 2011 to October 2012, he served as chair of Towers Watson's Diversity and Inclusion Council for the

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Americas. Mr. Hicks was previously the Managing Counsel-Commercial, Americas for Towers Watson from January 2010 to November 2012. Prior to that, he was Senior Counsel and head of Commercial Law at Watson Wyatt Worldwide, Inc. from May 2000 to December 2009. Mr. Hicks was previously an attorney with major law firms from 1997 to 2000. He has a B.S. in computer science from North Carolina A&T State University and a J.D. from Duke University School of Law, where he serves on the board of visitors. Mr. Hicks has also completed an executive leadership program at Harvard Business School. He is a member of the District of Columbia, Maryland and Virginia (corporate counsel) bars, the Association of Corporate Counsel and The Conference Board Council of Chief Legal Officers.

Roger F. Millay (age 56) has served as Vice President and Chief Financial Officer of Towers Watson since January 1, 2010, and he previously held the same position at Watson Wyatt from August 2008 until the consummation of the Merger. Prior to joining Watson Wyatt, Mr. Millay was with Discovery Communications LLC, a global cable TV programmer and digital media provider, where he served as Senior Executive Vice President and Chief Financial Officer beginning in 2006. At Discovery, he was responsible for the global financial functions, including accounting, treasury, budgeting, audit and tax. From 1999 to 2006, Mr. Millay was Senior Vice President and Chief Financial Officer with Airgas, Inc., an industrial gases and supplies distributor and producer. Mr. Millay has over 25 years of experience in financial officer positions, including roles at Arthur Young & Company, Citigroup, and GE Capital. He holds a B.A. degree from the University of Virginia and an M.S. in Accounting from Georgetown University's Graduate School of Business, and he is a Certified Public Accountant.

Paul G. Morris (age 50) has served as Managing Director for Towers Watson in Europe, the Middle East and Africa since September 1, 2011. Previously, he served as Director, Consulting Services, for Towers Watson beginning January 1, 2010. Mr. Morris served as a Managing Consultant of Watson Wyatt from 2005 until the consummation of the Merger. He joined The Wyatt Company in 1988. Following the establishment of the global Watson Wyatt Worldwide alliance in 1995, Mr. Morris served as a Senior Consultant of Watson Wyatt Partners from 1995 through 1999 and became a partner in 1999. Mr. Morris is a Fellow of the Society of Actuaries, a Member of the Institute of Actuaries, and has a B.A. in Applied Mathematics from Harvard College and an M.Sc. in Applied Mathematics from Harvard Graduate School of Arts and Sciences.

Gene H. Wickes (age 62) has served as the Managing Director of the Benefits business segment of Towers Watson since January 1, 2010. Previously, he served as the Global Director of the Benefits Practice of Watson Wyatt beginning in 2005 and as a member of Watson Wyatt's board of directors from 2002 to 2007. Mr. Wickes was Watson Wyatt's Global Retirement Practice Director in 2004 and the U.S. West Division's Retirement Practice Leader from 1997 to 2004. Mr. Wickes joined Watson Wyatt in 1996 as a senior consultant and consulting actuary. Prior to joining Watson Wyatt, he spent 18 years with Towers Perrin, where he assisted organizations with welfare, retirement, and executive benefit issues. Mr. Wickes is a Fellow of the Society of Actuaries and a member of the Conference of Consulting Actuaries, and has a B.S. in Mathematics and Economics, an M.S. in Mathematics and an M.S. in Economics, all from Brigham Young University.

Employees

We employed approximately 14,800 full-time associates as of June 30, 2014 in the segments listed below; in addition, we have a number of part-time and contract associates whose numbers fluctuate in response to short-term demands. Associates listed for the 2013 fiscal year are excluding those employed in our Brokerage business in November 2013.

	As of June 30,	
	2014	2013
Benefits	7,300	6,900
Risk and Financial Services	2,000	2,100
Talent and Rewards	2,500	2,400
Exchange Solutions	700	300
Other	300	300
Business Services (incl. Corporate and field support)	2,000	2,100
Total associates	14,800	14,100

Access to Public Filings, Code of Business Conduct and Ethics and Board Committee Charters

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available, without charge, on our web site (www.towerswatson.com) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). These reports are also available without charge on the SEC web site (www.sec.gov). We have adopted a Code of Business Conduct and Ethics applicable to all associates, senior financial employees, the principal executive officer, other officers and members of senior management. We also have a Code of Business Conduct and Ethics that applies to all of our directors. Both codes are posted on our website. Any

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amendments to the codes or any waivers of the director code requirements, or to the Code of Business Conduct and Ethics for any of our Chief Executive Officer, Chief Financial Officer, or our Chief Accounting Officer and Controller will be disclosed on our website or in a Form 8-K. Towers Watson's Audit Committee, Compensation Committee, Nominating and Governance Committee and Risk Committee all operate pursuant to written charters adopted by our board of directors, which are available on our website. We have also adopted a set of Corporate Governance Guidelines, copies of which are available on our website. Copies of all of these documents are also available, without charge, from our Investor Relations Department at 901 N. Glebe Road, Arlington, VA 22203.

Item 1A — Risk Factors.

In addition to the factors discussed elsewhere in this Annual Report, the following are some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements. These risk factors should be carefully considered in evaluating our business. The descriptions below are not the only risks and uncertainties that we face. Additional risks and uncertainties that are presently unknown to us may also impair our business operations, financial condition or results. If any of the risks and uncertainties below or other risks were to occur, our business operations, financial condition or results of operations could be materially and adversely impacted.

Demand for our services could decrease for various reasons, including a general economic downturn, a decline in a client's or an industry's financial condition or prospects, or a decline in defined benefit pension plans that could materially adversely affect our results of operations.

We can give no assurance that the demand for our services will grow or that we will compete successfully with our existing competitors, new competitors or our clients' internal capabilities. Client demand for our services may change based on the clients' needs and financial conditions.

Our results of operations are affected directly by the level of business activity of our clients, which in turn are affected by the level of economic activity in the industries and markets that they serve. Economic slowdowns in some markets, particularly in the United States, have caused and may continue to cause reduction in discretionary spending by our clients, result in longer client payment terms, an increase in late payments by clients and an increase in uncollectible accounts receivable, each of which may reduce the demand for our services, increase price competition and adversely impact our growth, profit margins and liquidity. If our clients enter bankruptcy or liquidate their operations (which has already occurred with respect to some of our current clients), our revenues could be materially adversely affected.

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

We could be subject to claims arising from our work, as well as government inquiries and investigations, which could materially adversely affect our reputation, business and financial condition.

Professional services providers, including those in the human capital and risk management sectors such as Towers Watson, depend in large part on their relationships with clients and their reputation for high-quality services. Clients that may become dissatisfied with our services may terminate their business relationships with us and clients and third parties that claim they suffered damages caused by our services may bring lawsuits against us. The nature of our work, particularly our actuarial services, necessarily involves the use of assumptions and the preparation of estimates relating to future and contingent events, the actual outcome of which we cannot know in advance. Our actuarial services also rely on substantial amounts of data provided by clients, the accuracy and quality of which we cannot ensure. In addition, we could make computational, software programming or data management errors in connection with the services we provide to clients.

Clients may seek to hold us responsible for the financial consequences of variances between assumptions and estimates and actual outcomes or for errors. For example, clients may make:

- Claims that actuarial assumptions were unreasonable or that there were computational errors leading to pension plan underfunding or under-reserving for insurance claim liabilities;
- Claims of failure to review adequately or detect deficiencies in data, which could lead to an underestimation of pension plan or insurance claim liabilities; and

- Claims that employee benefit plan documents were misinterpreted or plan amendments were faulty, leading to unintended plan benefits or overpayments to beneficiaries.

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Given that we frequently work with large pension funds and insurance companies, relatively small percentage errors or variances can create significant financial variances and result in significant claims for unintended or unfunded liabilities. The risks from such variances or errors could be aggravated in an environment of declining pension fund asset values and insurance company capital levels. In almost all cases, our exposure to liability with respect to a particular engagement is substantially greater than the revenue opportunity that the engagement generates for us.

In the case of liability for pension plan actuarial errors, a client's claims might focus on the client's alleged reliance that actuarial assumptions were reasonable and, based on such reliance, the client made benefit commitments the client may later claim are not affordable or funding decisions that result in plan underfunding if and when actual outcomes vary from actuarial assumptions.

Lawsuits arising out of any of our services could adversely affect our financial performance and financial condition and could result in increased insurance costs or a reduction in the amount of available insurance coverage. In addition to defense costs and liability exposure, which may be significant, claims may produce negative publicity that could hurt our reputation and business and could require substantial amounts of management attention, which could affect management's focus on operations.

Finally, we may be subject to inquiries and investigations by federal, state or other governmental agencies regarding aspects of our clients' businesses or our own businesses, especially regulated businesses such as our broker-dealer and investment advisory services. Such inquiries or investigations may consume significant management time and result in regulatory sanctions, fines or other actions as well as significant legal fees, which could have a material adverse impact on our business, results of operations and liquidity.

We could have liability or our reputation could be damaged if we do not protect client data or information systems or if our information systems are breached.

We depend on information technology networks and systems to process, transmit and store electronic information and to communicate among our locations around the world and with our alliance partners and clients. Security breaches could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We also are required at times to manage, utilize and store sensitive or confidential client or employee data. As a result, we are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our associates, fails to comply with, disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, accident, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our associates or third parties, could result in significant additional expenses (including expenses relating to notification of data security breaches and costs of credit monitoring services), negative publicity, legal liability and damage to our reputation, as well as require substantial resources and effort of management, thereby diverting management's focus and resources from business operations.

Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.

Should we experience a disaster or other business continuity problem, such as an earthquake, hurricane, terrorist attack, pandemic, security breach, power loss, telecommunications failure or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. In such an event, we could experience near-term operational challenges with regard to particular areas of our operations.

In particular, our ability to recover from any disaster or other business continuity problem will depend on our ability to protect our technology infrastructure against damage from business continuity events that could have a significant disruptive effect on our operations. We could potentially lose client data or experience material adverse interruptions to our operations or delivery of services to our clients in a disaster.

We will continue to regularly assess and take steps to improve upon our business continuity plans. However, a disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, damaged client relationships or legal liability.

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Damage to our reputation could damage our businesses.

Maintaining a positive reputation is critical to our ability to attract and maintain relationships with clients and associates. Damage to our reputation could therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory action, failure to deliver minimum standards of service and quality, compliance failures and unethical behavior. Negative publicity regarding us, whether or not true, may also result in harm to our prospects.

We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. The failure or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions. There can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

The ongoing uncertainty and volatility in the financial markets related to the U.S. budget deficit, the European sovereign debt crisis and the state of the U.S. economic recovery may adversely affect the Company’s operating results.

Global financial markets continue to experience disruptions, including increased volatility, and diminished liquidity and credit availability. In particular, developments in Europe have created uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations. This debt crisis and related European financial restructuring efforts may cause the value of the Euro to deteriorate, reducing the purchasing power of our European clients and reducing the translation of Euro based revenues into U.S. dollars. For the year ended June 30, 2014, approximately 11% of our revenues were derived from countries which use the Euro as their primary currency. In the event that one or more countries were to replace the Euro with their legacy currency, then the Company’s sales in and to such countries, or Europe generally, would likely be adversely affected until stable exchange rates were established. In addition, the European crisis is contributing to instability in global credit markets. If global economic and market conditions, or economic and financial market conditions in Europe, the United States or other key markets, remain uncertain, persist, or deteriorate further, our clients may respond by suspending, delaying or reducing their expenditures, which may adversely affect our cash flows and results of operations.

The loss of key associates could damage or result in the loss of client relationships and could result in such associates competing against Towers Watson.

Our success depends on our ability to attract, retain and motivate qualified personnel, including key managers and associates. In addition, our success largely depends upon our associates’ abilities to generate business and provide quality services. In particular, our associates’ business relationships with our clients are a critical element of obtaining and maintaining client engagements. If we lose associates who manage substantial client relationships or possess substantial experience or expertise or if we are unable to successfully attract new talent, it could materially adversely affect our ability to secure and complete engagements, which would materially adversely affect our results of operations and prospects. In addition, if any of our key associates were to join a competitor or form a competing company, existing and potential clients could choose to use the services of that competitor instead of Towers Watson’s services.

There can be no assurance that confidentiality and non-solicitation/non-competition agreements signed by senior associates who were former Towers Perrin or Watson Wyatt associates before the “merger of equals” between the two entities, or agreements signed by Towers Watson associates previously or in the future, will be effective in preventing a loss of business.

Over time, the trend of employers shifting from defined benefit plans to defined contribution plans could materially adversely affect our business and results of operations.

Our retirement consulting and actuarial business comprises a substantial portion of our revenue and profit. We provide clients with actuarial and consulting services relating to both defined benefit and defined contribution pension plans. Defined benefit pension plans generally require more actuarial services than defined contribution plans because defined benefit plans typically involve large asset pools, complex calculations to determine employer costs, funding requirements and sophisticated analysis to match liabilities and assets over long periods of time. If organizations shift to defined contribution plans more rapidly than we anticipate, or if we are unable to otherwise compensate for the decline in our business that results from employers moving away from defined benefit plans, our business operations and related results of operations will be materially adversely affected.

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We are subject to risks of doing business internationally.

For the year ended June 30, 2014, 47% of our revenue relates to business located outside the United States. As a result, a significant portion of our business operations is subject to foreign financial, tax and business risks, which could arise in the event of:

- Currency exchange rate fluctuations;
- Unexpected increases in taxes or changes in U.S. or foreign tax laws;
- Compliance with a variety of international laws and regulations, such as data privacy, employment regulations, trade barriers and restrictions on the import and export of technologies, as well as U.S. laws affecting the activities of U.S. companies abroad, including the Foreign Corrupt Practices Act of 1977 and sanctions programs administered by the U.S. Department of the Treasury Office of Foreign Assets Control, and similar foreign laws such as the U.K. Bribery Act;
- Absence in some jurisdictions of effective laws to protect our intellectual property rights;
- New regulatory requirements or changes in policies and local laws that materially affect the demand for our services or directly affect our foreign operations;
- Local economic and political conditions, including unusual, severe, or protracted recessions in foreign economies and inflation risk;
- The length of payment cycles and potential difficulties in collecting accounts receivable, particularly in light of the number of insolvencies in the current economic environment and the numerous bankruptcy laws to which they are subject;
- Unusual and unexpected monetary exchange controls, price controls or restrictions on transfers of cash; or
- Civil disturbance, terrorism or other catastrophic events that reduce business activity in other parts of the world.

These factors may lead to decreased revenues or profits and therefore may have a material adverse effect on our business, financial condition and results of operations.

Our clients could terminate or reduce our services at any time, which could decrease associate utilization, adversely impacting our profitability and results of operations.

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

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

Quarterly variations in our revenues and results of operations have occurred in the past and could occur as a result of a number of factors, such as:

- The significance of client engagements commenced and completed during a quarter;
- The seasonality of certain types of services. For example, our retirement revenues typically are more heavily weighted toward the first and fourth quarters of the calendar year, when annual actuarial valuations are required to be completed for calendar year-end companies and the related services are performed;
- The number of business days in a quarter;
- Associate hiring and utilization rates;
- Clients' ability to terminate engagements without penalty;
- The size and scope of assignments; and
- General economic conditions.

A sizeable portion of our total operating expenses is relatively fixed, encompassing the majority of administrative, occupancy, communications and other expenses, depreciation and amortization, and salaries and employee benefits excluding fiscal year-end incentive bonuses. Therefore, a variation in the number of client assignments or in the timing of the initiation or the completion of client assignments or our inability to forecast demand can cause significant variations in quarterly operating results and could result in losses and volatility in our stock price.

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Improper management of our engagements could hurt our financial results.

Most of our contracts are structured on a fixed-fee basis or a time-and-expense basis. The profitability of our fixed-fee engagements depends on our ability to correctly estimate the costs and timing required for completion of the engagements and our ability to control our costs and improve our efficiency. The profitability of the engagements that are priced on a time-and-expense basis depends on our ability to maintain competitive billing rates, as well as our ability to control our costs. If we do not correctly estimate the costs and manage the performance of our engagements, we may incur losses on individual engagements and experience lower profit margins and, as a result, our overall financial results could be materially adversely affected.

Our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in government regulations or if government regulations decrease the need for our services or increase our costs.

A material portion of our revenue is affected by statutory changes. Many areas in which we provide services are the subject of government regulation, which is constantly evolving. Changes in government and accounting regulations in the United States and the United Kingdom, two of our principal geographic markets, affecting the value, use or delivery of benefits and human capital programs, including recent changes in regulations relating to health care (such as medical plans), defined contribution plans (such as 401(k) plans), defined benefit plans (such as pension plans) or executive compensation, may materially adversely affect the demand for, or the profitability of, our services. In addition, more restrictive rules or interpretations of the federal Centers for Medicare Services marketing rules, or judicial decisions that restrict or otherwise change existing provisions of U.S. healthcare regulation, could have a material adverse impact on our Exchange Solutions business. Further, changes to insurance regulatory schemes, or our failure to keep pace with such changes, could negatively affect demand for services in our Risk and Financial Services business segment. For example, our continuing ability to provide investment advisory services depends on compliance with the rules and regulations in each of these jurisdictions. Any failure to comply with these regulations could lead to disciplinary action, including compensating clients for loss, the imposition of fines or the revocation of the authorization to operate as well as damage to our reputation.

In addition, we have significant operations throughout the world, which further subject us to applicable laws and regulations of countries outside the United States and the United Kingdom. Changes in legislation or regulations and actions by regulators in particular countries, including changes in administration and enforcement policies, could require operational improvements or modifications, which may result in higher costs or hinder our ability to operate our business in those countries.

If we are unable to adapt our services to applicable laws and regulations, our ability to provide effective services in these areas will be substantially diminished.

Our business could be negatively affected by recently enacted or future legislative or regulatory activity concerning compensation consultants.

Recent legislative and regulatory activity in the United States has focused on the independence of compensation consultants retained to provide advice to compensation committees of publicly traded companies. In 2009, the SEC published final rules, which became effective in 2010, with respect to issuer disclosures on compensation consultants. Among other requirements, the rules require disclosure of fees paid to compensation consultants as well as a description of any additional services provided to the issuer by the compensation consultant and its affiliates and the aggregate fees paid for such services. Due in part to this regulation and continued legislative activity, prior to the Merger, some clients of Towers Perrin and Watson Wyatt and, after the Merger, some clients of Towers Watson decided to terminate their relationships with the respective company (either with respect to compensation consulting services or with respect to other consulting services) to avoid perceived or potential conflicts of interest.

In addition, in 2010, the U.S. President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the SEC to issue rules directing national securities exchanges and associations to require the compensation committee of a listed company to consider the independence of an advisor when selecting a compensation consultant. The SEC was also required to identify factors affecting independence.

In 2012, the SEC issued final rules to implement these provisions of the Dodd-Frank Act pertaining to the role of, and certain disclosure relating to, compensation consultants. The final rules require the national security exchanges to adopt listing standards requiring a company’s compensation committee to consider certain independence factors, including whether the compensation consultant's firm provides other services to the company, before selecting a compensation consultant. These rules also require a company to disclose in its proxy statement whether its compensation committee has retained or obtained the advice of a compensation consultant, whether the work of the compensation consultant raised any conflicts of interest, and if so, the nature of the conflicts and how any such conflicts are being addressed.

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In January 2013, the SEC approved new listing standards of the New York Stock Exchange and The Nasdaq Stock Market consistent with the final SEC rules and which require the compensation committee to consider the independence of advisors, including compensation consultants, as described above. Effective July 1, 2013, listed companies' compensation committees are not permitted to select, or receive advice from, an adviser unless the compensation committee has conducted the independence assessment that the new listing standards require.

The final rules and the newly-adopted listing standards do not require that the selected compensation consultant be independent, only that the compensation committee considers independence before selecting a compensation consultant. However, if companies' compensation committees elect to engage compensation consultants that do not perform any other services for the company, then this could cause additional clients to terminate their relationships with Towers Watson (either with respect to compensation consulting services or with respect to other consulting services) to avoid perceived or potential conflicts of interest. If this happens, the future termination of such relationships could have a material adverse effect on our business, financial condition and results of operations.

In addition, due in part to such regulation and continued legislative activity, some former Towers Perrin, Watson Wyatt or Towers Watson consultants terminated their relationships with us, and many have begun to compete with us or have indicated that they intend to compete with us. Such talent migration, and any future such talent migration, could have a material adverse effect on our business, financial condition and results of operations.

Competition could result in loss of our market share and reduced profitability.

The markets for our principal services are highly competitive. Our competitors include other human capital and risk management consulting and actuarial firms, as well as the human capital and risk management divisions of diversified professional services, insurance, brokerage and accounting firms. Some of our competitors have greater financial, technical and marketing resources than us, which could enhance their ability to finance acquisitions, fund internal growth and respond more quickly to professional and technological changes. Some competitors have or may develop a lower cost structure, or have more tax-efficient operations. New competitors or alliances among competitors could emerge, creating additional competition and gaining significant market share, resulting in a loss of business for us and a corresponding decline in revenues and profit margin. In order to respond to increased competition and pricing pressure, we may have to lower our prices, which would also have an adverse effect on our revenues and profit margin.

Consolidation in the industries that we serve could materially adversely affect our business.

Companies in the industries that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If two or more of our clients merge or consolidate and combine their operations, we may experience a decrease in the amount of services we perform for these clients. If one of our clients merges or consolidates with a company that relies on another provider for its services, we may lose work from that client or lose the opportunity to gain additional work. The increased market power of larger companies could also increase pricing and competitive pressures on us. Any of these possible results of industry consolidation could materially adversely affect our revenues and profits.

Our growth strategy depends, in part, on our ability to make acquisitions, and if we have difficulty in acquiring, overpay for, or are unable to acquire other businesses, our business may be materially adversely affected.

Our growth depends in part on our ability to make acquisitions. We may not be successful in identifying appropriate acquisition candidates or consummating acquisitions on terms acceptable or favorable to us, on the proposed timetables, or at all. We also face additional risks related to acquisitions, including that we could overpay for acquired businesses and that any acquired business could significantly underperform relative to our expectations. If we are unable to identify and successfully make acquisitions, our business could be materially adversely affected.

We face risks when we acquire or divest businesses, and may have difficulty integrating or managing acquired businesses, or with effecting internal reorganizations, which may harm our business, financial condition, results of operations or reputation.

We may acquire other companies or divest certain businesses in the future. We cannot be certain that our acquisitions will be accretive to earnings or that our acquisitions or divestitures will otherwise meet our operational or strategic expectations. Acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies and difficulties in integrating acquired businesses, and acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. In addition, if the operating performance of an acquired business deteriorates significantly, we may need to write down the value of the goodwill and other acquisition-related intangible assets recorded on our balance sheet.

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We may be unable to effectively integrate an acquired business into our organization, and may not succeed in managing such acquired businesses or the larger company that results from such acquisitions. The process of integration of an acquired business may subject us to a number of risks, including:

- Diversion of management attention;
- Amortization of intangible assets, adversely affecting our reported results of operations;
- Inability to retain the management, key personnel and other employees of the acquired business;
- Inability to establish uniform standards, controls, systems, procedures and policies;
- Inability to retain the acquired company's clients;
- Exposure to legal claims for activities of the acquired business prior to acquisition; and
- Incurrence of additional expenses in connection with the integration process.

We may also face similar challenges in effecting internal reorganizations, such as the internal reorganization of our Exchange Solutions segment that began in 2014. If acquisitions or internal reorganizations are not successfully integrated, our business, financial condition and results of operations could be materially adversely affected, as well as our professional reputation.

We advise or act on behalf of clients regarding investments whose results are not guaranteed, and clients that experience investment return shortfalls may assert claims against us.

We provide advice on both asset allocation and selection of investment managers. For some clients, we are responsible for making decisions on both these matters, or we may serve in a fiduciary capacity. Asset classes may experience poor absolute performance, and investment managers may underperform their benchmarks; in both cases the investment return shortfall can be significant. Clients experiencing this underperformance may assert claims against us, and such claims may be for significant amounts. Defending against these claims can involve potentially significant costs, including legal defense costs. Our ability to limit our potential liability may be limited in certain jurisdictions or in connection with claims involving breaches of fiduciary duties or other alleged errors or omissions.

Our investment activities may require specialized operational competencies, and if we fail to properly execute our role in cash and investment management, our clients or third parties may assert claims against us.

For certain clients, we are responsible for some portions of cash and investment management, including rebalancing of investment portfolios and guidance to third parties on structure of derivatives and securities transactions. Our failure to properly execute our role can cause monetary damage to our clients or such third parties for which we might be found liable, and such claims may be for significant amounts. Defending against these claims can involve potentially significant costs, including legal defense costs. Our ability to limit our potential liability may be constrained in certain jurisdictions.

Towers Watson is engaged in providing services and products outside the core human capital and risk management businesses previously conducted by the Company, which may carry greater risk of liability and regulatory action.

We continue to grow the business of providing professional services and products to institutional investors, financial services companies and other clients. The risk of claims from these lines of business and related products and services may be greater than from our core human capital and risk management business, and such claims may be for significant amounts. For example, we may assist a pension plan to hedge its exposure to changes in interest rates. If the hedge does not perform as expected, we could be exposed to claims. Contractual provisions intended to mitigate risk may not be enforceable. Other examples of recently implemented ventures that may increase our exposure to client and regulator claims include pooled investment solutions in various jurisdictions in our Investment line of business; new licensed work and expansion into new jurisdictions in our Health and Group Benefits line of business; and in our Retirement line of business, establishing and servicing structures to facilitate the funding of our clients' employee benefit plans. In addition, with respect to some of these new ventures, we may enter into arrangements that need to be examined to determine whether they fall under the variable interest entity (VIE) accounting guidance. The structure of such arrangements could require us to consolidate assets or liabilities on which we do not have risk of loss.

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

To remain competitive in the business lines in which we engage, we have to identify and offer the most current technologies and methodologies. In some cases, significant technology choices and investments are required. If we do not respond correctly, quickly or in a cost-effective manner, our business and results of operations might be harmed.

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The effort to gain technological expertise and develop new technologies in our business may require us to incur significant expenses and, in some cases, to implement these new technologies globally, particularly with respect to the integration activities that are ongoing in connection with the Merger. If we cannot offer new technologies as quickly or effectively as our competitors, we could lose market share. We also could lose market share if our competitors develop more cost-effective technologies than we will offer or develop.

Limited protection of our intellectual property could harm our business, and we face the risk that our services or products may infringe upon the intellectual property rights of others.

We cannot guarantee that trade secret, trademark and copyright law protections are adequate to deter misappropriation of our intellectual property (including our software, which may become an increasingly important part of our business). Existing laws of some countries in which we provide services or products may offer only limited protection of our intellectual property rights. Redressing infringements may consume significant management time and financial resources. Also, we may be unable to detect the unauthorized use of our intellectual property and take the necessary steps to enforce our rights, which may have a material adverse impact on our business, financial condition or results of operations. We cannot be sure that our services and products, or the products of others that we offer to our clients, do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us or our clients. These claims may harm our reputation, result in financial liability and prevent us from offering some services or products.

Insurance may become more difficult or expensive to obtain.

The availability, terms and price of insurance are subject to many variables, including general insurance market conditions, loss experience in related industries and in the actuarial and benefits consulting industry, and the specific claims experience of an individual firm. We are subject to various regulatory requirements relating to insurance as well as client requirements. There can be no assurance that we will be able to obtain insurance at cost-effective rates or with reasonable retentions. Increases in the cost of insurance could affect our profitability and the unavailability of insurance to cover certain risks could have a material adverse effect on our financial condition or our ability to transact business in certain geographic areas, particularly in any specific period.

Towers Watson and its subsidiaries could encounter significant obstacles in securing adequate insurance coverage for errors and omissions liability risks on favorable or acceptable terms.

Towers Perrin and Watson Wyatt each historically obtained primary insurance for errors and omissions liability risks from a Vermont-regulated group captive insurance company known as Professional Consultants Insurance Company, Inc. (which we refer to as "PCIC"). The stockholders and insureds of PCIC were legacy Towers Perrin, legacy Watson Wyatt and Milliman, Inc. ("Milliman"). On January 1, 2010, the effective date of the Merger, Towers Watson became the owner of 72.8% of the stock of PCIC.

Towers Perrin and Watson Wyatt provided PCIC with notice of non-renewal of the respective PCIC policies of insurance that expired at 12:01 a.m. on July 1, 2010. PCIC provided a notice of non-renewal to Milliman and did not issue a policy of insurance to Milliman for the policy period starting July 1, 2010 or thereafter. PCIC continues to operate in Run-off in order to pay losses arising from claims reported by its insureds during the periods covered by previously issued policies of insurance.

Since July 1, 2010, we have obtained our primary insurance for errors and omissions liability risks from a Vermont-regulated wholly owned captive insurance company known as Stone Mountain Insurance Company ("Stone Mountain"). Stone Mountain has secured reinsurance for a portion of the Towers Watson risks it underwrites. Towers Watson has secured excess errors and omissions liability coverage above the coverage provided by Stone Mountain in amounts we consider to be prudent. Stone Mountain has issued a policy of insurance to us that is substantially similar in form to the policy of insurance issued by PCIC.

The combination of the formation of Stone Mountain, which results in Towers Watson and Stone Mountain bearing the first $25 million of loss per claim and in the aggregate above the $1 million per claim self-insured retention, and our controlling ownership interest in PCIC and the accompanying requirement that we consolidate PCIC's financial results into our financial results is likely to result in increased earnings volatility for us. In addition, the inability of Stone Mountain to secure reinsurance or our inability to secure excess errors and omissions professional liability coverage in the future could have a material adverse impact on our financial condition or our ability to transact

business in certain geographic areas, particularly in any specific period.
We have material pension liabilities that can fluctuate significantly.
We have material pension liabilities. The projected benefit obligation for our pension and other postretirement benefit plans at June 30, 2014 was $4.3 billion, of which $786.9 million represented unfunded and underfunded pension and postretirement

liabilities. Movements in the interest rate environment, inflation or changes in other assumptions that are used for the estimates of our benefit obligations and other factors could have a material effect on the level of liabilities in these plans at any given time. These pension plans have minimum funding requirements that may require material amounts of periodic additional funding. Cash required to fund pension plans may have to be diverted from other corporate initiatives.

Our Exchange Solutions business may be harmed if we lose our relationships with insurance carriers, fail to maintain good relationships with insurance carriers, become dependent upon a limited number of insurance carriers or fail to develop new carrier relationships.

Our Exchange Solutions business typically enters into contractual agency relationships with insurance carriers that are non-exclusive and terminable on short notice by either party for any reason. In many cases, insurance carriers also have the ability to amend the terms of our agreements unilaterally on short notice. Insurance carriers may be unwilling to allow us to sell their existing or new health insurance plans or may amend our agreements with them, for a variety of reasons, including for competitive or regulatory reasons or because of a reluctance to distribute their products through our exchange platform. Insurance carriers may decide to rely on their own internal distribution channels, including traditional in-house agents, carrier websites or other sales channels, or to market their own plans, and, in turn, could limit or prohibit us from marketing their plans. For example, in August 2011, one of Exchange Solutions' largest insurance carrier partners discontinued the indirect distribution of Medicare supplement policies through all of their distribution vendors. As a result, our new Medicare supplement enrollments shifted to other insurance carriers that pay us lower commission rates on average. Insurance carriers may also choose to exclude us from their most profitable or popular plans or may determine not to distribute insurance plans in individual markets in certain geographies or altogether. Additionally, if one of the insurance carriers with which we are associated violates the law or comes under scrutiny by the Centers for Medicare & Medicaid Services ("CMS"), CMS may impose sanctions on such carriers, resulting in a loss of supply of insurance plans that we are able to sell. The termination or amendment of our relationship with an insurance carrier could reduce the variety of health insurance plans we offer. We also could lose a source of, or be paid reduced commissions for, future sales and could lose renewal commissions for past sales. Our business could also be harmed if we fail to develop new carrier relationships or are unable to offer customers a wide variety of health insurance plans.

The private health insurance industry in the United States has experienced a substantial amount of consolidation over the past several years, resulting in a decrease in the number of insurance carriers. In the future, it may become necessary for us to offer insurance plans from a reduced number of insurance carriers or to derive a greater portion of our revenue from a more concentrated number of carriers as our business and the health insurance industry evolve. For example, in fiscal year 2014, the top five carriers accounted for an aggregate of approximately 73% of our commission revenue in our Retiree & Access Exchanges business. Each of these insurance carriers may terminate our agreements with them, and, in some cases, as a result of the termination we may lose our right to receive future commissions for policies we have sold. Should our dependence on a smaller number of insurance carriers increase, whether as a result of the termination of carrier relationships, further insurance carrier consolidation or otherwise, we may become more vulnerable to adverse changes in our relationships with our carriers, particularly in states where we offer health insurance plans from a relatively small number of carriers or where a small number of insurance carriers dominate the market. The termination, amendment or consolidation of our relationship with our insurance carriers could harm our business, results of operations and financial condition.

Changes and developments in the health insurance system in the United States could harm our Exchange Solutions business.

In 2010, the Federal government enacted significant reforms to healthcare legislation through the Patient Protection and Affordable Care Act, or PPACA, and the Healthcare and Education Reconciliation Act of 2010, or HCERA, which we refer to collectively as Healthcare Reform. Our Exchange Solutions business depends upon the private sector of the United States insurance system, its role in financing health care delivery, and insurance carriers' use of, and payment of commissions to, agents, brokers and other organizations to market and sell individual and family health insurance plans. Healthcare Reform contains provisions that have changed and will continue to change the industry in which we operate in substantial ways.

Many aspects of Healthcare Reform do not go into effect until 2014 and the required effective dates for other aspects of Healthcare Reform have been postponed until 2015, although certain provisions currently are effective, such as medical loss ratio requirements for individual, family and small business health insurance and a prohibition against using pre-existing health conditions as a reason to deny health coverage for children. In addition, state governments have adopted, and will continue to adopt, changes to their existing laws and regulations in light of Healthcare Reform and related regulations. Future postponements of or changes to Healthcare Reform may not be beneficial to us. Certain key members of Congress have expressed a desire to withhold the funding necessary to implement Healthcare Reform as well as the desire to replace or amend all or a portion of Healthcare Reform. Any partial or complete repeal or amendment or

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implementation difficulties, or uncertainty regarding such events, could increase our costs of compliance, prevent or delay future adoption of our exchange platform, and adversely impact our results of operations and financial condition. The implementation of Healthcare Reform could have negative effects on us, including:

- Increase our competition;
- Reduce or eliminate the need for health insurance agents and brokers or demand for the health insurance that we sell;
- Decrease the number of types of health insurance plans that we sell, as well as the number of insurance carriers offering such plans;
- Cause insurance carriers to change the benefits and/or premiums for the plans they sell;
- Cause insurance carriers to reduce the amount they pay for our services or change our relationship with them in other ways; or
- Materially restrict our call center operations.

Any of these effects could materially harm our business, results of operations and financial condition. For example, the manner in which the Federal government and the states implement health insurance exchanges and the process for receiving subsidies and cost-sharing credits could substantially increase our competition and member turnover and substantially reduce the number of individuals who purchase insurance through us. Various aspects of Healthcare Reform could cause insurance carriers to limit the type of health insurance plans we are able to sell and the geographies in which we are able to sell them. In addition, the U.S. Congress has been charged with finding spending cuts, and such cuts are expected to include Medicare. If cuts are made to Medicare, there may be substantial changes in the types of health insurance plans we are able to sell. Changes in the law could also cause insurance carriers to exit the business of selling insurance plans in a particular jurisdiction, to eliminate certain categories of products or to attempt to move members into new plans for which we receive lower commissions. If insurance carriers decide to limit our ability to sell their plans or determine not to sell individual health insurance plans altogether, our business, results of operations and financial condition would be materially harmed.

We may not be able to obtain financing on favorable terms or at all.

The maintenance and growth of our business depends on our access to capital, which will depend in large part on cash flow generated by our business and the availability of equity and debt financing. There can be no assurance that our operations will generate sufficient positive cash flow to finance all of our capital needs or that we will be able to obtain equity or debt financing on favorable terms or at all.

Our revolving credit facility and term loan contain a number of restrictive covenants that restrict our operations.

The Towers Watson $500 million revolving credit facility and $250 million term loan contain a number of customary restrictive covenants imposing operating and financial restrictions on Towers Watson, including restrictions that limit our ability to engage in acts that may be in our long-term best interests. These covenants include, among others, limitations (and in some cases, prohibitions) that, directly or indirectly, restrict our ability to:

- Incur liens or additional indebtedness (including guarantees or contingent obligations);
- Engage in mergers and other fundamental changes;
- Sell or otherwise dispose of property or assets;
- Pay dividends and other distributions; and
- Change the nature of our business.

The credit agreements also contain financial covenants that limit our interest expense and total debt relative to EBITDA.

The operating restrictions and financial covenants in our credit agreements do, and any future financing agreements may, limit our ability to finance future operations or capital needs or to engage in other business activities. Our ability to comply with any financial covenants could be materially affected by events beyond our control, and there can be no assurance that we will satisfy any such requirements. If we fail to comply with these covenants, we may need to seek waivers or amendments of such covenants, seek alternative or additional sources of financing or reduce our expenditures. We may be unable to obtain such waivers, amendments or alternative or additional financing at all, or on terms favorable to us.

The credit agreements specify several events of default, including non-payment, certain cross-defaults, certain bankruptcy events, covenant or representation breaches and certain changes in control. If an event of default occurs, the lenders under the credit agreements are expected to be able to elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. We may not be able to repay all amounts due under the credit agreements in the event these amounts are declared due upon an event of default.

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We rely on third parties to provide services and their failure to perform the services could harm our business.

As part of providing services to clients and managing our business, we rely on a number of third-party service providers. Our ability to perform effectively depends in part on the ability of these service providers to meet their obligations, as well as on our effective oversight of their performance. The quality of our services could suffer or we could be required to incur unanticipated costs if our third-party service providers do not perform as expected or their services are disrupted. This could have a material adverse effect on our business and results of operations.

We are a holding company and, therefore, may not be able to receive dividends or other distributions in needed amounts from our subsidiaries.

The Company is organized as a holding company, a legal entity separate and distinct from our operating subsidiaries. As a holding company without significant operations of our own, we are dependent upon dividends and other payments from our operating subsidiaries to meet our obligations for paying principal and interest on outstanding debt obligations, for paying dividends to stockholders and for corporate expenses. In the event our operating subsidiaries are unable to pay dividends and other payments to the Company, we may not be able to service debt, pay obligations or pay dividends on common stock.

Further, the Company derives a significant portion of its revenue and operating profit from operating subsidiaries located outside the U.S. Since the majority of financing obligations as well as dividends to stockholders are made from the U.S., it is important to be able to access cash generated outside the U.S. Funds from the Company's operating subsidiaries outside of the U.S. are periodically repatriated to the U.S. via shareholder distributions and repayment of intercompany financing. A number of factors may arise that could limit our ability to repatriate funds or make repatriation cost prohibitive, including, but not limited to, foreign exchange rates and tax-related costs.

In the event we are unable to generate cash from our operating subsidiaries for any of the reasons discussed above, our overall liquidity could deteriorate.

Changes in our accounting estimates and assumptions could negatively affect our financial position and results of operations.

We prepare our financial statements in accordance with U.S. GAAP. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our financial statements. We are also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions including those relating to revenue recognition, valuation of billed and unbilled receivables from clients, discretionary compensation, incurred but not reported liabilities, restructuring, pensions, goodwill and other intangible assets, contingencies, share-based payments and income taxes. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Actual results could differ from these estimates, and changes in accounting standards could have an adverse impact on our future financial position and results of operations.

Our accounting for our long-term outsourcing contracts requires using estimates and projections that may change over time. These changes may have a significant or adverse effect on our reported results of operations or financial condition.

Projecting contract profitability on our long-term outsourcing contracts requires us to make assumptions and estimates of future contract results. All estimates are inherently uncertain and subject to change. In an effort to maintain appropriate estimates, we review each of our long-term outsourcing contracts, the related contract reserves and intangible assets on a regular basis. If we determine that we need to change our estimates for a contract, we will change the estimates in the period in which the determination is made. These assumptions and estimates involve the exercise of judgment and discretion, which may also evolve over time in light of operational experience, regulatory direction, developments in accounting principles and other factors. Further, changes in assumptions, estimates or developments in the business or the application of accounting principles related to long-term outsourcing contracts may change our initial estimates of future contract results. Application of, and changes in, assumptions, estimates and policies may adversely affect our financial results.

The stock price of Class A common stock may be volatile.

The stock price of the Class A common stock may in the future be volatile and subject to wide fluctuations. In addition, the trading volume of the Class A common stock may in the future fluctuate and cause significant price variations to occur. Some of the factors that could cause fluctuations in the stock price or trading volume of the Class A common stock include:

- General market and economic conditions, including market conditions in the human capital and risk and financial management consulting industries and regulatory developments in the United States, foreign countries or both;

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- Actual or expected variations in our quarterly results of operations and in the quarterly results of operations of companies perceived to be similar to us;
- Differences between actual results of operations and those expected by investors and analysts;
- Changes in recommendations by securities analysts;
- Operations and stock performance of competitors;
- Accounting charges, including charges relating to the impairment of goodwill or other intangible assets;
- Significant acquisitions, dispositions or strategic alliances by us or by competitors;
- Sales of the Class A common stock, including sales by our directors and officers or significant investors;
- Incurrence of additional debt;
- Dilutive issuance of equity;
- Recruitment or departure of key personnel;
- Loss or gain of key clients;
- Litigation involving us, our general industry or both; and
- Changes in reserves for professional liability claims.

There can be no assurance that the stock price of the Class A common stock will not fluctuate or decline significantly in the future. In addition, the stock market in general can experience considerable price and volume fluctuations that may be unrelated to our performance.

We will only pay dividends if and when declared by our board of directors.

Any determination to pay dividends in the future is at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law, rule or regulation, business and investment strategy, and other factors that our board of directors deems relevant. If we do not pay dividends, then the return on an investment in our common stock will depend entirely upon any future appreciation in its stock price. There is no guarantee that our common stock will appreciate in value or maintain its value.

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

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

- Authorize the issuance of preferred stock without fixed characteristics, which could be issued by our board of directors pursuant to a stockholder rights plan and deter a takeover attempt;
- Provide that only the Chief Executive Officer, President or our board of directors may call a special meeting of stockholders;
- Limit business at special stockholder meetings to such business as is brought before the meeting by or at the direction of our board of directors;
- Prohibit stockholder action by written consent, and require all stockholder actions to be taken at an annual or special meeting of the stockholders;
- Provide our board of directors with exclusive power to change the number of directors;
- Provide that all vacancies on our board of directors, including new directorships, may only be filled by a resolution adopted by a majority of the directors then in office;
- Do not opt out of Section 203 of the Delaware General Corporation Law, which prohibits business combinations between a corporation and any interested stockholder for a period of three years following the time that such stockholder became an interested stockholder;
- Require a supermajority vote for the stockholders to amend the bylaws; and
- Prohibit any stockholder from presenting a proposal or director nomination at an annual stockholders’ meeting unless such stockholder provides us with sufficient advance notice.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

As of June 30, 2014, we operated offices in more than 114 markets and 37 countries throughout the Americas, Asia-Pacific, Europe, South Africa and the Middle East. Operations of each of our segments are carried out in leased offices under operating leases that typically do not exceed 10 years in length. We do not anticipate difficulty in meeting our space needs at lease expiration.

The fixed assets owned by us represented approximately 7% of total assets as of June 30, 2014, and consisted primarily of computer equipment and software, office furniture and leasehold improvements.

Item 3. Legal Proceedings.

From time to time, we are a party to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. The disclosure called for by Item 3 regarding our legal proceedings is incorporated by reference herein from Note 11, "Debt, Commitments and Contingent Liabilities", of the notes to the consolidated financial statements in this Annual Report.

Item 4. Mine Safety Disclosures.

Not applicable.

Part II

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

Market Information

Towers Watson & Co. Class A common stock is currently traded on the New York Stock Exchange and NASDAQ under the symbol TW. The following table sets forth the high and low sales prices per share of our Class A common stock for the periods indicated.

	High	Low
Fiscal Year 2013		
First quarter (July 1, 2012 - September 30, 2012)	$60.98	$51.68
Second quarter (October 1, 2012 - December 31, 2012)	$58.63	$50.01
Third quarter (January 1, 2013 - March 31, 2013)	$69.32	$57.02
Fourth quarter (April 1, 2013 - June 30, 2013)	$81.95	$68.02
Fiscal Year 2014		
First quarter (July 1, 2013 - September 30, 2013)	$108.16	$80.99
Second quarter (October 1, 2013 - December 31, 2013)	$127.61	$107.09
Third quarter (January 1, 2014 - March 31, 2014)	$129.61	$105.01
Fourth quarter (April 1, 2014 - June 30, 2014)	$117.76	$102.30

Holders

As of August 6, 2014, there were approximately 390 registered stockholders of our Class A common stock.

Dividends

Fiscal Year 2014 Dividends - During May 2014, our board of directors approved the payment of a quarterly cash dividend in the amount of $0.14 per share which was paid in July 2014. Additional quarterly cash dividends were declared in the amount of $0.14 per share in November 2013 and February 2014, which were paid in January 2014 and April 2014, respectively.

Fiscal Year 2013 Dividends - During November 2012, our board of directors approved the payment of a quarterly cash dividend in the amount of $0.115 per share, which was paid in December 2012. Additionally, the board of directors declared an acceleration for calendar year 2013 of dividends otherwise payable in April 2013, July 2013 and October 2013. The $0.345 per share accelerated dividend was paid in December 2012. Since all dividends that would have been otherwise payable in calendar year 2013 were paid in December 2012, there were no dividend payments for the six months ended June 30, 2013.

Total dividends paid in fiscal year 2014 and in fiscal year 2013 were $21.1 million and $48.2 million, respectively. The amount in fiscal years 2014 and 2013 includes $1.6 million and $1.3 million, respectively, of dividends paid by our consolidated, majority-owned subsidiary, Fifth Quadrant, to its third-party shareholders.

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The continued payment of cash dividends in the future is at the discretion of our board of directors and depends on numerous factors, including, without limitation, our net earnings, financial condition, availability of capital, debt covenant limitations and our other business needs, including those of our subsidiaries and affiliates. Additionally, our Revolving Credit Facility and Term Loan require us to observe certain covenants, including requirements for minimum net worth, which potentially act to restrict dividends.

Performance Graph

The graphs below depict total cumulative stockholder return on $100 invested on June 30, 2009 and January 4, 2010, respectively, in (i) Watson Wyatt Worldwide Inc. common stock and Towers Watson & Co. common stock, (ii) the New York Stock Exchange Composite Index; and (iii) a peer group index comprised of the common stock of Aon PLC and Marsh & McLennan Companies and certain publicly traded companies within the management consulting services standard industrial classification code having a reported market capitalization exceeding $150 million. The graphs assume reinvestment of dividends.

*$100 invested on 6/30/09 in stock or index, including reinvestment of dividends.

	6/09	12/09
Watson Wyatt Worldwide, Inc.	$100.00	$127.04
NYSE Composite	$100.00	$123.03
Peer Group	$100.00	$113.81

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*$100 invested on 1/4/10 in stock or 12/31/09 in index, including reinvestment of dividends. Fiscal year ending June 30.

	1/4/10	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14
Towers Watson & Co.	$100.00	$77.96	$132.60	$121.67	$168.16	$214.70
NYSE Composite	$100.00	$91.14	$119.85	$115.40	$139.10	$170.75
Peer Group	$100.00	$96.64	$143.04	$143.95	$183.97	$229.59

The two Performance Graphs respectively show (i) legacy Watson Wyatt's stock performance from June 30, 2009 through December 31, 2009, the day prior to the closing date of the Merger and (ii) Towers Watson's stock performance from January 4, 2010 through June 30, 2014.

Companies included in the peer group index in both graphs include: Accenture PLC, Aon PLC, FTI Consulting Inc., Huron Consulting Group Inc.; Marsh & McLennan Companies; Maximus Inc.; Navigant Consulting Inc.; and The Corporate Executive Board Company.

Issuer Purchases of Equity Securities

The Towers Watson Board has authorized the Company to periodically repurchase shares of common stock under two distinct sets of authority.

The purpose of the first authority is to offset the dilutive effect of issuance of shares under the Company's equity based compensation plans ("Dilution"). During the third quarter of fiscal year 2010, our Board of Directors approved the repurchase of up to 750,000 shares of our Class A Common Stock to offset Dilution. During the first quarter of fiscal 2012, the Board of Directors approved the repurchase of an additional 1,000,000 shares of Class A Common Stock to offset Dilution. As of June 30, 2014, 427,189 shares remained available for repurchase under this authority.

The purpose of the second authority is to purchase shares of the Company's Class A Common Stock outside of the anti-dilutive authorization. During the third quarter of fiscal 2012, the Board of Directors approved the repurchase of $150 million of the Company's Class A Common Stock. As of June 30, 2014, $70.5 million remained available for repurchase of shares under this authority.

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There are no expiration dates for any of these repurchase plans or programs. The table below presents specified information about the Company's Class A Common Stock repurchases in the fourth quarter of fiscal year 2014 and the Company's repurchase plans.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
April 1, 2014 through April 30, 2014	90,300	$110.57	90,300	1,179,529
May 1, 2014 through May 31, 2014	76,200	$109.31	76,200	1,103,329
June 1, 2014 through June 30, 2014	-	-	-	1,103,329
	166,500	$109.99	166,500	1,103,329

(a) All shares repurchased in the fourth quarter of fiscal year 2014 were repurchased under the $150 million authority approved by the Board of Directors.

(b) The maximum number of shares that may yet be purchased under our two stock repurchase plans is 1,103,329. An estimate of the maximum number of shares under the repurchase of up to $150 million was determined using the closing price of our stock on June 30, 2014, the last trading day of our fiscal year, of $104.23.

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Item 6. Selected Consolidated Financial Data

The following table sets forth selected consolidated financial data of Towers Watson for each of the years in the five-year period ended June 30, 2014. The selected consolidated financial data as of and for each of the years in the five year period ended June 30, 2014 were derived from our audited consolidated financial statements of Towers Watson. Prior period amounts have been restated to reflect discontinued operations in all periods presented. The consolidated financial data should be read in conjunction with our consolidated financial statements and notes thereto.

	Year Ended June 30,				
Statement of Operations Data:	2014	2013	2012	2011	2010 (a)
(amounts are in thousands, except per share data)					
Revenue	$3,481,912	$3,432,515	$3,257,898	$3,108,706	$2,313,246
Costs of providing services:					
Salaries and employee benefits	2,106,431	2,085,188	1,978,653	1,951,854	1,494,888
Professional and subcontracted services	249,775	267,715	283,783	245,076	162,988
Occupancy	137,883	139,942	136,557	139,211	107,664
General and administrative expenses	317,448	303,472	259,064	256,581	207,959
Depreciation and amortization	174,818	173,040	150,006	127,602	99,720
Transaction and integration expenses	1,049	30,753	86,130	100,535	87,644
	2,987,404	3,000,110	2,894,193	2,820,859	2,160,863
Income from operations	494,508	432,405	363,705	287,847	152,383
(Loss) / income from affiliates	—	(56)	262	1,081	(1,274)
Interest income	2,803	2,400	3,860	5,523	2,950
Interest expense	(9,031)	(12,676)	(9,156)	(12,475)	(7,508)
Other non-operating income	10,226	6,928	11,350	19,349	11,304
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	498,506	429,001	370,021	301,325	157,855
Provision for income taxes	138,249	136,991	132,443	121,480	46,982
INCOME FROM CONTINUING OPERATIONS	360,257	292,010	237,578	179,845	110,873
Income from discontinued operations, net of income tax of $39,202, $15,561, $13,313, $8,436 and $3,925, respectively	6,057	23,642	22,898	16,880	8,137
NET INCOME BEFORE NON-CONTROLLING INTERESTS	366,314	315,652	260,476	196,725	119,010
Income / (loss) attributable to non-controlling interests	7,014	(3,160)	263	2,288	(1,587)
NET INCOME (attributable to common stockholders)	$359,300	$318,812	$260,213	$194,437	$120,597
Basic earnings per share (attributable to common stockholders):					
Net income from continuing operations	$5.00	$4.15	$3.28	$2.39	$1.90
Net income from discontinued operations	0.09	0.33	0.32	0.23	0.14
Net income - basic	$5.09	$4.48	$3.60	$2.62	$2.04
Diluted earnings per share (attributable to common stockholders):					
Net income from continuing operations	$4.98	$4.13	$3.27	$2.39	$1.89
Net income from discontinued operations	0.08	0.33	0.32	0.23	0.14
Net income - diluted	$5.06	$4.46	$3.59	$2.62	$2.03

Dividends declared per share	$0.42	$0.46	$0.40	$0.30	$0.30
Weighted average shares of common stock (000):					
Basic	70,587	71,150	72,221	74,075	59,257
Diluted	70,955	71,555	72,542	74,139	59,372

(a) Includes the effect of the Merger as of January 1, 2010

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	As of June 30,				
Balance Sheet and Other Data:	2014	2013	2012	2011	2010 (a)
(amounts are in thousands)					
Cash and cash equivalents	$727,849	$532,805	$478,179	$528,923	$435,927
Fiduciary assets	12,010	148,414	171,406	153,154	164,539
Working capital	773,899	599,348	656,415	472,357	479,521
Goodwill and intangible assets	2,970,351	2,906,693	3,021,403	2,638,496	2,400,782
Total assets	5,627,786	5,332,077	5,356,978	5,098,950	4,573,617
Revolving credit facility, term loan and notes	225,000	250,000	458,000	99,341	201,967
Dividends declared	30,780	42,027	25,752	22,846	17,661
Stockholders' equity	3,096,908	2,724,494	2,432,520	2,591,527	1,955,607
Shares outstanding	70,339	70,716	71,702	73,601	74,204

(a) Includes the effect of the Merger as of January 1, 2010

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

Executive Overview

General

We are a global consulting firm focusing on providing human capital and financial consulting services.

At Towers Watson, we bring together professionals from around the world — experts in their areas of specialty — to deliver the perspectives that give organizations a clear path forward. We do this by working with clients to develop solutions in the areas of employee benefits, risk and capital management, and talent and rewards.

We help our clients enhance business performance by improving their ability to attract, retain and motivate qualified employees. We focus on delivering consulting services that help organizations anticipate, identify and capitalize on emerging opportunities in human capital management. We also provide independent financial advice regarding all aspects of life insurance and general insurance, as well as investment advice to help our clients develop disciplined and efficient strategies to meet their investment goals. We operate the largest private Medicare exchange in the United States. Through this exchange, we help our clients move to a more sustainable economic model by capping and controlling the costs associated with retiree healthcare benefits.

As leading economies worldwide become more service-oriented, human resources and financial management have become increasingly important to companies and other organizations. The heightened competition for skilled employees, unprecedented changes in workforce demographics, regulatory changes related to compensation and retiree benefits, and rising employee-related costs have increased the importance of effective human capital management. Insurance and investment decisions have become increasingly complex and important in the face of changing economies and dynamic financial markets. Towers Watson helps its clients address these issues by combining expertise in human capital and financial management with consulting and technology solutions, to improve the design and implementation of various human resources and financial programs, including compensation, retirement, health care, and insurance and investment plans.

The human capital and financial consulting services industries, although highly fragmented, are highly competitive. It is composed of major human capital consulting firms, specialty firms, consulting arms of accounting firms and information technology consulting firms.

In the short term, our revenue is driven by many factors, including the general state of the global economy and the resulting level of discretionary spending, the continuing regulatory compliance requirements of our clients, changes in investment markets, the ability of our consultants to attract new clients and provide additional services to existing clients, the impact of new regulations in the legal and accounting fields, and the impact of our ongoing cost-saving initiatives. In the long term, we expect that our financial results will depend in large part upon how well we succeed in deepening our existing client relationships through thought leadership and a focus on developing cross-business solutions, actively pursuing new clients in our target markets, cross selling and making strategic acquisitions. We believe that the highly fragmented industry in which we operate offers us growth opportunities, because we provide a unique business combination of benefits and human capital consulting, as well as risk and capital management and strategic technology solutions.

Segments

We provide services in four business segments: Benefits, Risk and Financial Services, Talent and Rewards, and Exchange Solutions.

Benefits Segment. The Benefits segment is our largest and most established segment. This segment has grown through business combinations as well as strong organic growth. It helps clients create and manage cost-effective benefits programs that help them attract, retain and motivate a talented workforce.

The Benefits segment provides benefits consulting and administration services through four lines of business:

- Retirement;
- Health and Group Benefits;
- Technology and Administration Solutions; and
- International Consulting.

Retirement supports organizations worldwide in designing, managing, administering and communicating all types of retirement plans. Health and Group Benefits provides advice on the strategy, design, financing, delivery, ongoing plan management and communication of health and group benefit programs. Through our Technology and Administration Solutions line of business,

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we deliver cost-effective benefit outsourcing solutions. The International Consulting Group provides expertise in dealing with international human capital management and related benefits and compensation advice for corporate headquarters and their subsidiaries. A significant portion of the revenue in this segment is from recurring work, driven in large part by the heavily regulated nature of employee benefits plans and our clients' annual needs for these services. For the fiscal year ended June 30, 2014, the Benefits segment contributed 59% of our segment revenue. For the same period, approximately 44% of the Benefits segment's revenue originates from outside the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations.

Risk and Financial Services Segment. Within the Risk and Financial Services segment, our second largest segment, we have two lines of business:

- Risk Consulting and Software ("RCS"); and
- Investment.

The Risk and Financial Services segment, exclusive of our Reinsurance and Property and Casualty Insurance Brokerage business ("Brokerage"), which was sold in November 2013, accounted for 19% of our total segment revenue for the fiscal year ended June 30, 2014. Approximately 73% of the segment's revenue originates from outside the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. The segment has a strong base of recurring revenue, driven by long-term client relationships in retainer investment consulting assignments, software solutions, consulting services on financial reporting, and actuarial opinions on property/casualty loss reserves. Some of these relationships have been in place for more than 20 years. A portion of the revenue is related to project work, which is more heavily dependent on the overall level of discretionary spending by clients. This work is favorably influenced by strong client relationships, particularly related to mergers and acquisitions consulting. Major revenue growth drivers include changes in regulations, the level of merger and acquisition activity in the insurance industry, and growth in pension and other asset pools. In the first quarter of fiscal year 2014, we entered into an agreement to sell our Brokerage business to JLT and we closed the transaction in our second quarter. We have reclassified the operating results of Brokerage as discontinued operations in our consolidated statements of operations for fiscal years 2014, 2013, and 2012.

Talent and Rewards Segment. Our third largest segment, Talent and Rewards, is focused on three lines of business:

- Executive Compensation;
- Rewards, Talent and Communication; and
- Data, Surveys and Technology.

The Talent and Rewards segment accounted for approximately 17% of our total segment revenue for the fiscal year ended June 30, 2014. Few of the segment's projects have a recurring element. As a result, this segment is most sensitive to changes in discretionary spending due to cyclical economic fluctuations. Approximately 47% of the segment's revenue originates from outside the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. Revenue for Talent and Rewards consulting has increasing seasonality, with a meaningful amount of heightened activity in the second half of the calendar year during the annual compensation, benefits and survey cycles. Major revenue growth drivers in this group include demand for workforce productivity improvements and labor cost reductions, focus on high performance culture, globalization of the workforce, changes in regulations and benefits programs, merger and acquisition activity, the demand for universal metrics related to workforce engagement and the opportunity to leverage technology to manage annual talent management and reward processes.

Exchange Solutions Segment. Our fourth largest segment, Exchange Solutions, has two lines of business:

- Retiree & Access Exchanges; and
- Liazon.

We established our fourth segment, Exchange Solutions, when we acquired Extend Health on May 29, 2012. The Exchange Solutions segment accounted for approximately 5% of our total segment revenue for the fiscal year ended June 30, 2014. In November 2013, the segment was expanded through the acquisition of Liazon Corporation, a leader in developing and delivering private benefit exchanges for active employees.

Our OneExchange Retiree solution enables employers to transition their retirees to individual, defined contribution health plans at an annual cost that the employer controls — versus group-based, defined benefit health plans, which have uncertain annual costs. By moving to a defined contribution approach, our clients can provide their retirees with the same or better health care benefits at a lower overall cost. The Liazon solution complements our existing OneExchange Active offering by helping organizations of all sizes deliver self- and fully-insured benefits to employees in new and cost-effective ways. Most Retiree & Access revenue comes from the commissions we receive from insurance carriers for enrolling individuals into their health plans. This revenue generally increases as the number of enrolled members grows. Revenues for Liazon are derived from a

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combination of monthly administration fees and carrier commissions and overrides. Exchange Solutions experiences seasonality due to the timing of the commissions we receive from our carriers and the costs incurred to enroll members. Most of our revenue is recognized ratably over the term of the policy, whereas the costs are incurred during our corporate clients' open enrollment period, typically in our fiscal year first and second quarters. We hire additional seasonal staff to supplement our full-time service center associates, and we expect to incur higher costs during our client's busiest enrollment periods.

On January 23, 2014, Towers Watson announced plans to expand the Exchange Solutions segment by combining operations and associates primarily from portions of the TAS North America line of business with the Retiree & Access Exchanges and Liazon lines of business to better align their respective strategic goals. The restructuring took effect on July 1, 2014. We are still evaluating the impact of this restructuring to our operating segments and the related disclosures.

Financial Statement Overview

Towers Watson's fiscal year ends June 30.

Shown below are Towers Watson's top five geographies based on percentage of consolidated revenue. For the year ended June 30, 2014, the information provided excludes the Brokerage business.

	Fiscal Year					
Geographic Region	2014		2013		2012	
United States	53	%	53	%	48	%
United Kingdom	20		22		23	
Canada	6		6		6	
Germany	5		4		5	
Netherlands	2		2		3	

We derive the majority of our revenue from fees for consulting services. Approximately 60% of these arrangements are billed at standard hourly rates and expense reimbursement, which we refer to as time and expense basis. The remaining 40% of these arrangements are billed on a fixed-fee basis. Clients are typically invoiced on a monthly basis with revenue generally recognized as services are performed. No single client accounted for more than 1% of our consolidated revenues for any of our most recent three fiscal years.

Our most significant expense is compensation to associates, which typically comprises approximately 70% of total costs of providing services. We compensate our directors, executive officers and other select associates with incentive non-cash stock-based compensation awards which generally vest equally over three years. We use a graded vesting expense methodology that assumes the equity awards are issued to participants in equal amounts of shares that vest over one year, two years and three years, giving the effect of more expense in the first year than the second and third. Our equity awards are settled in Towers Watson Class A common stock.

Salaries and employee benefits are comprised of wages paid to associates, related taxes, severance, benefit expenses such as pension, medical and insurance costs, and fiscal year-end incentive bonuses.

Professional and subcontracted services represent fees paid to external service providers for employment, marketing and other services. For the three most recent fiscal years, approximately 30% to 40% of the professional and subcontracted services were directly incurred on behalf of clients and were reimbursed by them, with such reimbursements being included in revenue. For the fiscal year ended June 30, 2014 for Towers Watson, approximately 35% of professional and subcontracted services represent these reimbursable services.

Occupancy includes expenses for rent and utilities.

General and administrative expenses include legal, marketing, supplies, telephone and networking costs to operate office locations as well as insurance, including premiums on excess insurance and losses on professional liability claims, non-client-reimbursed travel by associates, publications and professional development. This line item also includes miscellaneous expenses, including gains and losses on foreign currency transactions.

Depreciation and amortization includes the depreciation of fixed assets and amortization of intangible assets and internally-developed software.

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Transaction and integration expenses include fees and charges associated with the Merger and with our other acquisitions. Transaction and integration expenses principally consist of investment banker fees, regulatory filing expenses, integration consultants, as well as legal, accounting, marketing, and information technology integration expenses.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. The areas that we believe are critical accounting policies include revenue recognition, valuation of billed and unbilled receivables from clients, discretionary compensation, income taxes, pension assumptions, incurred but not reported claims, and goodwill and intangible assets. The critical accounting policies discussed below involve making difficult, subjective or complex accounting estimates that could have a material effect on our financial condition and results of operations. These critical accounting policies require us to make assumptions about matters that are highly uncertain at the time of the estimate or assumption. Different estimates that we could have used, or changes in estimates that are reasonably likely to occur, may have a material effect on our financial condition and results of operations.

Revenue Recognition

We recognize revenue when it is earned and realized or realizable as demonstrated by persuasive evidence of an arrangement with a client, a fixed or determinable price, services have been rendered or products delivered or available for use, and collectability is reasonably assured.

The majority of our revenue consists of fees earned from providing consulting services. We recognize revenue from these consulting engagements when hours are worked, either on a time-and-expense basis or on a fixed-fee basis, depending on the terms and conditions defined at the inception of an engagement with a client. We have engagement letters with our clients that specify the terms and conditions upon which the engagements are based. These terms and conditions can only be changed upon agreement by both parties. Individual associates' billing rates are principally based on a multiple of salary and compensation costs.

Revenue for fixed-fee arrangements is based upon the proportional performance method. We typically have three types of fixed-fee arrangements: annual recurring projects, projects of a short duration, and non-recurring system projects. Annual recurring projects and the projects of short duration are typically straightforward and highly predictable in nature. As a result, the project manager and financial staff are able to identify, as the project status is reviewed and bills are prepared monthly, the occasions when cost overruns could lead to the recording of a loss accrual.

We have non-recurring system projects that are longer in duration and subject to more changes in scope as the project progresses. We evaluate at least quarterly, and more often as needed, project managers' estimates-to-complete to assure that the projects' current statuses are accounted for properly. Certain software contracts generally provide that if the client terminates a contract, we are entitled to payment for services performed through termination.

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

We have developed various software programs and technologies that we provide to clients in connection with consulting services. In most instances, such software is hosted and maintained by us and ownership of the technology and rights to the related code remain with us. We defer costs for software developed to be utilized in providing services to a client, but for which the client does not have the contractual right to take possession, during the implementation stage. We recognize these deferred costs from the go live date, signaling the end of the implementation stage, until the end of the initial term of the contract with the client. We determined that the system implementation and customized ongoing administrative services are one combined service. Revenue is recognized over the service period, after the go live date, in proportion to the services performed. As a result, we do not recognize revenue during the implementation phase of an engagement.

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We deliver software under arrangements with clients that take possession of our software. The maintenance associated with the initial software fees is a fixed percentage which enables us to determine the stand-alone value of the delivered software separate from the maintenance. We recognize the initial software fees as software is delivered to the client and we recognize the maintenance ratably over the contract period based on each element's relative fair value. For software arrangements in which initial fees are received in connection with mandatory maintenance for the initial software license to remain active, we determined that the initial maintenance period is substantive. Therefore, we recognize the fees for the initial license and maintenance bundle ratably over the initial contract term, which is generally one year. Each subsequent renewal fee is recognized ratably over the contractually stated renewal period.

We collect, analyze and compile data in the form of surveys for our clients who have the option of participating in the survey. The surveys are published online via a web tool which provides simplistic functionality. We have determined that the web tool is inconsequential to the overall arrangement. We record the survey revenue when the results are delivered online and made available to our clients that have a contractual right to the data. If the data is updated more frequently than annually, we recognize the survey revenue ratably over the contractually stated period.

Prior to the sale of our reinsurance brokerage business in November 2013 (see Note 2 for further discussion), in our capacity as a reinsurance broker, we collected premiums from our reinsurance clients and, after deducting our brokerage commissions, we remitted the premiums to the respective reinsurance underwriters on behalf of our reinsurance clients. In general, compensation for reinsurance brokerage services was earned on a commission basis. Commissions were calculated as a percentage of a reinsurance premium as stipulated in the reinsurance contracts with our clients and reinsurers. We recognized brokerage services revenue on the later of the contract's inception or billing date as fees became known or as our services were provided for premium processing. In addition, we held cash needed to settle amounts due reinsurers or our reinsurance clients, net of any commissions due to us, pending remittance to the ultimate recipient. We were permitted to invest these funds in high quality liquid instruments.

As an insurance exchange, we generate revenue from commission paid to us by insurance carriers for health insurance policies issued through our enrollment services. Under our contracts with insurance carriers, once an application has been accepted by an insurance carrier and a policy has been issued, we will receive commission payments from the policy effective date until the end of the annual policy period as long as the policy is not cancelled by the insured or the carrier. We defer upfront fees and recognize revenue ratably from the policy effective date over the policy period, generally one year. The commission fee per policy placed with a carrier could vary by whether the insured was previously a Medicare participant and whether the policy is in its first or subsequent year. Due to the uncertainty of the commission fee per policy, we do not recognize revenue until the policy is accepted by the carrier, the policy is effective and a communication is received from the carrier of the fee per insured. As the commission fee is cancellable on a pro rata basis related to the underlying insurance policy which we are not party to, we recognize the commission fee ratably over the policy period. Our carrier contracts entitle us to receive commission fees per policy for the life of the policy unless limited by legislation or cancelled by the carrier or insured. As a result, the majority of the revenue is recurring in nature and grows in direct proportion to the number of new policies added each year.

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

Valuation of Billed and Unbilled Receivables from Clients

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

Discretionary Compensation

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

An estimated annual bonus amount is initially developed at the beginning of each fiscal year in conjunction with our budgeting process. Estimated annual operating performance is reviewed quarterly and the discretionary annual bonus amount is then adjusted, if necessary, by management to reflect changes in the forecast of pre-bonus profitability for the year.

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Income Taxes

We account for income taxes in accordance with Accounting Standards Codification ("ASC") 740, Income Taxes, which prescribes the use of the asset and liability approach to the recognition of deferred tax assets and liabilities related to the expected future tax consequences of events that have been recognized in our financial statements or income tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets when it is more likely than not that a portion or all of a given deferred tax asset will not be realized. In accordance with ASC 740, income tax expense includes (i) deferred tax expense, which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances and (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a taxing authority plus amounts accrued for expected tax contingencies (including both tax and interest). ASC 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those positions to be recognized in the financial statements. We continually review tax laws, regulations and related guidance in order to properly record any uncertain tax positions. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits.

Variable Interest Entities

In connection with the pooled investment fund solutions we provide, we may enter into arrangements that need to be examined to determine whether they fall under the variable interest entity (VIE) accounting guidance. Management needs to exercise significant judgment to determine if these entities are VIEs and, if so, whether such VIE relationships require the Company to consolidate these entities. This process involves management's understanding of the arrangements to determine whether the entity is considered a VIE under the accounting guidance. This evaluation of whether the entity is considered a VIE under the accounting guidance involves judging whether the various structures qualify as investment companies under the deferred provisions of ASC 810-10-65-2 (the "Deferral") in applying the guidance in the VIE subsections of the Deferral. We use a variety of complex estimating processes that may consider both qualitative and quantitative factors, and may involve the use of assumptions (where necessary) about the business environment in which an entity operates; the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders; the VIE's capital structure; the terms between the VIE and its variable interest holders and other parties involved with the VIE (and when necessary, to determine who is most closely associated with the VIE); identification of related-party relationships and de-facto agency relationships; which variable interest holder has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; analysis and calculation of its expected losses and its expected residual returns in determining which variable interest holder has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The quantitative processes involve estimating the expected future cash flows and performance of the entity, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties having variable interests. Where an entity is determined to be a VIE, our interests are compared to those of the other parties involved with the VIE to identify the party that is the primary beneficiary, and thus should consolidate the entity. In addition to the areas of judgment mentioned above, a significant amount of judgment is exercised in interpreting the provisions of the accounting guidance and applying them to our specific transactions. Management reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. Management reassesses its determination of whether it is the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

Incurred But Not Reported (IBNR) Claims

We accrue for IBNR professional liability claims that are probable and estimable. We use actuarial assumptions to estimate and record a liability for IBNR professional liability claims. Our estimated IBNR liability is based on long-term trends and averages, and considers a number of factors, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, and legislation and economic decisions. Our estimated IBNR liability does not include actuarial projections for the effect of claims data for large cases due to the insufficiency of actuarial experience with such cases. Our estimated IBNR liability will fluctuate if claims experience changes over time. As of

June 30, 2014, we had a $173.8 million IBNR liability, net of estimated IBNR recoverable receivables of our captive insurance companies. This net liability decreased from $174.3 million as of June 30, 2013. To the extent our captive insurance companies, PCIC and SMIC, expect losses to be covered by a third party, they record a receivable for the amount expected to be recovered. This receivable is classified in other current or other noncurrent assets in our consolidated balance sheet.

Pension Assumptions

Towers Watson sponsors both qualified and non-qualified defined benefit pension plans and other post-retirement benefit plan (“OPEB”) plans in North America and Europe. As of June 30, 2014, these funded and unfunded plans represented 98 percent of Towers Watson’s pension and OPEB obligations and are disclosed herein. Towers Watson also sponsors funded and unfunded

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defined benefit pension plans in certain other countries, representing an additional $98.0 million in projected benefit obligations, $73.3 million in assets and a net liability of $24.8 million.

North America

United States – Beginning January 1, 2012, all associates, including named executive officers, accrue qualified and non-qualified benefits under a new stable value pension design. Prior to this date, associates hired prior to December 31, 2010 earned benefits under their legacy plan formulas, which were frozen on December 31, 2011. The non-qualified plan is unfunded. Retiree medical benefits provided under our U.S. postretirement benefit plans were closed to new hires effective January 1, 2011. Life insurance benefits under the same plans were frozen with respect to service, eligibility and amounts as of January 1, 2012 for active associates.

Canada – Effective on January 1, 2011, associates hired on or after January 1, 2011 and effective on January 1, 2012 associates hired prior to January 1, 2011, accrue qualified and non-qualified benefits based on a career average benefit formula. Additionally, participants can choose to make voluntary contributions to purchase enhancements to their pension. Prior to the January 1, 2011, associates earned benefits under their legacy plan formulas.

The non-qualified plans in North America provide for the additional pension benefits that would be covered under the qualified plan in the respective country were it not for statutory maximums. The non-qualified plans are unfunded.

Europe

United Kingdom – For associates previously participating under the legacy Watson Wyatt defined benefit plan, benefits accrue based on the number of years of service and the associate's average compensation during the associate's term of service since January 2008 (prior to this date, benefits accrued under a different formula). Benefit accruals earned under the legacy Towers Perrin defined benefit plan were frozen on March 31, 2008, and the plan predominantly provides lump sum benefits. All associates not earning benefits under the legacy Watson Wyatt defined benefit component of the plan accrue benefits under a defined contribution component.

Germany – Effective January 1, 2011, all new associates participate in a defined contribution plan. Associates hired prior to this date continue to participate in various defined contribution and defined benefit arrangements according to legacy plan formulas. The legacy defined benefit plans are primarily account-based, with some long-service associates continuing to accrue benefits according to grandfathered final-average-pay formulas.

Netherlands – Benefits under the Netherlands plan used to accrue on a final pay basis on earnings up to a maximum amount each year. The benefit accrual under the final pay plan stopped at December 31, 2010. The accrued benefits will receive conditional indexation each year.

The determination of Towers Watson's obligations and annual expense under the plans is based on a number of assumptions that, given the longevity of the plans, are long-term in focus. A change in one or a combination of these assumptions could have a material impact on Towers Watson's pension benefit obligation and related cost. Any difference between actual and assumed results is amortized into Towers Watson's pension cost over the average remaining service period of participating associates. Towers Watson considers several factors prior to the start of each fiscal year when determining the appropriate annual assumptions, including economic forecasts, relevant benchmarks, historical trends, portfolio composition and peer company comparisons.

Funding is based on actuarially determined contributions and is limited to amounts that are currently deductible for tax purposes. Since funding calculations are based on different measurements than those used for accounting purposes, pension contributions are not equal to net periodic pension cost.

The assumptions used to determine net periodic benefit cost for the fiscal years ended June 30, 2014, 2013 and 2012 were as follows:

	Year Ended June 30,					
	2014		2013		2012	
	North America	Europe	North America	Europe	North America	Europe
Discount rate	5.32 %	4.41 %	4.86 %	4.80 %	5.79 %	5.59 %
Expected long-term rate of return on assets	7.67 %	5.77 %	8.11 %	6.07 %	8.14 %	6.78 %

Rate of increase in compensation levels	4.36	%	3.93	%	4.35	%	3.93	%	3.82	%	3.93	%

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The following table presents the assumptions used in the valuation to determine the projected benefit obligation for the fiscal years ended June 30, 2014 and 2013:

	June 30, 2014		June 30, 2013	
	North America	Europe	North America	Europe
Discount rate	4.86 %	3.99 %	5.32 %	4.41 %
Rate of increase in compensation levels	3.98 %	3.00 %	4.36 %	3.93 %

Towers Watson’s discount rate assumptions were determined by matching expected future pension benefit payments with current AA corporate bond yields from the respective countries for the same periods. In the United States, specific bonds were selected to match plan cash flows. In Canada, yields were taken from a corporate bond yield curve. In Europe, the discount rate was set based on yields on European AA corporate bonds at the measurement date. The U.K. is based on the yields on U.K. AA corporate bonds, while Germany and the Netherlands are based on yields on European AA corporate bonds.

The expected rates of return assumptions for North America and Europe were supported by an analysis performed by Towers Watson of the weighted-average yield expected to be achieved with the anticipated makeup of investments.

The following information illustrates the sensitivity to a change in certain assumptions for the North American pension plans for fiscal year 2014:

Change in Assumption	Effect on FY 2014 Pre-Tax Pension Expense	
25 basis point decrease in discount rate	+ $9.0	million
25 basis point increase in discount rate	- $8.7	million
25 basis point decrease in expected return on assets	+ $7.0	million
25 basis point increase in expected return on assets	- $7.0	million

The following information illustrates the sensitivity to a change in certain assumptions for the European pension plans for fiscal year 2014:

Change in Assumption	Effect on FY 2014 Pre-Tax Pension Expense	
25 basis point decrease in discount rate	+ $4.7	million
25 basis point increase in discount rate	- $4.8	million
25 basis point decrease in expected return on assets	+ $2.3	million
25 basis point increase in expected return on assets	- $2.3	million

The above sensitivities reflect the impact of changing one assumption at a time. Economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

The differences in the discount rate and compensation level assumption used for the North American and European plans above can be attributed to the differing interest rate environments associated with the currencies and economies to which the plans are subject. The differences in the expected return on assets are primarily driven by the respective asset allocation in each plan, coupled with the return expectations for assets in the respective currencies.

Goodwill and Intangible Assets

In applying the acquisition method of accounting for business combinations, amounts assigned to identifiable assets and liabilities acquired were based on estimated fair values as of the date of acquisition, with the remainder recorded as goodwill. Intangible assets are initially valued at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. Intangible assets with indefinite lives are tested for impairment annually as of April 1, and whenever indicators of impairment exist. The fair value of the intangible assets is compared with their carrying value and an impairment loss would be recognized for the amount by which the carrying amount exceeds the fair value. Goodwill is tested for impairment annually as of April 1, and whenever indicators of impairment exist. Goodwill is tested at the reporting unit level which is one level below our operating segments. The Company had ten reporting units on April 1, 2014.

During fiscal 2014, the Company performed Step 1 of the two-step impairment test for all reporting units in order to update the estimated fair value for all reporting units. All reporting units' estimated fair values were substantially in excess of the carrying

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values, with the exception of the Liazon reporting unit which was only recently acquired. Liazon's fair value exceeded its carrying value, but had a passing margin of approximately 11%. To perform the test, we used Level 3 valuation techniques to estimate the fair value of a reporting unit that fall under income or market approaches. Under the discounted cash flow method, an income approach, the business enterprise value is determined by discounting to present value the terminal value which is calculated using debt-free after-tax cash flows for a finite period of years. Key estimates in this approach were internal financial projection estimates prepared by management, business risk, and expected rate of return on capital. The guideline company method, a market approach, develops valuation multiples by comparing our reporting units to similar publicly traded companies. Key estimates and selection of valuation multiples rely on the selection of similar companies, obtaining estimates of forecasted revenue and EBITDA estimates for the similar companies and selection of valuation multiples as they apply to the reporting unit characteristics. Under the similar transactions method, a market approach, actual transaction prices and operating data from companies deemed reasonably similar to the reporting units is used to develop valuation multiples as an indication of how much a knowledgeable investor in the marketplace would be willing to pay for the business units.

If the Company was required to perform Step 2, we would determine the implied fair value of the reporting unit used in Step 1 to all the assets and liabilities of that reporting unit (including any recognized or unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. Then the implied fair value of goodwill would be compared to the carrying amount of goodwill to determine if goodwill is impaired. For the fiscal year ended June 30, 2014, we did not record any impairment losses of goodwill or intangibles.

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Results of Operations

The table below sets forth our consolidated statements of operations and data as a percentage of revenue for the periods indicated.

Consolidated Statements of Operations
(Thousands of U.S. dollars)

	Fiscal Year Ended June 30,								
	2014			2013			2012		
Revenue	$3,481,912	100	%	$3,432,515	100	%	$3,257,898	100	%
Costs of providing services:									
Salaries and employee benefits	2,106,431	60	%	2,085,188	61	%	1,978,653	61	%
Professional and subcontracted services	249,775	7	%	267,715	8	%	283,783	9	%
Occupancy	137,883	4	%	139,942	4	%	136,557	4	%
General and administrative expenses	317,448	9	%	303,472	9	%	259,064	8	%
Depreciation and amortization	174,818	5	%	173,040	5	%	150,006	5	%
Transaction and integration expenses	1,049	—	%	30,753	1	%	86,130	3	%
	2,987,404	86	%	3,000,110	87	%	2,894,193	89	%
Income from operations	494,508	14	%	432,405	13	%	363,705	11	%
(Loss) / income from affiliates	—	—		(56)	—		262	—	
Interest income	2,803	—		2,400	—		3,860	—	
Interest expense	(9,031)	—		(12,676)	—		(9,156)	—	
Other non-operating income	10,226	—		6,928	—		11,350	—	
Income before income taxes	498,506	14	%	429,001	12	%	370,021	11	%
Provision for income taxes	138,249	4	%	136,991	4	%	132,443	4	%
INCOME FROM CONTINUING OPERATIONS	360,257	10	%	292,010	9	%	237,578	7	%
Income from discontinued operations, net of income tax of $39,202, $15,561, $13,313, respectively	6,057	—	%	23,642	1	%	22,898	1	%
NET INCOME BEFORE NON-CONTROLLING INTERESTS	366,314	11	%	315,652	9	%	260,476	8	%
Net income / (loss) attributable to non-controlling interests	7,014	—	%	(3,160)	—	%	263	—	%
NET INCOME (attributable to common stockholders)	$359,300	10	%	$318,812	9	%	260,213	8	%

Results of Operations for the Fiscal Year Ended June 30, 2014
Compared to Fiscal Year Ended June 30, 2013

Revenue

The following discussion of the results of operations for the fiscal year ended June 30, 2014 compared to the fiscal year ended June 30, 2013 reflects our Brokerage discontinued operations presentation in this current year filing.
Revenue for the fiscal year ended June 30, 2014 was $3.5 billion, an increase of $0.05 million, or 1%, compared to $3.4 billion for the fiscal year ended June 30, 2013. On an organic basis, which excludes the effects of acquisitions and currency, revenue increased 1% for the fiscal year ended June 30, 2014 compared to the fiscal year ended June 30, 2013. Our Exchange Solutions segment contributed 5% to our total revenue in fiscal year 2014. During fiscal year 2014 we continued to assist companies with de-risking activities related to bulk-lump sum projects. We further enhanced our client development group outside the U.S. to better align our organization with our multi-national and global clients, and expanded our global footprint into rapidly developing markets such as South Africa, India and Russia.
The average exchange rate used to translate our revenues earned in British pounds sterling increased to 1.6364 for fiscal year 2014 from 1.5686 for fiscal year 2013, and the average exchange rate used to translate our revenues earned

in Euros increased to 1.3592 for fiscal year 2014 from 1.2941 for fiscal year 2013. Constant currency is calculated by translating prior year

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revenue at the current year average exchange rate. Segment results are presented both on a reported basis and on a constant currency basis. Line of business results are presented only on a constant currency basis.

A comparison of segment revenue for the fiscal year ended June 30, 2014, as compared to the fiscal year ended June 30, 2013, is as follows:

- Benefits revenue decreased $14.8 million, or 1%, and was $1.98 billion for fiscal year 2014 compared to $1.99 billion for fiscal year 2013. On a constant currency basis, Benefits revenue decreased 1%. Our Retirement business revenue, which makes up the majority of the segment, decreased 3%. While we continue to perform bulk lump sum projects, we have not had, and did not expect to have, the level of project work and revenue that we attained in fiscal year 2013. Our Health and Group Benefits business increased 1%. Our Technology and Administration Solutions business experienced 7% revenue growth due to new client work. The revenues in this line of business are recognized from the go-live date. The revenue growth in fiscal 2014 was primarily a result of new client wins in fiscal 2013. We have also experienced an increase in implementation projects in fiscal 2014. Our International business revenue declined 1%.
- Risk and Financial Services revenue was $638.4 million for fiscal year 2014 compared to $645.3 million for fiscal year 2013, a 1% decrease. Risk and Financial Services revenue decreased 2% on a constant currency basis. The results associated with the operations of our Brokerage business have been classified as discontinued operations in fiscal years 2014 and 2013. The Risk and Financial Services segment revenue decline was primarily from a 6% decrease in our Risk Consulting and Software business revenue across all regions, particularly in Asia Pacific and EMEA. In fiscal year 2013, we began restructuring efforts, as there was low client demand for discretionary projects. The restructuring was completed in fiscal year 2014. While we experienced a decrease in consulting revenue, our property and casualty software revenue continued to be strong. Our Investment business experienced 5% revenue growth, across all regions, due to increased project work and performance fees.
- Talent and Rewards revenue was $582.7 million for fiscal year 2014 compared to $573.3 million for fiscal year 2013, a 2% increase on an as reported and constant currency basis. Data, Surveys and Technology business revenue increased 9%, as demand for human resources software implementations and employee surveys drove revenue growth across all regions. Rewards, Talent and Communication revenue, which is primarily project-oriented, decreased 4%. We experienced softness in this line of business in the Americas and EMEA regions this fiscal year. Additionally, our results were impacted as our communications consultants were redeployed to support Exchange Solutions product development and sales. Our Executive Compensation business experienced a 2% increase in revenue, primarily in the Americas, where demand remained solid. We anticipate modest revenue growth for our Talent and Rewards segment from several of our practice areas, including Data, Surveys and Technology. In June 2014, we released three Software-as-a Service HR technology solutions. We are seeing a higher usage of HR service center technology as organizations look to improve their employees' experience without increasing costs.
- Exchange Solutions revenue increased $75.1 million, and was $170.0 million, for fiscal year 2014 compared to $94.9 million for fiscal year 2013. As our newest segment, Exchange Solutions contributed 5% to the Company's total revenue for fiscal year 2014. In the second quarter of the fiscal year 2014, we acquired Liazon to round out our portfolio of exchange offerings by adding fully-insured healthcare options and enhancing the ancillary benefit programs to the OneExchange platform. As of June 30, 2014, we had approximately 670,000 enrolled retirees/employees, which equates to approximately 730,000 covered lives, in OneExchange.

Salaries and Employee Benefits

Salaries and employee benefits was $2.11 billion for fiscal year 2014 compared to $2.09 billion for fiscal year 2013, an increase of $21.2 million, or 1%. We experienced a $64.0 million increase in salaries, wage related taxes and fringe benefits for fiscal year 2014. The increase was driven by our adding personnel in high growth areas of our business coupled with our rationalizing in other business areas which resulted in increased severance costs. Our discretionary annual bonus is based on pre-bonus profitability, and fluctuates based on our operating results. As a result, our bonus expense for fiscal year 2014 decreased by $24.8 million compared to fiscal year 2013. Our pension expense decreased $15.3 million. The decrease in our pension expense was due to increases in discount rates and favorable investment returns. As a percentage of revenue, salaries and employee benefits was 60% for fiscal year 2014 compared to 61% for fiscal year 2013.

Professional and Subcontracted Services

Professional and subcontracted services for fiscal year 2014 was $249.8 million, compared to $267.7 million for fiscal year 2013, a decrease of $17.9 million, or 6.7%. Our external service provider fees decreased by $15.7 million compared to fiscal year 2013. We contracted with these service providers to supplement our day-to-day operations. In fiscal year 2014, our telecommunication, video conferencing, and internet services were managed by our in-house information technology department, and these expenses are classified in general and administrative expenses. Our pass-through expenses, which are generally reimbursable under our contracts, decreased by $2.3 million. As a percentage of revenue, professional and subcontracted services decreased to 7% for fiscal year 2014 from 8% for fiscal year 2013.

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Occupancy

Occupancy expense for fiscal year 2014 was $137.9 million, compared to $139.9 million for fiscal year 2013, a decrease of $2.0 million, or 1%. The decrease in occupancy expenses relates to cost savings from the combination of duplicative office spaces. As a percentage of revenue, occupancy expense was 4% for fiscal years 2014 and 2013.

General and Administrative Expenses

General and administrative expenses for fiscal year 2014 was $317.4 million, compared to $303.5 million for fiscal year 2013, an increase of $13.9 million, or 5%. The increase was primarily from additional travel expenses and software maintenance costs, as well as an increase of $1.7 million in our professional liability and other claims expense due to increases in our current legal reserves and reductions in prior year IBNR reserves. The increases were partially offset by a decrease of $2.5 million in our telecommunications, video conferencing, internet and general office expenses for fiscal year 2014 compared to fiscal year 2013. These expenses were classified in professional and subcontracted services in fiscal year 2013, as we previously contracted with an external service provider for these services. As a percentage of revenue, general and administrative expenses was 9% for fiscal years 2014 and 2013.

Depreciation and Amortization

Depreciation and amortization expense for fiscal year 2014 was $174.8 million, compared to $173.0 million for fiscal year 2013, an increase of $1.8 million, or 1%. As a percentage of revenue, depreciation and amortization expenses was 5% for fiscal years 2014 and 2013.

Transaction and Integration Expenses

Transaction and integration expense for fiscal year 2014 was $1.0 million, compared to $30.8 million for fiscal year 2013, a decrease of $29.8 million. The decrease was principally due to a reduction in expenses related to information technology integration projects that were ongoing in fiscal year 2012 and completed in fiscal year 2013. As a percentage of revenue, transaction and integration expenses was 1% for fiscal year 2013.

(Loss) / Income from Affiliates

Loss from affiliates for fiscal year 2013 was $0.1 million.

Interest Income

Interest income was $2.8 million and $2.4 million for fiscal years 2014 and 2013, respectively.

Interest Expense

Interest expense was $9.0 million for fiscal year 2014, compared to $12.7 million for fiscal year 2013, which was in line with our outstanding principal balances during the fiscal years.

Other Non-Operating Income

Other non-operating income for fiscal year 2014 was $10.2 million, compared to $6.9 million for fiscal year 2013. During fiscal year 2014, we recorded $6.3 million of mark-to-market gains on investments held by a consolidated variable interest entity. The variable interest entity was subsequently deconsolidated in our third fiscal quarter.

Provision for Income Taxes

The provision for income taxes for fiscal year 2014 was 27.7% compared with 31.9% in fiscal year 2013. Our effective tax rate decreased by 4.2% for fiscal year 2014 as compared to fiscal year 2013, primarily due to current year income tax benefits on the release of uncertain tax positions related to lapses in statute of limitations and income tax settlements in various taxing jurisdictions, primarily the U.S.

Income from Discontinued Operations, net of income tax

Income from discontinued operations for fiscal year 2014 was $6.1 million, compared to $23.6 million for fiscal year 2013. The operations of our Brokerage business, formerly part of our Risk and Financial Services segment, have been classified as discontinued operations for all periods presented, as a result of our Board of Directors committing to a plan of action to sell the business in our first quarter of fiscal year 2014. During the second quarter, we closed the sale of the business to JLT. Included in income from discontinued operations for fiscal year 2014 is a pre-tax gain on the sale of $24.0 million. This gain results from the adjusted consideration of $215.1 million, offset by transaction costs of $6.4 million, accelerated stock-based compensation awards of $1.0 million, and $184.8 million in removal of Brokerage net assets, primarily goodwill and intangible assets, not transferred in the deal. The sale of our Brokerage business resulted in a significant taxable gain, since the disposal of the

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goodwill and intangible assets associated with the business is not tax-deductible. The following selected financial information relates to the Brokerage business's operations for the years ended June 30, 2014 and 2013:

	Fiscal Year Ended,	
	2014	2013
Revenue from discontinued operations	$63,762	$164,270
Income from discontinued operations before taxes	21,308	39,203
Tax expense on discontinued operations	7,522	15,561
Net income from discontinued operations	13,786	23,642
Gain from sale of discontinued operations	23,951	—
Tax expense on gain from sale of discontinued operations	31,680	—
Net loss from sale of discontinued operations	(7,729)	—
Total net income from discontinued operations	$6,057	$23,642

Net Income Attributable to Common Stockholders

Net income attributable to common stockholders for the fiscal year ended June 30, 2014 was $359.3 million, an increase of $40.5 million, or 13%, compared to $318.8 million for the fiscal year ended June 30, 2013. As a percentage of revenue, net income attributable to controlling interests was 10% for fiscal year 2014, compared to 9% for fiscal year 2013.

Diluted Earnings Per Share

Diluted earnings per share for fiscal year 2014 was $5.06, compared to $4.46 for fiscal year 2013.

Results of Operations for the Fiscal Year Ended June 30, 2013

Compared to Fiscal Year Ended June 30, 2012

The following discussion of the results of operations for the fiscal year ended June 30, 2013 compared to the fiscal year ended June 30, 2012 has been adjusted from the fiscal 2013 filing on Form 10-K to reflect our Brokerage discontinued operations presentation in this current year filing.

Revenue

Revenue for the fiscal year ended June 30, 2013 was $3.4 billion, an increase of $175 million, or 5%, compared to $3.3 billion for the fiscal year ended June 30, 2012. Our newest segment, Exchange Solutions, contributed 3% to our total revenue growth in fiscal year 2013 compared to 2012 due to a full fiscal year of operations in which we increased membership in the retiree exchange by more than 80%. In addition, several successes contributed to our growth in fiscal year 2013. We assisted companies with de-risking activities related to bulk lump sum projects. We enhanced our client development group outside the U.S. to better align our organization with our multi-national and global clients and expanded our global footprint into rapidly developing markets such as South Africa, India and Russia. On an organic basis, which excludes the effects of acquisitions and currency, revenue increased 4% for the fiscal year ended June 30, 2013 compared to the fiscal year ended June 30, 2012. All of our segments experienced constant currency revenue growth in fiscal year 2013 compared to 2012.

The average exchange rate used to translate our revenues earned in British pounds sterling decreased to 1.5686 for fiscal year 2013 from 1.5782 for fiscal year 2012, and the average exchange rate used to translate our revenues earned in Euros increased to 1.2941 for fiscal year 2013 from 1.2757 for fiscal 2012. Constant currency is calculated by translating prior year revenue at the current year average exchange rate. Segment results are presented both on a reported basis and on a constant currency basis. Line of business results are presented only on a constant currency basis.

A comparison of segment revenue for the fiscal year ended June 30, 2013, as compared to the fiscal year ended June 30, 2012, is as follows:

- Benefits revenue increased $71.8 million, or 4%, and was $2.0 billion for fiscal year 2013 compared to $1.9 billion for fiscal year 2012. On a constant currency basis, Benefits revenue increased 5% due to increased project work across all lines of business. The 5% increase in our Retirement business revenue, which makes up the majority of the segment, was driven by 6% revenue growth in the Americas, primarily due to bulk lump sum projects. The 2% increase in Retirement revenue in EMEA was due to an increase in auto-enrollment project activity in the U.K. Our Technology and Administration Solutions business experienced 8% revenue growth primarily due to new client work in the U.K.

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and Germany. The growth in EMEA was driven by new administration work, and the growth in the Americas was due in part to call center support for the bulk lump sum projects. Our International business experienced 2% revenue growth. Our Health and Group Benefits business experienced 3% growth.

- Risk and Financial Services revenue was $645.3 million for fiscal year 2013 compared to $655.9 million for fiscal year 2012, a 2% decrease. Risk and Financial Services revenue was flat on a constant currency basis. The results associated with the operations of our Brokerage business have been classified as discontinued operations in fiscal years 2014, 2013 and 2012. Our lines of business experienced mixed results, with revenue growth in the Americas, while EMEA and Asia Pacific remained flat. Our Investment business had 8% constant currency revenue growth led by EMEA, due to an increase in project work and performance fees. Our Risk Consulting and Software business has two distinct offerings; software and consulting; each of which experienced different results in fiscal year 2013. Our software sales increased 11% due to our portfolio of software solutions for both life and property and casualty insurance. Our consulting services revenue, which is primarily project oriented, decreased due to tightening of discretionary spending, principally in EMEA. In addition, it appears likely that the timeline for European regulators to implement Solvency II will slip beyond 2014 and related project work may not reappear for some time. As a result, our Risk Consulting and Software business had a 4% constant currency decrease in revenue in fiscal year 2013 compared to 2012.
- Talent and Rewards revenue remained consistent and was $573.3 million for fiscal year 2013 compared to $570.5 million for fiscal year 2012. We achieved organic growth in all regions and in the Executive Compensation and Data, Surveys and Technology lines of business. The 5% organic revenue growth in our Executive Compensation business was led by EMEA. This growth was due to increased regulation and governance activity demand in all regions, particularly Europe. Rewards, Talent and Communication business revenue, which is primarily project oriented, decreased 1% compared to the prior year due to tightening discretionary spending. In fiscal year 2013, there were opportunities for project work related to health care reform and other benefit changes in the Americas. We experienced 2% growth in Data, Surveys and Technology revenue due to an increase in software implementations in the Americas.
- Exchange Solutions revenue increased $91.2 million, and was $94.9 million, for fiscal year 2013 compared to $3.6 million for fiscal year 2012. As our newest segment, Exchange Solutions contributed 3% to the Company's total revenue growth for fiscal year 2013 compared to fiscal year 2012. We established our fourth segment in fiscal year 2012 when we acquired Extend Health in May 2012. Our fiscal year 2012 revenue includes one month of revenue compared to a full fiscal year in 2013. In addition, Exchange Solutions segment revenue growth was due to the enrollment of new members, lower than expected attrition of members and our carrier volume incentives. During fiscal year 2013, we completed a very successful enrollment period for January 1 effective policies, during which we enrolled three times the number of new members compared to Extend Health's historical results for the past two comparable enrollment seasons. As a result of purchase accounting, we did not recognize $12 million and $3 million of deferred revenue in fiscal year 2013 and 2012, respectively, associated with cash received for commissions for policies placed prior to the acquisition, as there is no subsequent performance obligation. In fiscal year 2013, we launched OneExchange, our integrated health insurance exchange solution for active employees and retirees.

Salaries and Employee Benefits

Salaries and employee benefits was $2.09 billion for fiscal year 2013 compared to $1.98 billion for fiscal year 2012, an increase of $106.5 million, or 5%. This increase was driven by an increase in base salary of $73.1 million attributable to a 3% increase in headcount, our annual salary merit increases and the impact of foreign currency translation. Our EMEA and APAC operations accounted for 2% of our headcount increase as of June 30, 2013, compared to June 30, 2012. Contributing to the increase, our Exchange Solutions segment had one month of operations in fiscal year 2012 compared to a full fiscal year in 2013. Our discretionary annual bonus is based on pre-bonus profitability and fluctuates based on our operating results, and as a result, our bonus expense for fiscal year 2013 increased by $17.7 million compared to fiscal year 2012. As a result of the increase in bonus and salary, our fringe benefits expense increased $19.7 million. The $17.1 million increase in our pension expense was due to decreases in discount rates. These increases were partially offset by a $22.2 million decrease in non-cash stock-based compensation primarily from the January 1, 2013 end of the service period and vesting of the restricted stock units issued to employees of Towers Perrin in the Merger. As a percentage of revenue, salaries and employee benefits was 61% for fiscal years 2013 and 2012.

Professional and Subcontracted Services

Professional and subcontracted services for fiscal year 2013 was $267.7 million, compared to $283.8 million for fiscal year 2012, a decrease of $16.1 million, or 6%. Our external service provider fees decreased by $17.6 million compared to fiscal year 2012. We contracted with these service providers to supplement our day-to-day operations. In fiscal year 2013, our telecommunication, video conferencing, and internet services have been managed by our in-house information technology department, and these expenses are classified in general and administrative expenses. Our pass-through expenses, which are reimbursable under our contracts, increased by $1.5 million. As a percentage of revenue, professional and subcontracted services decreased to 8% for fiscal year 2013 from 9% for fiscal year 2012.

Occupancy

Occupancy expense for fiscal year 2013 was $139.9 million, compared to $136.6 million for fiscal year 2012, an increase of $3.3 million, or 2%. The increase was due to higher utilities, a decrease in sublease income and lower tenant improvement allowances, partially offset by a decrease in rent. As a percentage of revenue, occupancy expense was 4% for fiscal years 2013 and 2012.

General and Administrative Expenses

General and administrative expenses for fiscal year 2013 was $303.5 million, compared to $259.1 million for fiscal year 2012, an increase of $44.4 million, or 17%. Our professional liability and other claims expense increased $29.8 million in fiscal year 2013 compared to 2012 due to increases in our current legal reserves and reductions in prior year IBNR reserves. We also experienced an increase of $13.3 million in our telecommunications, video conferencing, internet and general office expenses for fiscal year 2013 compared to 2012. These expenses were classified in professional and subcontracted services in fiscal year 2012, as we previously contracted with an external service provider for these services. In addition, our newest segment Exchange Solutions was formed in the fourth quarter of fiscal year 2012, contributing to higher general and administrative expenses in fiscal year 2013. As a percentage of revenue, general and administrative expenses was 9% for fiscal year 2013, compared to 8% for fiscal year 2012.

Depreciation and Amortization

Depreciation and amortization expense for fiscal year 2013 was $173.0 million, compared to $150.0 million for fiscal year 2012, an increase of $23 million, or 15%. The increase is primarily due to the amortization of intangibles related to our acquisition of Extend Health in the fourth quarter of fiscal year 2012. In addition, we accelerated amortization for a software application that we acquired in the Merger, as management determined that its use would be primarily discontinued in the next two to three years. A portion of the increase is also attributable to increased depreciation on the computer hardware that was placed in service in fiscal years 2011 and 2012. As a percentage of revenue, depreciation and amortization expenses was 5% for fiscal years 2013 and 2012.

Transaction and Integration Expenses

Transaction and integration expense for fiscal year 2013 was $30.8 million, compared to $86.1 million for fiscal year 2012, a decrease of $55.3 million. The decrease was principally due to a reduction in expenses related to information technology integration projects that were ongoing in fiscal year 2012 and completed in fiscal year 2013. As a percentage of revenue, transaction and integration expenses was 1% for fiscal year 2013 and 3% for fiscal year 2012.

(Loss) / Income from Affiliates

Loss from affiliates for fiscal year 2013 was $0.1 million compared to income from affiliates of $0.3 million for fiscal year 2012. In the second quarter of fiscal year 2012, we purchased a majority ownership in Fifth Quadrant Actuaries and Consultants Holdings (Pty) Ltd. (“Fifth Quadrant”) and began to consolidate its operations. Fifth Quadrant has historically been the primary source of income from affiliates.

Interest Income

Interest income was $2.4 million and $3.9 million for fiscal years 2013 and 2012, respectively.

Interest Expense

Interest expense was $12.7 million for fiscal year 2013, compared to $9.2 million for fiscal year 2012, which was in line with our outstanding principal balances during the fiscal years.

Other Non-Operating Income

Other non-operating income for fiscal year 2013 was $6.9 million, compared to $11.4 million for fiscal year 2012. In fiscal year 2012, we recorded a $2.8 million gain resulting from the fair value adjustment to our investment in Fifth Quadrant upon the purchase of a controlling interest. We acquired an additional ownership in Fifth Quadrant and consolidated our former equity investee in our results of operations beginning in the second quarter of fiscal year 2012. In fiscal year 2012, we also recorded deferred payments from divestitures.

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Provision for Income Taxes

The provision for income taxes for fiscal year 2013 was 31.9% compared with 35.8% in fiscal year 2012. Our effective tax rate decreased by 3.9% for fiscal year 2013 as compared to fiscal year 2012 primarily due to a current year income tax benefit for foreign exchange losses recognized from legal entity restructurings.

Income from Discontinued Operations, net of income tax

Income from discontinued operations for fiscal year 2013 was $23.6 million, compared to $22.9 million for fiscal year 2012.

Net Income Attributable to Common Stockholders

Net income attributable to common stockholders for the fiscal year ended June 30, 2013 was $318.8 million, an increase of $58.6 million, or 23%, compared to $260.2 million for the fiscal year ended June 30, 2012. As a percentage of revenue, net income attributable to controlling interests was 9% for fiscal year 2013, compared to 8% for fiscal year 2012.

Diluted Earnings Per Share

Diluted earnings per share for fiscal year 2013 was $4.46, compared to $3.59 for fiscal year 2012.

Liquidity and Capital Resources

Our most significant sources of liquidity are funds generated by operating activities, available cash and cash equivalents, and our credit facility. Consistent with our liquidity position, management considers various alternative strategic uses of cash reserves including acquisitions, dividends and stock buybacks, or any combination of these options.

We believe that we have sufficient resources to fund operations beyond the next 12 months. The key variables that we manage in response to current and projected capital resource needs include credit facilities and short-term borrowing arrangements, working capital and our stock repurchase program.

Our cash and cash equivalents at June 30, 2014 totaled $727.8 million, compared to $532.8 million at June 30, 2013. The increase in cash in fiscal 2014 was due to net cash flows from operations and proceeds from the sale of our Brokerage business, partially offset by the cash paid for the acquisition of Liazon, repurchases of common stock and purchases of long-lived assets and investments.

Short-term investments at June 30, 2014 totaled $122.8 million compared to $56.6 million at June 30, 2013. These assets consist primarily of held-to-maturity investments in certificates of deposit and time deposits which have been classified as short-term.

Cash and cash equivalents and short term investments include $34.8 million and $15.1 million, respectively, from the consolidated balance sheets of PCIC and SMIC, which are available for payment of professional liability and other claims reserves. Additionally we have fiduciary assets totaling $12.0 million at June 30, 2014, which is related to our health and welfare benefits administration outsourcing business. These amounts are held in a fiduciary capacity on behalf of clients and are not available for other general use by the Company. Adjusting for these items, we have a net $693.0 million of cash and $107.7 million of short-term investments that are available for our general use.

Our non-U.S. operations are substantially self-sufficient for their working capital needs. As of June 30, 2014, $580.6 million of Towers Watson’s total cash and cash equivalents balance of $727.8 million and $107.6 million of our $122.8 million of our total short-term investments were held outside of the United States. Should we require more capital in the U.S. than is generated by our U.S. operations, we may decide to make additional borrowings under our Senior Credit Facility, repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates or increased interest expense. We do not expect restrictions or taxes on repatriation of cash held outside the U.S. to have a material effect on the Company’s overall liquidity, financial condition or results of operations.

During fiscal 2014, the Company has accrued approximately $2.5 million in income tax expense with respect to the future distribution of current year earnings in our Japan, Australia, Bermuda and Philippines subsidiaries. ASC 740, Income Taxes, requires a company to recognize income tax expense when it becomes apparent that some or all of the undistributed earnings of a foreign subsidiary will be remitted in the foreseeable future. Except as noted above, we have not provided U.S. federal income taxes on undistributed foreign earnings of our foreign subsidiaries, including previously accumulated foreign earnings of our Japan, Australia, Bermuda and Philippines subsidiaries, because such earnings are considered indefinitely reinvested outside the United States. It is not practicable to estimate the U.S. federal income tax liability that might be payable if such earnings are not invested indefinitely. If future events, including material changes in estimates of cash, working capital and

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long-term investment requirements, necessitate that these earnings be repatriated, an additional provision for U.S. income and foreign withholding taxes, net of foreign tax credits, may be necessary.

Assets and liabilities associated with non-U.S. entities have been translated into U.S. dollars as of June 30, 2014, at U.S. dollar rates that fluctuate compared to historical periods. As a result, cash flows derived from changes in the consolidated balance sheets include the impact of the change in foreign exchange translation rates.

Events that could change the historical cash flow dynamics discussed above include significant changes in operating results, potential future acquisitions, material changes in geographic sources of cash, unexpected adverse impacts from litigation or future pension funding during periods of severe downturn in the capital markets.

Cash Flows From Operating Activities.

Cash flows from operating activities were $456.1 million for fiscal year 2014 compared to cash flows from operating activities of $531.3 million for fiscal year 2013. This decrease of $75.2 million is primarily attributable to higher bonus payments made during the first quarter of fiscal year 2014 as compared to the first quarter of fiscal year 2013. The allowance for doubtful accounts decreased $4.7 million from June 30, 2013 to June 30, 2014. The number of days of accounts receivable outstanding decreased to 80 at June 30, 2014 compared to 83 at June 30, 2013.

Cash Flows Used in Investing Activities.

Cash flows used in investing activities for fiscal year 2014 were $268.1 million, compared to $137.8 million of cash flows used in fiscal year 2013. This increase in cash flows used in investing activities was primarily due to discrete events that occurred during fiscal year 2014; specifically the cash outflows from the acquisition of Liazon and the purchase of $109.5 million of investments by funds that we manage, which were previously consolidated (this is offset by an equal amount of cash inflows from financing activities), as well as the purchase of held-to-maturity securities that do not have a comparable amount in fiscal year 2013. The cash outflows were partially offset by the cash proceeds from the sale of our Brokerage business.

Cash Flows Used in Financing Activities.

Cash flows used in financing activities in fiscal year 2014 were $15.2 million, compared to cash flows used in financing activities of $326.7 million in fiscal year 2013. The decrease in cash flows used in financing activities of $311.4 million was primarily due to cash subscriptions of $109.5 million into funds that we manage, which were previously consolidated (this is offset by an equal amount of cash outflows from investing activities) that does not have a comparable amount in fiscal year 2013. Additionally, we utilized our Senior Credit Facility less during fiscal year 2014 than in the prior fiscal year, and had lower net repayments of borrowings during fiscal year 2014 as compared to fiscal year 2013.

During fiscal year 2014, the average outstanding balance on our Senior Credit Facility was $9.3 million, and the largest outstanding balance at any point in time was $57.5 million.

Capital Commitments

Capital expenditures were $64.8 million for fiscal year 2014. Additionally, during fiscal year 2014, we spent $56.0 million for internally-developed capitalized software for external use by our clients.

Dividends

During May 2014, our board of directors approved the payment of a quarterly cash dividend in the amount of $0.14 per share which was paid in July 2014. Total dividends paid in fiscal year 2014 and in fiscal year 2013 were $21.1 million and $48.2 million, respectively. The amount in fiscal years 2014 and 2013 includes $1.6 million and $1.3 million, respectively, of dividends paid by our consolidated, majority-owned subsidiary, Fifth Quadrant, to its third-party shareholders.

Off-Balance Sheet Arrangements and Contractual Obligations

	Remaining payments by fiscal year due as of June 30, 2014				
Contractual Cash Obligations (in thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Term loan	$225,000	$25,000	$200,000	$—	$—
Lease commitments	565,557	109,926	180,499	127,996	147,136
	$790,557	$134,926	$380,499	$127,996	$147,136

Operating Leases. We lease office space under operating lease agreements with terms typically averaging 10 years. We have determined that there is not a large concentration of leases that will expire in any one fiscal year. Consequently, management anticipates that any increase in future rent expense on leases will be mainly market driven. While the future operating lease

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payments presented above are not recognized on our balance sheet, we do have certain assets and liabilities related to these leases in the form of deferred rent accruals and intangible assets and liabilities. The intangible assets and liabilities were recognized for the difference between the contractual cash obligations shown above and the estimated market rates at the time of certain past acquisitions. The resulting intangibles will amortize to rent expense but do not impact the amounts shown above since there is no change to our contractual cash obligations.

Pension Contribution. The table above does not include contributions for pension plans. Contributions to our qualified pension plans for fiscal year 2015 are projected to be $88.4 million. Additionally, the Company expects to pay $57.8 million in benefits directly to participants for fiscal 2015.

Uncertain Tax Positions. The table above does not include liabilities for uncertain tax positions under ASC 740, Income Taxes. The settlement period for the $32.4 million liability, which excludes interest and penalties, cannot be reasonably estimated since it depends on the timing and possible outcomes of tax examinations with various tax authorities.

Contingent Consideration from Acquisitions. The table above does not include liabilities for contingent consideration for our EMB acquisition in fiscal year 2011 and our DaVinci acquisition in fiscal year 2013. As of June 30, 2014, we still expect to pay out £2.4 million per year for fiscal years 2015 and 2016 related to the EMB contingent consideration provisions in our agreements and subject to performance requirements on behalf of the sellers. Related to the DaVinci acquisition, we expect to pay out approximately $125 thousand per year for fiscal year 2015 through fiscal year 2017.

Indebtedness

Towers Watson Senior Credit Facility

On November 7, 2011, Towers Watson and certain subsidiaries entered into a five-year, $500 million revolving credit facility, which amount may be increased by an aggregate amount of $250 million, subject to