Towers Watson & Co.
Form 10-Q
May 06, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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.)
875 Third Avenue New York, NY	10022
(Address of principal executive offices)	(zip code)

(212) 725-7550
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	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 Exchange Act). Yes ¨ No x

As of April 30, 2014, there were 70,299,510 outstanding shares of Class A Common Stock at a par value of $0.01 per share.

TOWERS WATSON & CO.
INDEX TO FORM 10-Q
For the Three and Nine Months Ended March 31, 2014

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
TOWERS WATSON & CO.
Condensed Consolidated Statements of Operations
(In thousands of U.S. dollars, except per share data)
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Revenue	$904,833	$892,977	$2,602,927	$2,597,233
Costs of providing services:				
Salaries and employee benefits	547,385	542,271	1,574,535	1,590,530
Professional and subcontracted services	57,729	62,908	188,203	189,751
Occupancy	33,961	34,666	102,288	107,116
General and administrative expenses	82,844	76,381	236,651	233,163
Depreciation and amortization	44,250	43,166	130,931	130,970
Transaction and integration expenses	241	12,328	1,049	30,753
	766,410	771,720	2,233,657	2,282,283
Income from operations	138,423	121,257	369,270	314,950
Loss from affiliates	—	—	—	(56)
Interest income	758	613	1,847	2,118
Interest expense	(2,090)	(3,483)	(6,553)	(10,043)
Other non-operating income	4,053	12	9,743	5,060
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	141,144	118,399	374,307	312,029
Provision for income taxes	39,231	35,254	96,322	99,649
INCOME FROM CONTINUING OPERATIONS	101,913	83,145	277,985	212,380
Income from discontinued operations, net of tax of $175, $6,621, $41,012, and $11,158, respectively	3,939	11,700	5,980	20,858
NET INCOME BEFORE NON-CONTROLLING INTERESTS	105,852	94,845	283,965	233,238
Less: Income (loss) attributable to non-controlling interests	3,346	(71)	7,057	(2,695)
NET INCOME (attributable to common stockholders)	$102,506	$94,916	$276,908	$235,933
Basic earnings per share (attributable to common stockholders):				
Income from continuing operations	$1.40	$1.18	$3.83	$3.03
Income from discontinued operations	0.06	0.17	0.09	0.29
Net income	$1.46	$1.35	$3.92	$3.32
Diluted earnings per share (attributable to common stockholders):				
Income from continuing operations	$1.39	$1.17	$3.81	$3.00
Income from discontinued operations	0.06	0.17	0.09	0.29
Net income	$1.45	$1.34	$3.90	$3.29
Weighted average shares of common stock, basic (000)	70,447	70,530	70,685	71,094
Weighted average shares of common stock, diluted (000)	70,884	71,076	71,047	71,639

See accompanying notes to the condensed consolidated financial statements

1

TOWERS WATSON & CO.
Condensed Consolidated Statements of Comprehensive Income
(In thousands of U.S. dollars)
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net income before non-controlling interests	$105,852	$94,845	$283,965	$233,238
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	(797)	(96,135)	87,938	(47,412)
Defined pension and post-retirement benefit costs	2,806	(4,137)	9,337	(21,260)
Hedge effectiveness	292	546	(738)	(250)
Available-for-sale securities	(483)	93	(261)	149
Other comprehensive income/(loss) before non-controlling interests	1,818	(99,633)	96,276	(68,773)
Comprehensive income before non-controlling interests	107,670	(4,788)	380,241	164,465
Comprehensive income/(loss) attributable to non-controlling interest	3,325	(1,316)	6,422	(3,072)
Comprehensive income/(loss) (attributable to common stockholders)	$104,345	$(3,472)	$373,819	$167,537

See accompanying notes to the condensed consolidated financial statements

TOWERS WATSON & CO.
Condensed Consolidated Balance Sheets
(In thousands of U.S. dollars, except share data)
(Unaudited)

	March 31, 2014	June 30, 2013
Assets		
Cash and cash equivalents	$636,960	$532,805
Fiduciary assets	10,651	148,414
Short-term investments	28,455	56,645
Receivables from clients:		
Billed, net of allowances of $10,528 and $12,768	492,353	519,580
Unbilled, at estimated net realizable value	322,714	306,258
	815,067	825,838
Other current assets	131,700	148,519
Total current assets	1,622,833	1,712,221
Fixed assets, net	362,317	346,915
Deferred income taxes	77,537	86,313
Goodwill	2,284,097	2,218,935
Intangible assets, net	671,178	687,758
Other assets	324,707	279,935
Total Assets	$5,342,669	$5,332,077
Liabilities		
Accounts payable, accrued liabilities and deferred income	$349,602	$351,648
Employee-related liabilities	448,548	560,831
Fiduciary liabilities	10,651	148,414
Term loan - current	25,000	25,000
Other current liabilities	65,891	26,980
Total current liabilities	899,692	1,112,873
Revolving credit facility	—	—
Term loan	206,250	225,000
Accrued retirement benefits and other employee-related liabilities	667,985	771,429
Professional liability claims reserve	261,126	251,191
Other noncurrent liabilities	270,528	226,750
Total Liabilities	2,305,581	2,587,243
Commitments and contingencies		
Stockholders’ Equity		
Class A Common Stock — $0.01 par value: 300,000,000 shares authorized; 74,552,661 and 69,178,097 issued and 70,371,311 and 65,341,759 outstanding	746	692
Class B Common Stock — $0.01 par value: 93,500,000 shares authorized; 0 and 5,374,070 issued and outstanding	—	54
Additional paid-in capital	1,854,733	1,850,448
Treasury stock, at cost — 4,181,350 and 3,836,338 shares	(280,416)	(221,643)
Retained earnings	1,650,410	1,394,407
Accumulated other comprehensive loss	(202,553)	(299,464)
Total Stockholders’ Equity	3,022,920	2,724,494
Non-controlling interest	14,168	20,340
Total Equity	3,037,088	2,744,834

Total Liabilities and Total Equity	$5,342,669	$5,332,077

See accompanying notes to the condensed consolidated financial statements

3

TOWERS WATSON & CO.
Condensed Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	Nine Months Ended March 31, 2014	2013
Cash flows from operating activities:		
Net income before non-controlling interests	$283,965	$233,238
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful receivables from clients	4,241	8,204
Depreciation	73,967	73,762
Amortization of intangible assets	57,402	59,287
Gain on sale of discontinued operations, pretax	(23,631)	—
Provision for deferred income taxes	64,052	39,120
Stock-based compensation	16,045	24,203
Other, net	(3,743)	(2,333)
Changes in operating assets and liabilities		
Receivables from clients	16,846	112
Fiduciary assets	113,017	(6,796)
Other current assets	1,016	(10,053)
Other noncurrent assets	(6,432)	1,260
Accounts payable, accrued liabilities and deferred income	(34,948)	(8,706)
Employee-related liabilities	(128,510)	(40,326)
Fiduciary liabilities	(113,017)	6,796
Accrued retirement benefits and other employee-related liabilities	(113,690)	(118,029)
Professional liability claims reserves	9,418	(4,997)
Other current liabilities	(607)	(223)
Other noncurrent liabilities	(14,141)	1,508
Income tax related accounts	21,501	30,484
Cash flows from operating activities	$222,751	$286,511
Cash flows used in investing activities:		
Cash paid for business acquisitions	$(210,814)	$(5,678)
Cash transferred with discontinued operations	(25,066)	—
Proceeds from discontinued operations	256,953	4,285
Cash acquired from business acquisitions	3,949	636
Fixed assets and software for internal use	(50,825)	(66,626)
Purchases of investments of consolidated variable interest entity	(109,510)	—
Capitalized software costs	(36,596)	(41,768)
Purchases of held-to-maturity securities	(14,994)	—
Purchases of available-for-sale securities	(44,891)	(18,188)
Sales and redemptions of available-for-sale securities	74,246	36,258
Cash flows used in investing activities	$(157,548)	$(91,081)
Cash flows from/(used in) financing activities:		
Borrowings under credit facility	$220,600	$391,600
Repayments under credit facility	(220,600)	(464,600)
Repayments of notes payable	(18,750)	—
Cash received from consolidated variable interest entity	109,510	—
Contingent retention liability	21,746	—
Cash paid on retention liabilities	(1,939)	—

Dividends paid	(11,165)	(48,147)
Repurchases of common stock	(74,506)	(41,596)
Payroll tax payments on vested shares	(7,457)	(24,879)
Excess tax benefit	9,800	—
Cash flows from/(used in) financing activities	$27,239	$(187,622)
Effect of exchange rates on cash	$11,713	$(13,296)
Increase/(decrease) in cash and cash equivalents	104,155	(5,488)
Cash and cash equivalents at beginning of period	532,805	478,179
Cash and cash equivalents at end of period	$636,960	$472,691

4

Supplemental disclosures:		
Cash paid for interest	$2,831	$6,278
Cash paid for income taxes, net of refunds	$45,414	$43,398
Transfers into consolidated investment funds	$223,212	$—
Deconsolidation of investment funds (see Note 9)	$339,019	$—

See accompanying notes to the condensed consolidated financial statements

TOWERS WATSON & CO.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(In thousands of U.S. Dollars and numbers of shares in thousands)
(Unaudited)

	Class A Common Stock Outstanding	Class A Common Stock	Class B Common Stock Outstanding	Class B Common Stock	Additional Paid-in Capital	Treasury Stock, at Cost	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Non-Controlling Interest	Total
Balance as of June 30, 2012	63,522	$635	11,036	$110	$1,833,799	$(168,901)	$1,117,622	$(350,745)	$24,797	$2,457,317
Net income/(loss)	—	—	—	—	—	—	235,933	—	(2,695)	233,238
Other comprehensive income	—	—	—	—	—	—	—	(68,396)	(377)	(68,773)
Repurchases of common stock	—	—	—	—	—	(46,618)	—	—	—	(46,618)
Shares received for employee taxes upon vesting of restricted stock units	(429)	(4)	—	—	—	(24,875)	—	—	—	(24,879)
Exercises of stock options	—	—	—	—	(5,560)	6,378	—	—	—	818
Vesting of restricted stock units	(89)	—	—	—	(30,570)	31,492	—	—	—	922
Class A Common Stock: Cash dividends declared	—	—	—	—	—	—	(42,023)	—	—	(42,023)
Stock-based compensation	—	—	—	—	24,203	—	—	—	—	24,203
Acceleration of Class B shares to Class A shares	5,661	56	(5,662)	(56)	—	—	—	—	—	—
Balance as of March 31, 2013	68,665	$687	5,374	$54	$1,821,872	$(202,524)	$1,311,532	$(419,141)	$21,725	$2,534,205
Balance as of June 30, 2013	69,178	$692	5,374	$54	$1,850,448	$(221,643)	$1,394,407	$(299,464)	$20,340	$2,744,834
Net income	—	—	—	—	—	—	276,908	—	7,057	283,965
Other comprehensive income/(loss)	—	—	—	—	—	—	—	96,911	(635)	96,276
	—	—	—	—	—	(74,506)	—		—	(74,506)

Repurchases of common stock										
Shares received for employee taxes upon vesting of restricted stock units	—	—	—	—	—	(7,457)	—	—	—	(7,457)
Exercises of stock options	—	—	—	—	(4,380)	5,064	—	—	—	684
Vesting of restricted stock units	—	—	—	—	(24,934)	18,126	—	—	—	(6,808)
Acquisitions	—	—	—	—	6,717	—	—	—	(6,297)	420
Redeemable non-controlling interest from consolidated variable interest entity	—	—	—	—	—	—	—	—	332,722	332,722
Deconsolidation of redeemable non-controlling interest from variable interest entity	—	—	—	—	—	—	—	—	(339,019)	(339,019)
Class A Common Stock: Cash dividends declared	—	—	—	—	—	—	(20,905)	—	—	(20,905)
Excess tax benefits	—	—	—	—	9,800	—	—	—	—	9,800
Stock-based compensation	—	—	—	—	17,082	—	—	—	—	17,082
Conversion of Class B shares to Class A shares	5,374	54	(5,374)	(54)	—	—	—	—	—	—
Balance as of March 31, 2014	74,552	$746	—	$—	$1,854,733	$(280,416)	$1,650,410	$(202,553)	$14,168	$3,037,088

See accompanying notes to the condensed consolidated financial statements

6

TOWERS WATSON & CO.
Notes to the Condensed Consolidated Financial Statements
(Tabular amounts are in thousands, except per share data)
(Unaudited)

Note 1 — Organization and Basis of Presentation.

The accompanying unaudited quarterly condensed consolidated financial statements of Towers Watson & Co. (“Towers Watson”, the “Company” or “we”) and our subsidiaries are presented in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and therefore do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”). In the opinion of management, these condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the condensed consolidated financial statements and results for the interim periods. All intercompany accounts and transactions have been eliminated in consolidation.
The condensed consolidated financial statements should be read together with the Towers Watson audited condensed consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2013, which was filed with the SEC on August 15, 2013, and may be accessed via EDGAR on the SEC’s web site at www.sec.gov. Balance sheet data as of June 30, 2013 was derived from Towers Watson’s audited financial statements.
Towers Watson was formed on January 1, 2010, upon the merger (the “Merger”) of Watson Wyatt Worldwide, Inc. (“Watson Wyatt”) and Towers, Perrin, Forster & Crosby, Inc. (“Towers Perrin”).
Our fiscal year 2014 began July 1, 2013 and ends June 30, 2014.
The results of operations for the three and nine months ended March 31, 2014 are not necessarily indicative of the results that can be expected for the entire fiscal year ending June 30, 2014. The results reflect certain estimates and assumptions made by management including those estimates used in calculating acquisition consideration and fair value of tangible and intangible assets and liabilities, professional liability claims, estimated bonuses, valuation of billed and unbilled receivables, and anticipated tax liabilities that affect the amounts reported in the condensed consolidated financial statements and related notes.
As discussed further in Note 2 – Acquisitions and Divestitures, we have classified the operating results of our reinsurance and property and casualty insurance brokerage business as discontinued operations for all periods presented in our condensed consolidated statements of operations. This business was sold in November 2013.

Note 2 — Acquisitions and Divestitures.

Acquisition

There was one acquisition in the nine months ended March 31, 2014, which was not material for the purposes of financial statement disclosures as required by Accounting Standards Codification (“ASC”) 805. Our acquisition information is included to provide our investors with a better understanding of our strategic acquisitions.

Liazon Corporation Acquisition

On November 22, 2013, Towers Watson purchased Liazon Corporation (“Liazon”), a leader in developing and delivering private benefit exchanges for active employees, for $203.2 million in cash and assumed equity awards valued at $8.0 million. See Note 12 for further information on the assumed stock options. The Liazon business became a new line of business, which complements our existing OneExchange offerings under the Exchange Solutions segment. Together these solutions help organizations, both large and small, deliver self- and fully-insured benefits to both employees as well as pre- and post-65 retirees. We included the results of Liazon's operations since the acquisition date in the Exchange Solutions segment and in our condensed consolidated financial statements.
During the second and third quarters of fiscal 2014, we recorded the tangible assets received, liabilities assumed, and the preliminary fair value of intangibles. The intangibles included developed technology, valued at $34.3 million, and other intangibles that were collectively immaterial. Our estimate of fair value for the technology intangible was developed using the multi-period excess earnings method valuation model. Significant assumptions used in the valuation were estimated revenues and expenses, contributory asset charges, required rates of return, and discount rates. Based on the fair value of these intangibles, we also recorded a net deferred tax liability of $0.7 million. It was determined that total consideration was $211.2 million, and we recorded $174.0 million of goodwill related to the

acquisition of Liazon.

7

Divestitures

Sale of our Brokerage business.

On September 19, 2013, we entered into a definitive agreement to sell our Reinsurance and Property and Casualty Insurance Brokerage (“Brokerage”) business to Jardine Lloyd Thompson Group plc (“JLT”) for cash consideration of $250 million. The Brokerage business was a component of our Risk and Financial Services segment. The sale closed during our second quarter of fiscal year 2014. We divested this business as part of our strategy to focus on the businesses where we are market leaders. We continue to focus on risk consulting, software and other services for the insurance industry. The business will be branded for a transitional period of 15 months from the closing date as JLT Towers Re.

As part of the transaction, we entered into an Alliance Agreement with JLT that will ensure clients have continued access to our risk consulting and software services. This agreement will also provide JLT Towers Re with continued use of Towers Watson’s proprietary actuarial models and software.

The Company assessed the guidance under ASC 205 to determine if the Alliance Agreement or any other terms of the sale agreement constituted significant continuing direct cash flows or significant continuing involvement with the Brokerage business after the sale. The Company compared the cash flows expected to be recognized from the Brokerage business as a result of the continuation or migration of activities after the disposal transaction to the projected generation of cash flows by the Brokerage business that we could have expected absent the disposal transaction. Based on this analysis, the expected annual cash inflows or outflows related to the portion of revenues shared or commissions received or paid and software sales under the Alliance Agreement are each expected to represent approximately 1% or less of the annual revenues generated by our Brokerage business operations prior to the disposal. This was deemed not significant.

The Company also calculated the expected cash flows associated with the placement of its insurance and reinsurance arrangements. The Company agreed to use JLT as its broker-of-record for all insurance and reinsurance transactions to which the Company’s wholly-owned captive insurance company, Stone Mountain Insurance Company, is a party for the next five years. These amounts were previously eliminated as intercompany transactions, and are $2.8 million for fiscal year 2014. Additionally, the Company agreed to a Transitional Services Agreement with JLT for a two-year period ending November 5, 2015. The Company expects to incur approximately $6.3 million each year in occupancy or other infrastructure costs, which were prepaid as part of deal consideration or will be repaid by JLT over the next two years. The cash flows associated with these arrangements represent approximately 7.4% of the annual expenses generated by our Brokerage operations prior to the disposal, which was deemed not significant.

The Company noted that none of the aforementioned agreements or arrangements constituted significant continuing involvement because they do not afford the Company the ability to influence the financial or operating decisions of JLT. Accordingly, we concluded that the continuing cash flows expected after the sale of our Brokerage business do not preclude discontinued operations presentation, and the Company has therefore reclassified the results of our Brokerage business’s operations as discontinued operations for all periods presented in our condensed consolidated statements of operations. The following selected financial information relates to the Brokerage business’s operations for the three and nine months ended March 31, 2014 and 2013, respectively:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Revenue from discontinued operations	$—	$47,990	$63,762	$124,227
(Loss)/income from discontinued operations before taxes	(1,037)	18,321	23,361	32,016
Tax expense on discontinued operations	188	6,621	8,989	11,158
Net (loss)/income from discontinued operations	(1,225)	11,700	14,372	20,858
Gain from sale of discontinued operations	5,151	—	23,631	—

Tax (credit)/expense on gain from sale of discontinued operations	(13)	—	32,023	—
Net income/(loss) from sale of discontinued operations	5,164	—	(8,392)	—
Total net income from discontinued operations	$3,939	$11,700	$5,980	$20,858

8

Only the fiduciary assets and liabilities associated with the European businesses were sold. North American fiduciary assets and liabilities have not been disposed of due to certain legal restrictions which do not permit the transfer of these assets and liabilities.

In addition to the stated $250 million cash consideration stipulated in the sale agreement, a preliminary purchase price adjustment of $28.7 million was paid to the Company by JLT representing the preliminary value of net assets transferred in the sale. The completion accounts and this purchase price adjustment were finalized during the Company's third fiscal quarter and an additional $2.7 million is expected to be received during the fourth fiscal quarter.

As part of the sale, the Company agreed to repay JLT for retention payments made to certain employees of Brokerage if they remain with the business on the 30-day anniversary of the sale and the first and second anniversary of the sale. The value ascribed to this portion of the obligation is $21.7 million at the time of the sale. The remaining liability at March 31, 2014 is carried at fair value on the accompanying consolidated balance sheets (see Note 5 – Fair Value Measurements). The total amount has been classified as current or non-current liabilities based on the expected payment dates.

The obligation for retention payments and certain other negotiated terms reduced total consideration received at close to $215.1 million. Total transaction and integration costs were approximately $6.4 million. We finalized the completion accounts and the purchase price adjustments during the third quarter of fiscal 2014. Our final pre-tax gain on the sale is $23.6 million. The sale of our Brokerage business resulted in a significant taxable gain since the disposal of the goodwill and intangible assets associated with the business is not deductible for tax.

Note 3 — Investments.

We hold available-for-sale investments comprised of fixed income securities, equity securities and mutual funds / exchange-traded funds. We also hold held-to-maturity investments comprised of fixed income securities. See Note 5 – Fair Value Measurements for the investments by type of security. The fixed income securities all mature within twelve months of the balance sheet date and are classified as short-term investments on the condensed consolidated balance sheet. We held no material trading securities as of March 31, 2014 and June 30, 2013.

Additional information on available-for-sale security balances is provided in the following table as of March 31, 2014 and June 30, 2013:

	As of March 31, 2014				As of June 30, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Fixed income securities (a)	$14,992	$2	$—	$14,994	$56,602	$15	$(2)	$56,615
Equity securities (a)	114	16	(3)	127	853	476	(1)	1,328
Mutual funds and exchange-traded funds (b)	47,912	1,641	—	49,553	26,666	14	(97)	26,583

(a) As of March 31, 2014, all fixed income securities are classified as held-to-maturity and are reflected as short-term investments on the condensed consolidated balance sheet. As of June 30, 2013, all fixed income securities are classified as available-for-sale and are reflected as short-term investments on the condensed consolidated balance sheet. Certain liquid short-term investments, such as term deposits and certificates of deposits, are classified as short-term investments on the balance sheet but are not available-for-sale or held-to-maturity investments and therefore, are not included in the table above.

(b) Reflected as short-term investments or other assets on the condensed consolidated balance sheet as of March 31, 2014 and June 30, 2013.

For all investments, other than fixed income securities, amortized cost represents the cost basis of the investment as of the purchase or Merger date. Proceeds from sales and maturities of investments of available-for-sale securities during the nine months ended March 31, 2014 were $59.3 million, resulting in realized gains of $0.8 million that is reflected as income from discontinued operations on the condensed consolidated statement of operations. For the nine months ended March 31, 2014, $1.6 million of these proceeds related to the sale of investments as part of the divestiture of our Brokerage business. Proceeds from sales and maturities of investments of available-for-sale securities during the nine months ended March 31, 2013 were $34.7 million, resulting in no realized gains/losses. There were no proceeds from sales and maturities of held-to-maturity securities during the nine months ended March 31, 2014 and March 31, 2013.

There were no material investments that have been in a continuous loss position for more than six months, and there have been no other-than-temporary impairments recognized. There were no material investments with unrealized losses as of March 31, 2014. The aggregate fair value of investments with unrealized losses as of June 30, 2013 was $36.3 million.

Note 4 — Goodwill and Intangible Assets.

The components of goodwill and intangible assets are outlined below for the nine months ended March 31, 2014:

	Benefits	Risk and Financial Services	Talent and Rewards	Exchange Solutions	All Other	Total
Balance as of June 30, 2013	$1,233,272	$534,150	$108,850	$341,449	$1,214	$2,218,935
Goodwill related to acquisitions	—	—	—	173,968	—	173,968
Goodwill related to disposals	—	(167,822)	—	—	—	(167,822)
Translation adjustment	38,260	17,647	3,109	—	—	59,016
Balance as of March 31, 2014	$1,271,532	$383,975	$111,959	$515,417	$1,214	$2,284,097

Included in the Risk and Financial Services activity is a $167.8 million reduction in goodwill related to the disposal of our Brokerage business, which was completed on November 6, 2013. See Note 2 for additional information regarding the sale of this business.

Included in the Exchange Solutions goodwill acquired is $174.0 million of goodwill related to the acquisition of Liazon, which closed on November 22, 2013. We recorded the consideration less the tangible assets and liabilities as goodwill as of March 31, 2014. See Note 2 for additional information regarding this acquisition.

The following table reflects changes in the net carrying amount of the components of finite-lived intangible assets for the nine months ended March 31, 2014:

	Customer related intangible	Core/ developed technology	Favorable lease agreements	Trademarks & trade names	Total
Balance as of June 30, 2013	$246,247	$69,515	$3,565	$—	$319,327
Intangibles acquired	600	34,300	—	150	35,050
Intangibles related to disposal	(8,254)	—	—	—	(8,254)
Amortization	(35,106)	(22,146)	(710)	(150)	(58,112)
Translation adjustment	5,187	715	(16)	—	5,886
Balance as of March 31, 2014	$208,674	$82,384	$2,839	$—	$293,897

For the three and nine months ended March 31, 2014, we recorded $19.4 million and $57.4 million, respectively, of amortization related to our intangible assets, exclusive of favorable lease agreements. For the three and nine months ended March 31, 2013, we recorded $19.4 million and $59.3 million, respectively, of amortization related to our intangible assets. These amounts include amortization that has been classified within income from discontinued operations on the accompanying condensed consolidated statements of operations.

Included in the change in customer related intangible assets is the reduction of $8.3 million associated with the sale of our Brokerage business, which closed on November 6, 2013.

As part of the integration of our Retirement business, during the second quarter of fiscal 2012, management decided to discontinue the use of an application that was acquired in the Merger with an expected useful life of ten years. We calculated no impairment associated with this application and we shortened the life of the intangible asset and accelerated the amortization in the same pattern in which our clients are transitioned to the surviving application, which is expected to occur predominantly over the next two to three years. To develop our estimated useful remaining life of the application, we are using client engagement revenue and the planned transition developed by our business management. For the three and nine months ended March 31, 2014, we recorded $0.4 million and $1.7 million, respectively, of additional amortization expense and $3.8 million and $6.3 million of additional amortization expense for the three and nine months ended March 31, 2013, respectively.

Our indefinite-lived non-amortizable intangible assets consist of acquired trade names. The carrying value of these assets were $377.3 million and $368.4 million as of March 31, 2014 and June 30, 2013, respectively. The change during the period was due to foreign currency translation.

Our acquired unfavorable lease liabilities were $11.0 million and $13.5 million as of March 31, 2014 and June 30, 2013, respectively, and are recorded in the other noncurrent liabilities in the condensed consolidated balance sheet. The change for the nine months ended March 31, 2014 was comprised of a reduction to rent expense of $2.5 million.

The following table reflects the carrying value of finite-lived intangible assets and liabilities as of March 31, 2014 and June 30, 2013:

	As of March 31, 2014		As of June 30, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets and liabilities:				
Trade name	$520	$520	$370	$370
Customer related intangibles	387,223	178,549	390,027	143,780
Core/developed technology	175,566	93,182	164,762	95,247
Favorable lease agreements	6,453	3,614	6,496	2,931
Total finite-lived intangible assets	$569,762	$275,865	$561,655	$242,328
Unfavorable lease agreements	25,982	14,947	25,591	12,122
Total finite-lived intangible liabilities	$25,982	$14,947	$25,591	$12,122

Certain trademark and trade-name intangible assets have indefinite useful lives and are not amortized. The weighted average remaining life of amortizable intangible assets and liabilities at March 31, 2014 was 5.3 years.

The following table reflects:

1) future estimated amortization expense for amortizable intangible assets consisting of customer related intangibles and core/developed technology, and

2) the rent offset resulting from the amortization of the net lease intangible assets and liabilities for the remainder of fiscal 2014 and for subsequent fiscal years:

Fiscal year ending June 30,	Amortization	Rent (Offset) Expense	
2014	$17,937	$(575	)
2015	67,783	(2,027	)
2016	57,714	(1,567	)
2017	53,379	(1,864	)
2018	42,967	(1,981	)
Thereafter	51,278	(182	)
Total	$291,058	$(8,196	)

Note 5 — Fair Value Measurements.

We have categorized our financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall into different levels of the fair value hierarchy. In such

cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.
Financial assets and liabilities recorded in the accompanying condensed consolidated balance sheets are categorized based on the inputs in the valuation techniques as follows:
Level 1 — Financial assets and liabilities whose values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
Level 2 — Financial assets and liabilities whose values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 — Financial assets and liabilities whose values are based on unobservable inputs for the asset or liability.

The following presents our assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and June 30, 2013:

	Fair Value Measurements on a Recurring Basis at March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities:				
Corporate bonds (a)	$—	$14,994	$—	$14,994
Equity securities (a)	127	—	—	127
Mutual funds / exchange traded funds (b)	49,553	—	—	49,553
Derivatives:				
Foreign exchange forwards (c)	—	417	—	417
Liabilities:				
Derivatives:				
Foreign exchange forwards (c)	$—	$1,183	$—	$1,183
Contingent Liabilities:				
Retention bonus liability (d)	—	—	19,807	19,807

	Fair Value Measurements on a Recurring Basis at June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities:				
U.S. treasury securities and obligations of the U.S government, government agencies and authorities (a)	$2,014	$—	$—	$2,014
U.S. Corporate bonds (a)	—	53,100	—	53,100
Foreign corporate bonds (a)	—	1,501	—	1,501
Equity securities (a)	1,328	—	—	1,328
Mutual funds / exchange-traded funds (b)	26,583	—	—	26,583
Derivatives:				
Foreign exchange forwards (c)	—	546	—	546
Liabilities:				
Derivatives:				
Foreign exchange forwards (c)	$—	$353	$—	$353

(a) These assets are included in short-term investments on the condensed consolidated balance sheet.

(b) These assets are included in short-term investments or other assets on the condensed consolidated balance sheet.

(c) These derivative investments are included in other current assets or accounts payable, accrued liabilities and deferred income on the condensed consolidated balance sheet. See Note 6 for further information on our derivative investments.

(d) These liabilities are included in other current liabilities and other noncurrent liabilities on the condensed consolidated balance sheet. The fair value was determined using a discounted cash flow model. There have been no material changes in the fair value of this liability subsequent to initial recognition.

We record gains or losses related to the changes in the fair value of our financial instruments for foreign exchange forward contracts accounted for as foreign currency hedges in general and administrative expenses in the condensed consolidated statements of operations. For the three and nine months ended March 31, 2014, we recorded gains of $0.1 million and $0.1 million, respectively, for instruments still held at March 31, 2014. For the three and nine months ended March 31, 2013, we recorded losses of $1.5 million and $1.5 million for instruments still held at March 31, 2013, respectively. There were no material gains or losses recorded in the condensed consolidated statements of operations for available-for-sale securities still held at March 31, 2014 or 2013.

To determine the fair value of our derivative positions, we use valuations from the counterparty of each hedge. This is a Level 2 valuation based on observable rates in the market. Counterparties use proprietary models to calculate values and are not actual quotes that could be used to terminate the contracts, but we believe the valuations are very close to the value of each contract if terminated since we review the valuations and compare these valuations against our own calculated fair value. We monitor the counterparty default risk both before the hedge is placed and prospectively throughout the life of the contract and would adjust fair values if asset impairment was deemed significant.

The U.S. Treasury securities, equity securities, exchange traded funds and mutual funds are valued using quoted market prices as of the end of the trading day. Corporate bonds and certain obligations of government agencies or states, municipalities and political subdivisions are valued based on yields currently available on comparable securities of issuers with similar credit ratings. We monitor the value of the investments for other-than-temporary impairment on a quarterly basis.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Levels 1, 2 or 3 during the three and nine months ended March 31, 2014.

Note 6 — Derivative Financial Instruments.

We are exposed to market risk from changes in foreign currency exchange rates. Where possible, we identify exposures in our business that can be offset internally. Where no natural offset is identified, we may choose to enter into various derivative

transactions. These instruments have the effect of reducing our exposure to unfavorable changes in foreign currency rates. We do not enter into derivative transactions for trading purposes.
A number of our foreign subsidiaries receive revenues (through either internal or external billing) in currencies other than their functional currency. As a result, the foreign subsidiary's functional currency revenue will fluctuate as the currency exchange rates change. To reduce this variability, we use foreign exchange forward contracts to hedge the foreign exchange risk of the forecasted collections. We have designated these derivatives as cash flow hedges of its forecasted foreign currency denominated collections. We also use derivative financial contracts, principally foreign exchange forward contracts, to hedge other non-functional currency obligations. These exposures primarily arise from intercompany lending and other liabilities denominated in foreign currencies. At March 31, 2014, the longest outstanding maturity was 15 months. As of March 31, 2014, a net $0.9 million pretax loss was deferred in accumulated other comprehensive income and is expected to be recognized in general and administrative expenses during the next 12 months when the hedged revenue is recognized.
As of March 31, 2014 and June 30, 2013, we had cash flow and economic hedges with a notional value of $63.3 million and $107.2 million, respectively, to hedge cash flow and balance sheet exposures. We determine the fair value of our foreign currency derivatives based on quoted prices received from the counterparty for each contract, which we evaluate using pricing models whose inputs are observable. The net fair value of all derivatives held as of March 31, 2014 and June 30, 2013 was a liability of $0.8 million and an asset of $0.2 million, respectively. See Note 5, Fair Value Measurements, for further information regarding the determination of fair value.
The fair value of our derivative instruments held as of March 31, 2014 and June 30, 2013 and their location in the condensed consolidated balance sheet are as follows:

	Derivative assets			Derivative liabilities		
	Balance sheet location	Fair value		Balance sheet location	Fair value	
		March 31, 2014	June 30, 2013		March 31, 2014	June 30, 2013
Derivatives designated as hedging instruments:						
Foreign exchange forwards	Other current assets	$295	$395	Accounts payable, accrued liabilities and deferred income	$(1,181)	$(159)
Derivatives not designated as hedging instruments:						
Foreign exchange forwards	Other current assets	122	151	Accounts payable, accrued liabilities and deferred income	(2)	(194)
Total derivative assets (liabilities)		$417	$546		$(1,183)	$(353)

The effects of derivative instruments that are designated as hedging instruments on the consolidated statements of operations and the consolidated statements of changes in stockholders' equity for the three months ended March 31, 2014 and 2013 and for the nine months ended March 31, 2014 and 2013 are as follows:

Derivatives designated as hedging instruments for the three months ended March 31, 2014 and 2013:	Gain recognized in OCI (effective portion)		Location of loss reclassified from OCI into income (effective portion)	Loss reclassified from OCI into income (effective portion)		Location of loss recognized in income (ineffective portion and amount excluded from effectiveness testing)	Loss recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	2014	2013		2014	2013		2014	2013
Foreign exchange Forwards	$85	$556	General and administrative expenses	$(520)	$(386)	General and administrative expenses	$(4)	$(1)
Total	$85	$556		$(520)	$(386)		$(4)	$(1)

Derivatives designated as hedging instruments for the nine months ended March 31, 2014 and 2013:	Loss recognized in OCI (effective portion)		Location of loss reclassified from OCI into income (effective portion)	Loss reclassified from OCI into income (effective portion)		Location of loss recognized in income (ineffective portion and amount excluded from effectiveness testing)	Loss recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	2014	2013		2014	2013		2014	2013
Foreign exchange forwards	$(1,978)	$(503)	General and administrative expenses	$852	$(121)	General and administrative expenses	$(1)	$(1)
Total	$(1,978)	$(503)		$852	$(121)		$(1)	$(1)

Included in the notional values above are $25.8 million and $33.6 million as of March 31, 2014 and June 30, 2013, respectively, of derivatives held as economic hedges primarily to hedge intercompany loans denominated in currencies other than the functional currency. The effects of derivatives that have not been designated as hedging instruments on the condensed consolidated statements of operations for the three and nine months ended March 31, 2014 and 2013 are as follows:

		(Loss) gain recognized in income			
		Three Months Ended March 31,		Nine Months Ended March 31,	
Derivatives not designated as hedging instruments:	Location of (loss) gain recognized in income	2014	2013	2014	2013
Foreign exchange forwards	General and administrative expenses	$(365)	$(146)	$697	$1,928
Total		$(365)	$(146)	$697	$1,928

Note 7 — Retirement Benefits.

Defined Benefit Plans

Towers Watson sponsors both qualified and non-qualified defined benefit pension plans and other post-retirement benefit plans in North America and Europe. As of June 30, 2013, these funded and unfunded plans represented 98 percent of Towers Watson’s pension and other post-retirement benefit obligations and are disclosed herein. Towers Watson also sponsors funded and unfunded defined benefit pension plans in certain other countries as well, representing the remaining two percent of the liability.

All expenses and contributions presented in this note are inclusive of amounts classified as discontinued operations in the accompanying condensed consolidated statements of operations.

Components of Net Periodic Benefit Cost for Defined Benefit Pension Plans

The following tables set forth the components of net periodic benefit cost for the Company's defined benefit pension plan for North America and Europe for the three and nine months ended March 31, 2014 and 2013:

15

	Three Months Ended March 31,			
	2014		2013	
	North America	Europe	North America	Europe
Service cost	$17,493	$3,054	$17,731	$3,074
Interest cost	35,062	10,182	33,854	9,182
Expected return on plan assets	(46,968)	(11,457)	(46,586)	(10,168)
Amortization of net loss	5,473	2,235	11,440	1,441
Amortization of prior service (credit)/cost	(2,095)	10	(2,094)	10
Net periodic benefit cost	$8,965	$4,024	$14,345	$3,539

	Nine Months Ended March 31,			
	2014		2013	
	North America	Europe	North America	Europe
Service cost	$52,819	$9,162	$53,189	$9,221
Interest cost	105,628	30,545	101,566	27,545
Expected return on plan assets	(141,375)	(34,370)	(139,540)	(30,505)
Amortization of net loss	16,597	6,706	34,325	4,324
Amortization of prior service (credit)/cost	(6,284)	31	(6,283)	29
Net periodic benefit cost	$27,385	$12,074	$43,257	$10,614

The decrease in our North American pension expense was due to a decrease in the amortization of actuarial losses. This decrease was driven primarily by an increase in the discount rate from fiscal year 2013 to fiscal year 2014. Additionally, favorable investment returns during fiscal year 2013 combined with the recognition of the majority of our previously deferred actuarial losses during fiscal year 2013 have resulted in reduced actuarial losses being recognized in fiscal year 2014.

Components of Net Periodic Benefit Cost for Other Postretirement Plans

The following table sets forth the components of net periodic benefit cost for the Company's post-retirement plans for the three and nine months ended March 31, 2014 and 2013:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Service cost	$365	$441	$1,097	$1,323
Interest cost	2,216	2,197	6,647	6,590
Expected return on plan assets	(28)	(33)	(84)	(98)
Amortization of net (gain) loss	(436)	83	(1,309)	250
Amortization of prior service credit	(1,751)	(2,051)	(5,253)	(6,152)
Net periodic benefit cost	$366	$637	$1,098	$1,913

Employer Contributions to Defined Benefit Pension Plans

The Company made $67.0 million in contributions to the North American plans during the first nine months of fiscal year 2014 and anticipates making $5.9 million in contributions over the remainder of the fiscal year. The Company made $24.6 million in contributions to European plans during the first nine months of fiscal year 2014 and anticipates making $13.8 million in contributions over the remainder of the fiscal year. Of the amount contributed for the European plans, $10.1 million was a contribution to the German pension plan which was previously unfunded. The Company expects to fund the German plan obligation over the next 10 years.

Defined Contribution Plans

The cost of the Company's contributions to the various U.S. defined contribution plans for the three months ended March 31, 2014 and 2013 amounted to $9.9 million and $9.3 million, respectively. The cost of the Company's contributions to the plans for the nine months ended March 31, 2014 and 2013 amounted to $22.3 million and $22.3 million, respectively.

The cost of the Company's contributions to the various U.K. defined contribution plans for the three months ended March 31, 2014 and 2013 amounted to $5.2 million and $5.6 million, respectively. The cost of the Company's contributions to the plans for the nine months ended March 31, 2014 and 2013 amounted to $15.1 million and $16.8 million, respectively.

Note 8 — Debt, Commitments and Contingent Liabilities.

The debt, commitments and contingencies described below are currently in effect and would require Towers Watson, or domestic subsidiaries, to make payments to third parties under certain circumstances. In addition to commitments and contingencies specifically described below, Towers Watson has historically provided guarantees on an infrequent basis to third parties in the ordinary course of business.

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 the satisfaction of customary terms and conditions, with a syndicate of banks (the "Senior Credit Facility"). Borrowings under the Senior Credit Facility bear interest at a spread to either LIBOR or the Prime Rate. During the nine months ended March 31, 2014 and 2013, the weighted-average interest rate on borrowings under the Senior Credit Facility was 1.93% and 1.49%, respectively. We are charged a quarterly commitment fee, currently 0.175% of the Senior Credit Facility, which varies with our financial leverage and is paid on the unused portion of the Senior Credit Facility. Obligations under the Senior Credit Facility are guaranteed by Towers Watson and all of its domestic subsidiaries (other than Professional Consultants Insurance Company ("PCIC"), a majority-owned captive insurance company, and Stone Mountain Insurance Company ("SMIC"), a wholly-owned captive insurance company).

The Senior Credit Facility contains customary representations and warranties and affirmative and negative covenants. The Senior Credit Facility requires Towers Watson to maintain certain financial covenants that include a minimum Consolidated Interest Coverage Ratio and a maximum Consolidated Leverage Ratio (which terms in each case are defined in the Senior Credit Facility). In addition, the Senior Credit Facility contains restrictions on the ability of Towers Watson to, among other things, incur additional indebtedness; pay dividends; make distributions; create liens on assets; make acquisitions; dispose of property; engage in sale-leaseback transactions; engage in mergers or consolidations, liquidations and dissolutions; engage in certain transactions with affiliates; and make changes in lines of businesses. As of March 31, 2014, we were in compliance with our covenants.

As of March 31, 2014, Towers Watson had no borrowings outstanding under the Senior Credit Facility.

Letters of Credit under the Senior Credit Facility

As of March 31, 2014, Towers Watson had standby letters of credit totaling $21.4 million associated with our captive insurance companies in the event that we fail to meet our financial obligations. Additionally, Towers Watson had $1.4 million of standby letters of credit covering various other existing or potential business obligations. The aforementioned letters of credit are issued under the Senior Credit Facility, and therefore reduce the amount that can be borrowed under the Senior Credit Facility by the outstanding amount of these standby letters of credit.

Term Loan Agreement Due June 2017

On June 1, 2012, the Company entered into a five-year $250 million amortizing term loan facility ("the Term Loan") with a consortium of banks. The interest rate on the term loan is based on the Company's choice of one, three or six month LIBOR plus a spread of 1.25% to 1.75%, or alternatively the bank base rate plus 0.25% to 0.75%. The spread to each index is dependent on the Company's consolidated leverage ratio. The weighted-average interest rate on the Term Loan during the nine months ended March 31, 2014 and 2013 was 1.42% and 1.47%, respectively. The Term Loan amortizes at a rate of $6.25 million per quarter, beginning in September 2013, with a final maturity date of June 1, 2017 . The Company has the right to prepay a portion or all of the outstanding Term Loan balance on any interest payment date without penalty. At March 31, 2014, the balance on the Term Loan was $231.3 million.

17

This agreement contains substantially the same terms and conditions as our Senior Credit Facility, including guarantees from all of the domestic subsidiaries of Towers Watson (other than PCIC and SMIC). The Company entered into the Term Loan as part of the financing of our acquisition of Extend Health on May 29, 2012.

Indemnification Agreements

Towers Watson has various agreements which provide that it may be obligated to indemnify the other party to the agreement with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business and in connection with the purchase and sale of certain businesses. Although it is not possible to predict the maximum potential amount of future payments that may become due under these indemnification agreements because of the conditional nature of Towers Watson's obligations and the unique facts of each particular agreement, Towers Watson does not believe any potential liability that might arise from such indemnity provisions is probable or material. There are no provisions for recourse to third parties, nor are any assets held by any third parties that any guarantor can liquidate to recover amounts paid under such indemnities.

Legal Proceedings

From time to time, Towers Watson and its subsidiaries, including Watson Wyatt and Towers Perrin, are parties to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. The matters reported on below are the material pending claims against Towers Watson and its subsidiaries. We do not expect the impact of claims not described below to be material to Towers Watson's financial statements. We also receive subpoenas in the ordinary course of business and, from time-to-time, receive requests for information in connection with governmental investigations.

Towers Watson carries substantial professional liability insurance which, effective July 1, 2010, has been provided by SMIC. For the policy period beginning July 1, 2011 certain changes were made to our professional liability insurance program. These changes remain in-force for the policy periods beginning July 1, 2011 and ending July 1, 2014. Our professional liability insurance includes a $10 million aggregate self-insured retention above the $1 million self-insured retention per claim, including the cost of defending such claims. SMIC provides us with $40 million of coverage per claim and in the aggregate, above the retentions, including the cost of defending such claims. SMIC secured $25 million of reinsurance from unaffiliated reinsurance companies in excess of the $15 million SMIC retained layer. Excess insurance attaching above the SMIC coverage is provided by various unaffiliated commercial insurance companies.

This structure effectively results in Towers Watson and SMIC bearing the first $25 million of loss per occurrence or in the aggregate above the $1 million per claim self-insured retention. As a wholly-owned captive insurance company, SMIC is consolidated into our financial statements.

Before the Merger, Watson Wyatt and Towers Perrin each obtained substantial professional liability insurance from PCIC. A limit of $50 million per claim and in the aggregate was provided by PCIC subject to a $1 million per claim self-insured retention. PCIC secured reinsurance of $25 million attaching above the $25 million PCIC retained layer from unaffiliated reinsurance companies. Our ownership interest in PCIC is 72.86%. As a consequence, PCIC's results are consolidated in Towers Watson's operating results. PCIC ceased issuing insurance policies effective July 1, 2010 and at that time entered into a run-off mode of operation. Our shareholder agreements with PCIC could require additional payments to PCIC if development of claims significantly exceeds prior expectations.

We provide for the self-insured retention where specific estimated losses and loss expenses for known claims are considered probable and reasonably estimable. Although we maintain professional liability insurance coverage, this insurance does not cover claims made after expiration of our current policies of insurance. Generally accepted accounting principles require that we record a liability for incurred but not reported ("IBNR") professional liability claims if they are probable and reasonably estimable, and for which we have not yet contracted for insurance coverage. We use actuarial assumptions to estimate and record our IBNR liability. As of March 31, 2014, we had a $182.3 million IBNR liability balance, net of recoverable receivables of our captive insurance companies. This net liability was $184.1 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 condensed consolidated balance sheet.

We reserve for contingent liabilities based on ASC 450, Contingencies, when it is determined that a liability, inclusive of defense costs, is probable and reasonably estimable. The contingent liabilities recorded are primarily developed actuarially. Litigation is subject to many factors which are difficult to predict so there can be no assurance that in the event of a material unfavorable result in one or more claims, we will not incur material costs.

Former Towers Perrin shareholder litigation

A putative class action lawsuit filed by certain former shareholders of Towers Perrin (the "Dugan Action") previously was reported in Amendment No. 3 to the Registration Statement on Form S-4/A (File No. 333-161705) filed on November 9, 2009 by the Jupiter Saturn Holding Company (the “Registration Statement”). As reported in the Registration Statement, the complaint was filed on November 5, 2009 against Towers Perrin, members of its board of directors, and certain members of senior management in the United States District Court for the Eastern District of Pennsylvania.

The named Plaintiffs in this action were former members of Towers Perrin’s senior management, who left Towers Perrin at various times between 1995 and 2000. The Dugan plaintiffs sought to represent a class of former Towers Perrin shareholders who separated from service on or after January 1, 1971, but prior to certain changes in Towers Perrin's capital structure that occurred in January 2005, and who also meet certain other specified criteria. The complaint does not contain a quantification of the damages sought.

On December 9, 2009, Watson Wyatt was informed by Towers Perrin of a settlement demand from the plaintiffs in the Dugan Action. Although the complaint in the Dugan Action did not contain a quantification of the damages sought, plaintiffs’ settlement demand, which was orally communicated to Towers Perrin on December 8, 2009 and in writing on December 9, 2009, sought a payment of $800 million to settle the action on behalf of the proposed class. Plaintiffs requested that Towers Perrin communicate the settlement demand to Watson Wyatt.

On December 17, 2009 , four other former Towers Perrin shareholders, all of whom voluntarily left Towers Perrin in May or June 2005 and all of whom were excluded from the proposed class in the Dugan Action, commenced a separate legal proceeding (the "Allen Action") in the United States District Court for the Eastern District of Pennsylvania alleging the same claims in substantially the same form as those alleged in the Dugan Action. A fifth plaintiff joined this action on August 29, 2011. These plaintiffs were proceeding in their individual capacities and did not seek to represent a proposed class.

On January 15, 2010 , another former Towers Perrin shareholder who separated from service with Towers Perrin in March 2005 when Towers Perrin and EDS launched a joint venture that led to the creation of a corporate entity known as ExcellerateHRO (“eHRO”), commenced a separate legal proceeding (the "Pao Action") in the United States District Court of the Eastern District of Pennsylvania alleging the same claims in substantially the same form as those alleged in the Dugan Action. Towers Perrin contributed its Towers Perrin Administrative Solutions (“TPAS”) business to eHRO and formerly was a minority shareholder (15)% of eHRO. Pao sought to represent a class of former Towers Perrin shareholders who separated from service in connection with Towers Perrin’s contribution to eHRO of its TPAS business and who were excluded from the proposed class in the Dugan Action. Towers Watson was also named as a defendant in the Pao Action. On January 20, 2010, the court consolidated the three actions for all purposes under the Dugan Action file number.

Pursuant to the Towers Perrin Bylaws in effect at the time of their separations, the Towers Perrin shares held by all plaintiffs were redeemed by Towers Perrin at book value when these individuals separated from employment. The complaints alleged variously that there was a promise that Towers Perrin would remain privately owned in perpetuity and an implied or actual promise that in the event of a change to public ownership plaintiffs would receive compensation. Plaintiffs alleged that by agreeing to sell their shares back to Towers Perrin at book value upon separation, they and other members of the putative classes relied upon these alleged promises, which they claim were breached as a result of the consummation of the Merger between Watson Wyatt and Towers Perrin. The complaints all asserted claims for breach of contract, breach of express trust, breach of fiduciary duty, promissory estoppel, quasi-contract/unjust enrichment, and constructive trust, and seek equitable relief including an accounting, disgorgement, rescission and/or restitution, and the imposition of a constructive trust.

On February 22, 2010, defendants filed a motion to dismiss the complaints in their entireties. By order dated September 30, 2010, the court granted the motion to dismiss plaintiffs’ claim for a constructive trust and denied the motion with respect to all other claims alleged. Pursuant to the court’s September 30, 2010 order, defendants also filed answers to plaintiffs’ complaints on October 22, 2010. Discovery in the case was bifurcated, with fact discovery to proceed before expert witness and damages discovery. Neither the plaintiffs in the Dugan Action nor the plaintiff in Pao Action moved for class certification. Defendants filed a motion for summary judgment on all claims in all actions on December 23, 2011. The court heard argument on June 19, 2012, and on December 11, 2012 granted defendants' motion, and entered judgment in favor of defendants on all claims. On January 10, 2013, plaintiffs filed a joint notice of their intent to appeal the court's judgment to the U.S. Court of Appeals for the Third Circuit. On February 13, 2013, the parties were notified that the appeal had been assigned for mediation pursuant to the Third Circuit's mediation program. During the mediation session held on May 7, 2013, the parties reached agreement on settlement terms that include payment of an aggregate $10 million to an agreed settlement class (including all persons in the classes as defined in the respective complaints in the Dugan Action and the Pao Action, plus additional former Towers Perrin shareholders who separated from Towers Perrin between January 1971 and June 2005) estimated to potentially include more than 1,000 former Towers Perrin shareholders, which payment would also cover legal fees of plaintiffs' attorneys, as determined by the court, and expenses incurred to administer the settlement.

The cases were then returned to the district court for consideration of the proposed settlement. On September 24, 2013, the court preliminarily certified the settlement class and preliminarily approved the parties' proposed settlement. At a hearing on February 12, 2014, the court gave its final approval to the settlement. The final order and judgment approving the settlement and dismissing the Dugan, Allen and Pao Actions with prejudice was entered on February 18, 2014. No appeal was taken from that final order and judgment during the applicable appeal period, and the resolution and dismissal of the cases as against all defendants is now final.

Acument Global Technologies, Inc.

In a letter to the Company dated January 26, 2011, Acument Global Technologies, Inc. ("Acument") and the Acument Global Technologies, Inc. Pension Plan (the "Plan") claimed that Towers Watson breached its fiduciary duties under the Employee Retirement Income Security Act of 1974 ("ERISA") in connection with advice provided to Acument relating to investment of certain assets of the Plan in the Westridge Capital Management Enhancements Funds (the "Westridge Funds"). Acument and the Plan demanded that the Company make the Plan whole for losses and damages allegedly sustained as a result of Acument's decision to invest in the Westridge Funds. Watson Wyatt Investment Consulting, Inc. ("WWIC"), now known as Towers Watson Investment Services, Inc. ("TWIS"), provided investment consulting services to Acument between December 1, 2007 and April 30, 2010. In connection with those services, WWIC recommended an investment in the Westridge Funds. In July 2008, Acument made a $47.0 million investment in the Westridge Funds. During the period December 1, 2008 through January 22, 2009, Acument made additional investments of $9.5 million, bringing the aggregate investment of the Plan's assets in the Westridge Funds to $56.5 million.

As the result of information obtained during an investigation of Westridge Capital Management, its affiliates WG Trading Investors, L.P. and WG Trading Company, L.P. (collectively referred to as "Westridge") and their principals, commenced by the National Futures Association on February 5, 2009, the Commodities Future Trading Commission filed suit against Westridge and its principals alleging violations of the Commodity Exchange Act. This resulted in a court-supervised receivership of the assets of Westridge. The Securities and Exchange Commission ("SEC") filed a separate suit on February 25, 2009 against Westridge and its principals alleging violations of the federal securities laws. In its complaint, the SEC alleges that Westridge had become a fraudulent investment scheme by which its principals purportedly misappropriated approximately $553 million from a number of highly sophisticated institutional investors, including public pension and retirement plans and educational institutions, some of which were investing in Westridge as late as February 6, 2009. We believe that, to date, Acument has recovered approximately $39.7 million of its investment in the Westridge Funds from the receivership. The Company declined Acument's demand for compensation.

On January 20, 2012, Acument and the Acument Pension Plan (referred to together as "Acument") filed suit against the Company and TWIS in the United States District Court for the Southern District of New York. The complaint alleges four counts of breach of fiduciary duty under ERISA, claiming principally alleged deficiencies in the Company's due diligence relating to Westridge and in the disclosures made to Acument concerning Westridge and the nature of the investment. The Company has filed an answer to the complaint denying all claims and asserting affirmative defenses and plans to continue to defend vigorously against these legal proceedings. A mediation took place on September 5, 2012. On January 16, 2014, the Company and TWIS filed an amended answer and counterclaim asserting that Acument Global Technologies, Inc. failed to fulfill its fiduciary duties to the Acument Pension Plan with respect to its investment in the Westridge Funds. On or about February 28, 2014, the Company received Acument's expert's damages report, which asserts the range of loss to be between $38.0 million and $86.0 million, which we understand to be comprised primarily of investment losses (including opportunity costs); more specifically, Acument seeks the present-day value of an alternative investment in a "comparable" fund, less what Acument has been returned from the Westridge Receiver. On or about March 27, 2014, the Company submitted a rebuttal expert damages report, which asserts a range of up to $16.6 million. This range assumes a finding of liability and no contribution for the Company's pending counterclaim. Based on all of the information to date, including the Company's rebuttal expert damages report, the Company believes there is no reasonably possible material loss in excess of amounts currently accrued. The dispute remains extant.

Note 9 — Variable Interest Entities.

Variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity and therefore require a different approach in determining which party involved with the VIE should consolidate the entity. With a VIE, either the entity does not have sufficient equity at risk to finance its activities without additional subordinated financial

support from other parties or the entity has equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE.
Through our wholly owned subsidiaries, Towers Watson Investment Management Limited and Towers Watson Investment Management, Ireland, we manage approximately $1.8 billion of assets in investment funds that are considered VIEs and for which our management fee is considered a variable interest. We have determined that these funds qualify for the deferral to certain provisions of ASC Subtopic 810-10, Consolidation – Overall, afforded by ASU 2010-10, Consolidation – Amendments for Certain Investment Funds. In accordance with this deferral, we determine whether we consolidate the fund based on whether we absorb a majority of the fund's expected losses or receive a majority of the fund's expected returns.
During our third fiscal quarter we deconsolidated two previously consolidated funds. Previously, the contracts governing these two funds contained language that restricted the investors' ability to exercise their economic interests in the funds, thereby causing the investors to become related parties of the Company and requiring the Company to combine its own interests with the interests of these investors for purposes of performing the primary beneficiary test. This restrictive language was modified during our third fiscal quarter, which resulted in the investors, other than the Company's defined benefit retirement plans, to no longer be considered related parties, and the Company to no longer be considered the primary beneficiary of the funds. The mark-to-market gains on the investments prior to deconsolidation were $3.0 million and $6.3 million, respectively, for the three and nine months ended March 31, 2014, and are reflected on the accompanying condensed consolidated statements of operations in other non-operating income. The fair value of these investments on the date of deconsolidation, inclusive of the cumulative gains, was $339.0 million, and was removed from the condensed consolidated balance sheets by eliminating the investments of consolidated variable interest entity and by reducing non-controlling interests. The non-controlling interest balance was considered temporary equity as the units held by the investors were redeemable. The changes of the redeemable non-controlling interests balance for the nine months ended March 31, 2014 are as follows:

Balance as of June 30, 2013	$—
Subscriptions of non-controlling interest holders in consolidated VIEs	332,722
Mark-to-market gains on investments held by consolidated VIEs	6,297
Deconsolidation of VIEs	(339,019)
Balance as of March 31, 2014	$—

We are not the primary beneficiary and therefore do not consolidate any of the remaining funds as of March 31, 2014. Our maximum exposure to loss of these unconsolidated VIEs is limited to collection of any unpaid management fees (which are not material) and any potential increase to pension funding obligation due to losses incurred by the funds.

Note 10 — Accumulated Other Comprehensive Income/(Loss).
Changes in accumulated other comprehensive income/(loss), net of non-controlling interests, are provided in the following table. The difference between the amounts presented in this table and the amounts presented in the condensed consolidated statements of comprehensive income are the corresponding components attributable to non-controlling interests, which are not material for further disclosure.

	Foreign currency translation (1)	Hedge effectiveness (1)			Available-for-sale securities (2)			Defined pension and post-retirement benefit costs (3)		
		Before Tax	Tax	After Tax	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
As of June 30, 2013	$(131,096)	$237	$(105)	$132	$547	$(134)	$413	$(233,817)	$64,904	$(168,913)
Other comprehensive	88,573	(1,978)	681	(1,297)	457	(130)	327	—	—	—

income/(loss) before reclassifications										
Amounts reclassified from accumulated other comprehensive income	—	852	(293)	559	(761)	173	(588)	11,942	(2,605)	9,337
Net current-period other comprehensive income/(loss)	88,573	(1,126)	388	(738)	(304)	43	(261)	11,942	(2,605)	9,337
As of March 31, 2014	$(42,523)	$(889)	$283	$(606)	$243	$(91)	$152	$(221,875)	$62,299	$(159,576)

(1) Reclassification adjustments from accumulated other comprehensive income are included in general and administrative expenses (see Note 6 – Derivative Financial Instruments for additional details regarding the reclassification adjustments for the hedge settlements)

(2) Reclassification adjustments from accumulated other comprehensive income are included in income from discontinued operations

(3) Reclassification adjustments from accumulated other comprehensive income are included in the computation of net periodic pension cost (see Note 7 – Retirement Benefits for additional details)

Note 11 — Restricted Stock.

In conjunction with the Merger, shares of Towers Watson common stock issued to Towers Perrin shareholders were divided among four series of non-transferable Towers Watson common stock, Classes B-1, B-2, B-3 and B-4, each with a par value of $0.01 per share. In addition, on January 31, 2011, we completed the acquisition of EMB and issued 113,858 shares of Class B-3 and 113,858 shares of Class B-4 common stock, par value $0.01 per share, to the sellers as consideration. The shares were reduced through our tender offer, our secondary public offering and by the restriction lapsing and conversion to Class A common stock annually on January 1, 2011, 2012 and 2013. The remaining 5,374,070 outstanding shares of Towers Watson Class B-4 common stock converted on a one-for-one basis into freely transferable shares of Towers Watson Class A common stock on January 1, 2014.

The Towers Perrin restricted stock unit ("RSU") holders received 10% of the total consideration issued to Towers Perrin shareholders in conjunction with the Merger. The RSUs were converted into 4,248,984 shares of Towers Watson Restricted Class A Common Stock ("Restricted Class A shares").The service condition was fulfilled from the grant date through each of the three annual periods from January 1, 2010 until December 31, 2012. The restriction lapsed annually on January 1 and the Restricted Class A shares became freely tradable shares of Class A common stock on such dates. The shares were reduced by forfeitures and shares withheld for tax purposes.

For the three months ended March 31, 2013, we reversed $5.3 million of previously recorded compensation expense based on the actual number of shares forfeited upon the final vesting date of January 1, 2013. Our estimated forfeiture rate was 10% and our actual forfeitures were 11%. For the nine months ended March 31, 2013, we recorded $8.0 million of non-cash share-based compensation expense in connection with the issuance of Towers Watson Restricted Class A common stock to Towers Perrin RSU holders in the Merger. In our results of operations, $1.0 million is classified as discontinued operations for the Brokerage employees' awards relating to non-cash stock based compensation recorded for the nine months ended March 31, 2013. In our results of operations for the three months ended March 31, 2013 and for the three and nine months ended March 31, 2014, no non-cash stock based compensation expense is classified as discontinued operations since the service period of this award was complete at January 1, 2013.

Note 12 — Share-Based Compensation.

Restricted Stock Units

Executives and Employees

The Compensation Committee of our Board of Directors approves performance-vested restricted stock unit awards pursuant to the Towers Watson & Co. 2009 Long Term Incentive Plan. RSUs are designed to provide us an opportunity to offer our long-term incentive program (LTIP) and to provide key executives with a long-term stake in our success. RSUs are notional, non-voting units of measurement based on our common stock. Under the RSU agreement, participants become vested in a number of RSUs based on the achievement of specified levels of financial performance during the performance period set forth in the agreement, provided that the participant remains in continuous service with us through the end of the performance period. Any RSUs that become vested are payable in shares of our Class A Common Stock. Dividend equivalents will accrue on RSUs and vest to the same extent as the underlying shares. The form of performance-vested restricted stock unit award agreement includes a provision whereby the Committee could provide for continuation of vesting of restricted stock units upon an employee's

termination under certain circumstances such as a qualified retirement. This definition of qualified retirement is age 55 and with 15 years of experience at the company and a minimum of one year of service in the performance period.
2014 LTIP. During the first quarter of fiscal year 2014, the Compensation Committee of the Board of Directors approved a grant of 62,651 RSUs to certain of our executive officers. During the third quarter of fiscal year 2014, the Compensation Committee of the Board of Directors approved an additional grant of 2,704 RSUs as a result of new executives being added to the plan. Awards were based on the value of the executive officer's annual base salary and a multiplier, which is then converted into a target number of RSUs based on our closing stock price as of the date of grant, which was between $105.90 and $110.70. Between 0% and 204% of the target number of RSUs will vest based on the extent to which specified performance metrics are achieved over the three-year performance period from July 1, 2013 to June 30, 2016, subject to the executive officers'

continued employment with us through the end of the performance period, except in the case of a qualified retirement. The Compensation Committee approved the grants and established adjusted three-year average EPS and revenue growth during the performance period as the performance metrics for the awards. For participants that met the requirement for qualified retirement, we record the expense of their awards over the one year service period as performed. We will adjust the stock-based compensation for their awards during the performance period based upon the level of performance achieved. For the three and nine months ended March 31, 2014, we recorded $1.1 million and $3.8 million, respectively, of stock-based compensation related to these grants.

2013 LTIP. During the first quarter of fiscal year 2013, the Compensation Committee of the Board of Directors approved a grant of 121,075 RSUs to certain of our executive officers. Awards were based on the value of the executive officer's annual base salary and a multiplier, which is then converted into a target number of RSUs based on our closing stock price as of the date of grant of $54.59. Between 0% and 204% of the target number of RSUs will vest based on the extent to which specified performance metrics are achieved over the three-year performance period from July 1, 2012 to June 30, 2015, subject to the executive officers' continued employment with us through the end of the performance period, except in the case of a qualified retirement. The Compensation Committee approved the grants and established adjusted three-year average EPS and revenue growth during the performance period as the performance metrics for the awards. For participants that met the requirement for qualified retirement, we record the expense of their awards over the one year service period as performed. We will adjust the stock-based compensation for their awards during the performance period based upon the level of performance achieved. For the three and nine months ended March 31, 2014, we recorded a reduction in expense of $0.4 million and expense of $0.6 million of stock-based compensation related to these grants, respectively. For the three and nine months ended March 31, 2013, we recorded $1.4 million and $4.3 million of stock-based compensation related to these grants, respectively.

2012 LTIP. During the fiscal year ended June 30, 2012, 86,188 RSUs were granted to certain of our executive officers. Awards are based on the value of the executive officer's annual base salary and a multiplier, which is then converted into a target number of RSUs based on our closing stock price as of the date of grant which was between $63.73 and $63.94. Between 0% and 204% of the target number of RSUs will vest based on the extent to which specified performance metrics are achieved over the three-year performance period from July 1, 2011 to June 30, 2014, subject to the executive officers' continued employment with us through the end of the performance period, except in the case of a qualified retirement. The Compensation Committee approved the grants and established adjusted EBITDA margin and revenue growth during the performance period as the performance metrics for the awards. For participants that met the requirement for qualified retirement, we record the expense of their awards over the one year service period as performed. We will adjust the stock-based compensation for their awards during the performance period based upon the level of performance achieved. For the three and nine months ended March 31, 2014, we recorded reductions to expense of $0.5 million and $1.0 million, respectively, of stock-based compensation related to these grants as we adjusted the cumulative expense recorded in the third quarter of fiscal year 2014 according to the performance metric. For the three and nine months ended March 31, 2013, we recorded $0.3 million and $1.8 million, respectively, of stock-based compensation related to these grants.

2014 ES LTIP. In August 2013, the Compensation Committee of the Board of Directors awarded 30,192 RSUs under the 2009 Plan to select executives of our Exchange Solutions segment with a grant date fair value of $81.73, based on our closing stock price. Between 0% and 204% of the target number of RSUs will vest based on the extent to which specified performance metrics are achieved over the two-year performance period from July 1, 2013 to June 30, 2015, subject to continued employment with us through the end of the performance period. The Compensation Committee approved the grants and established EBITDA margin and revenue growth during the performance period as the performance metrics for the awards. For the three and nine months ended March 31, 2014, we recorded $0.4 million and $1.1 million, respectively, of non-cash stock based compensation in the Exchange Solutions business segment.

Liazon RSUs. In November 2013, in connection with the acquisition, we assumed the Liazon Corporation 2011 Equity Incentive Plan and converted the outstanding unvested restricted stock units into 70,533 Towers Watson restricted stock units using a conversion ratio stated in the agreement for the exercise price and number of options. The fair value of these restricted stock units was calculated using the fair value share price of Towers Watson's closing share price on the date of acquisition. We determined the fair value of the portion of the 70,533 outstanding RSUs related to pre-acquisition employee service using Towers Watson graded vesting methodology from the date of grant to the acquisition date to be $5.7 million which was added to the transaction consideration. The fair value of the remaining portion of RSUs related to the post-acquisition employee services was $2.1 million, and will be recorded over the future vesting periods. For the three and nine months ended March 31, 2014, we recorded $0.4 million and $0.7 million, respectively, of non-cash stock based compensation.

2013 SEP. During the quarter ended September 30, 2013, 131,286 RSUs were granted to certain employees under our Select Equity Plan with a grant date fair value of $91.43, based on our closing stock price. The RSUs vest annually over a three-year

period. We assumed a 5% forfeiture rate with these awards. For the three and nine months ended March 31, 2014, we recorded $1.6 million and $5.0 million, respectively, of non-cash stock based compensation related to these grants.
2012 SEP. During the quarter ended September 30, 2012, 147,503 RSUs were granted to certain employees under our Select Equity Plan with a grant date fair value of $53.93, based on our closing stock price. The RSUs vest annually over a three-year period. We assumed a 5% forfeiture rate with these awards. For the three and nine months ended March 31, 2014, we recorded $0.5 million and $1.5 million, respectively, of non-cash stock based compensation related to these grants. For the three and nine months ended March 31, 2013, we recorded $1.2 million and $3.5 million, respectively, of non-cash stock-based compensation related to these grants.
2011 SEP. During the quarter ended September 30, 2011, 577,191 RSUs were granted to certain employees under our Select Equity Plan, of which 288,595 were vested immediately in conjunction with our annual fiscal year 2011 performance bonus payments. The remaining 288,595 RSUs vest annually over a three-year period. We assumed a 5% forfeiture rate with these awards. For the three and nine months ended March 31, 2014, we recorded $0.4 million and $1.3 million of non-cash stock based compensation related to these grants, respectively. For the three and nine months ended March 31, 2013, we recorded $1.1 million and $3.3 million of non-cash stock based compensation related to these grants, respectively.
We classified $1.2 million for the nine months ended March 31, 2014 to discontinued operations related to non-cash stock based compensation for the Brokerage employees awards under our SEP Plan. There were no amounts classified to discontinued operations related to non-cash stock based compensation for the Brokerage employees awards under our SEP Plan for the three months ended March 31, 2014. We classified $0.1 million and $0.4 million for the three and nine months ended March 31, 2013, respectively, to discontinued operations related to non-cash stock based compensation for the Brokerage employees awards under our SEP Plan.

Outside Directors
The Towers Watson & Co. Compensation Plan for Non-Employee Directors provides for cash and stock compensation for outside directors. During the three months ended September 30, 2013, 10,251 RSUs were granted for the annual award for outside directors for service on the board of directors in equal quarterly installments over fiscal year 2014. During the three months ended September 30, 2012, 16,027 restricted stock units were granted for the annual award for outside directors for service on the board of directors in equal quarterly installments over fiscal year 2013. In fiscal year 2010, 22,149 restricted stock units were granted for the initial award for outside directors for service on the board of directors, which vest in equal annual installments over a three-year period ending January 1, 2013. We recorded non-cash stock based compensation related to these awards for outside directors of $0.1 million and $0.8 million, respectively, for the three and nine months ended March 31, 2014, and $0.1 million and $0.9 million, respectively, for the three and nine months ended March 31, 2013.
Stock Options
Liazon Options. In November 2013, in connection with the Liazon acquisition, we assumed the Liazon Corporation 2011 Equity Incentive Plan and converted the outstanding unvested employee stock options into 37,162 Towers Watson stock options using a conversion ratio stated in the agreement for the exercise price and number of options. The fair value of the vested stock options was calculated using the Black-Scholes model with a volatility and risk-free interest rate over the expected term of each group of options using the fair value share price of Towers Watson's closing share price on the date of acquisition. The fair value of the new awards was less than the acquisition date fair value of the replaced Liazon options; accordingly, no compensation expense was recorded. We determined the fair value of the portion of the 37,162 outstanding options relating to the pre-acquisition employee service using Towers Watson graded vesting methodology from the date of grant to the acquisition date to be $2.2 million, which was added to the transaction consideration. The fair value of the remaining portion of unvested options related to the post-acquisition employee service was $1.7 million, which will be recorded over the future vesting periods. We recorded non-cash stock based compensation related to these awards of $0.3 million and $0.4 million, respectively, for the three and nine months ended March 31, 2014.
Extend Health Options. In May 2012, we assumed the Extend Health, Inc. 2007 Equity Incentive Plan and converted the outstanding unvested employee stock options into 377,614 Towers Watson stock options using a conversion ratio

stated in the agreement for the exercise price and number of options. The fair value of the vested stock options was calculated using the Black-Scholes model with a volatility and risk-free interest rate over the expected term of each group of options using the fair value share price of Towers Watson's closing share price on the date of acquisition. The fair value of the new awards was less than the acquisition date fair value of the replaced Extend Health options; accordingly, no compensation expense was recorded. We determined the fair value of the portion of the 377,614 outstanding options related to pre-acquisition employee service using Towers Watson graded vesting methodology from the date of grant to the acquisition date was $11.2 million, which was added to the transaction consideration. The fair value of the remaining portion of the unvested options, less 10% estimated forfeitures, was $7.9 million, and will be recorded over the future vesting periods. We recorded non-cash stock based compensation related to these awards of $0.3 million and $1.2 million, respectively, for the three and nine months ended March 31, 2014 and $1.1 million and $5.0 million, respectively, for the three and nine months ended March 31, 2013.

Note 13 — Income Taxes.

Provision for income taxes on continuing operations for the three and nine months ended March 31, 2014 was $39.2 million and $96.3 million, respectively, compared to $35.3 million and $99.6 million, respectively, for the three and nine months ended March 31, 2013. The effective tax rate was 25.7% for the nine months ended March 31, 2014 and 31.9% for the nine months ended March 31, 2013. The decrease in the effective tax rate for the nine months is primarily due to current year income tax benefits on the release of uncertain tax positions of 4.6% related to the lapses in statute of limitations in various taxing jurisdictions, primarily the U.S., and an income tax benefit of 1.0% in connection with the enacted statutory tax rate reduction in the U.K. Towers Watson records a tax benefit on net operating loss carryovers and net deferred tax assets only if it is more likely than not that a benefit will be realized.

It is reasonably possible that during the next 12 months the Company's liability for uncertain tax positions may change by a significant amount. The Company may settle certain U.S. tax examinations or have lapses in statute of limitations for different amounts than the Company has accrued as uncertain tax positions. The Company may need to accrue and ultimately pay additional amounts for tax positions that previously met a more likely than not standard if such positions are not upheld. Conversely, the Company could settle positions with the tax authorities for amounts lower than have been accrued or extinguish a position through payment. The Company believes the outcomes which are reasonably possible within the next 12 months may result in a reduction in the liability for uncertain tax positions in the range of approximately $5.0 million to $11.8 million, excluding interest and penalties.

On September 13, 2013, the Treasury Department and the Internal Revenue Service released final regulations that provide guidance on the deductibility of amounts paid to acquire, produce, or improve tangible property. These regulations also provide rules applicable to materials and supplies. The Company has assessed the impacts of these regulations and confirmed that the impact of these new regulations will not be material to the financial statements.

Note 14 — Segment Information.

Towers Watson has four reportable operating segments or business areas:

- Benefits
- Risk and Financial Services
- Talent and Rewards
- Exchange Solutions

Towers Watson's chief operating decision maker is its chief executive officer. It was determined that Towers Watson operational data used by the chief operating decision maker is that of the segments. Management bases strategic goals and decisions on these segments and the data presented below is used to assess the adequacy of strategic decisions, the method of achieving these strategies and related financial results.

Management evaluates the performance of its segments and allocates resources to them based on net operating income on a pre-bonus, pre-tax basis. Revenue includes amounts that were directly incurred on behalf of our clients and reimbursed by them (reimbursable expenses).

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 newly acquired Liazon entity within the existing Exchange Solutions segment to better align their respective strategic goals. The restructuring is expected to take place on July 1, 2014. We are still evaluating the impact to our operating segments and the related disclosures.

All periods presented have been recast to exclude the operating results of our Brokerage business, which has been classified as discontinued operations.
The table below presents specified information about the continuing operations of the reported segments for the three months ended March 31, 2014:

	Benefits	Risk and Financial Services	Talent and Rewards	Exchange Solutions	Total
Revenue (net of reimbursable expenses)	$527,414	$ 174,382	$127,572	$47,551	$876,919
Net operating income	175,129	53,047	11,558	14,353	254,087

The table below presents specified information about the continuing operations of the reported segments for the three months ended March 31, 2013:

	Benefits	Risk and Financial Services	Talent and Rewards	Exchange Solutions	Total
Revenue (net of reimbursable expenses)	$523,489	$ 177,396	$124,914	$30,621	$856,420
Net operating income	184,304	46,426	13,179	14,648	258,557

The table below presents specified information about the continuing operations of the reported segments for the nine months ended March 31, 2014:

	Benefits	Risk and Financial Services	Talent and Rewards	Exchange Solutions	Total
Revenue (net of reimbursable expenses)	$1,471,780	$ 477,343	$451,464	$118,677	$2,519,264
Net operating income	461,016	109,976	108,718	13,586	693,296

The table below presents specified information about the continuing operations of the reported segments for the nine months ended March 31, 2013:

	Benefits	Risk and Financial Services	Talent and Rewards	Exchange Solutions	Total
Revenue (net of reimbursable expenses)	$1,500,035	$ 499,301	$441,334	$60,259	$2,500,929
Net operating income	505,975	110,950	99,048	(1,245)	714,728

The table below presents a reconciliation of the information reported by segment to the consolidated amounts reported from continuing operations for the three and nine months ended March 31, 2014 and 2013:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Revenue:				
Total segment revenue	$876,919	$856,420	$2,519,264	$2,500,929
Reimbursable expenses and other	27,914	36,557	83,663	96,304
Revenue	$904,833	$892,977	$2,602,927	$2,597,233
Net Operating Income:				
Total segment net operating income	$254,087	$258,557	$693,296	$714,728
Differences in allocation methods (1)	(6,885)	(5,010)	9,970	984
Amortization of intangibles	(19,380)	(18,955)	(56,963)	(57,777