

Western Union CO  
Form 10-Q  
August 04, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2010**

**OR**

**o 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: 001-32903**

**THE WESTERN UNION COMPANY  
(Exact name of registrant as specified in its charter)**

**DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)**

**20-4531180  
(I.R.S. Employer  
Identification No.)**

**12500 EAST BELFORD AVENUE  
ENGLEWOOD, CO  
(Address of Principal Executive Offices)**

**80112  
(Zip Code)**

**Registrant's telephone number, including area code (866) 405-5012**

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

Indicate by check mark whether the registrant 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ 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 ☒

As of July 30, 2010, 660,120,082 shares of our common stock were outstanding.

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THE WESTERN UNION COMPANY

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**THE WESTERN UNION COMPANY**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Transaction fees	\$ 995.5	\$ 999.9	\$ 1,961.2	\$ 1,958.4
Foreign exchange revenues	249.3	217.2	487.4	422.3
Commission and other revenues	28.6	37.2	57.5	74.8
Total revenues	1,273.4	1,254.3	2,506.1	2,455.5
Expenses:				
Cost of services	727.7	700.3	1,442.3	1,369.4
Selling, general and administrative	234.7	212.3	437.0	403.5
Total expenses	962.4	912.6	1,879.3	1,772.9
Operating income	311.0	341.7	626.8	682.6
Other income/(expense):				
Interest income	0.5	2.8	1.4	6.5
Interest expense	(41.1)	(39.8)	(79.9)	(79.8)
Derivative gains/(losses), net	0.7	0.8	(0.2)	(2.8)
Other income/(expense), net	1.2	(9.8)	0.2	(5.6)
Total other expense, net	(38.7)	(46.0)	(78.5)	(81.7)
Income before income taxes	272.3	295.7	548.3	600.9
Provision for income taxes	51.3	75.5	119.4	156.8
Net income	\$ 221.0	\$ 220.2	\$ 428.9	\$ 444.1
Earnings per share:				
Basic	\$ 0.33	\$ 0.31	\$ 0.63	\$ 0.63
Diluted	\$ 0.33	\$ 0.31	\$ 0.63	\$ 0.63
Weighted-average shares outstanding:				
Basic	669.3	700.6	675.6	703.8

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Diluted	671.6	702.7	677.9	705.2
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See Notes to Condensed Consolidated Financial Statements.

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**THE WESTERN UNION COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
**(in millions, except per share amounts)**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,746.8	\$ 1,685.2
Settlement assets	2,341.3	2,389.1
Property and equipment, net of accumulated depreciation of \$354.8 and \$335.4, respectively	196.1	204.3
Goodwill	2,156.5	2,143.4
Other intangible assets, net of accumulated amortization of \$401.7 and \$355.4, respectively	471.8	489.2
Other assets	435.2	442.2
Total assets	\$ 7,347.7	\$ 7,353.4
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 469.3	\$ 501.2
Settlement obligations	2,341.3	2,389.1
Income taxes payable	305.7	519.0
Deferred tax liability, net	276.6	268.9
Borrowings	3,296.5	3,048.5
Other liabilities	258.6	273.2
Total liabilities	6,948.0	6,999.9
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$1.00 par value; 10 shares authorized; no shares issued		
Common stock, \$0.01 par value; 2,000 shares authorized; 661.6 shares and 686.5 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	6.6	6.9
Capital surplus	73.2	40.7
Retained earnings	364.9	433.2
Accumulated other comprehensive loss	(45.0)	(127.3)
Total stockholders' equity	399.7	353.5
Total liabilities and stockholders' equity	\$ 7,347.7	\$ 7,353.4

See Notes to Condensed Consolidated Financial Statements.





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	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 428.9	\$ 444.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	30.1	26.9
Amortization	55.5	45.9
Stock compensation expense	20.6	16.2
Other non-cash items, net	(4.9)	28.6
Increase/(decrease) in cash, excluding the effects of acquisitions, resulting from changes in:		
Other assets	64.2	10.7
Accounts payable and accrued liabilities	(36.3)	(24.0)
Income taxes payable (Note 14)	(213.5)	67.7
Other liabilities	(18.5)	(9.8)
Net cash provided by operating activities	326.1	606.3
<b>Cash flows from investing activities</b>		
Capitalization of contract costs	(13.0)	(5.5)
Capitalization of purchased and developed software	(9.8)	(6.5)
Purchases of property and equipment	(20.8)	(27.9)
Acquisition of business, net of cash acquired		(145.2)
Proceeds from receivable for securities sold		234.9
Repayments of notes receivable issued to agents	16.9	11.1
Net cash (used in)/provided by investing activities	(26.7)	60.9
<b>Cash flows from financing activities</b>		
Proceeds from exercise of options	11.9	5.9
Cash dividends paid	(80.1)	
Common stock repurchased	(417.1)	(100.1)
Net repayments of commercial paper		(82.8)
Net proceeds from issuance of borrowings	247.5	496.6
Principal payments on borrowings		(500.0)
Net cash used in financing activities	(237.8)	(180.4)
Net change in cash and cash equivalents	61.6	486.8
Cash and cash equivalents at beginning of period	1,685.2	1,295.6
Cash and cash equivalents at end of period	\$ 1,746.8	\$ 1,782.4

**Supplemental cash flow information:**

Interest paid	\$	77.8	\$	83.0
Income taxes paid (Note 14)	\$	341.4	\$	84.3
Non-cash exchange of 5.400% notes due 2011 for 5.253% notes due 2020	\$	303.7	\$	

See Notes to Condensed Consolidated Financial Statements.

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**THE WESTERN UNION COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**1. Business and Basis of Presentation**

*Business*

The Western Union Company ( Western Union or the Company ) is a leader in global money transfer and payment services, providing people and businesses with fast, reliable and convenient ways to send money and make payments around the world. The Western Union® brand is globally recognized. The Company's services are available through a network of agent locations in more than 200 countries and territories. Each location in the Company's agent network is capable of providing one or more of the Company's services.

The Western Union business consists of the following segments:

Consumer-to-consumer money transfer services between consumers, primarily through a global network of third-party agents using the Company's multi-currency, real-time money transfer processing systems. This service is available for international cross-border transfers that is, the transfer of funds from one country to another and, in certain countries, intra-country transfers that is, money transfers from one location to another in the same country.

Global business payments the processing of payments from consumers or businesses to other businesses. The Company's business payments services allow consumers to make payments to a variety of organizations including utilities, auto finance companies, mortgage servicers, financial service providers, government agencies and other businesses. As described further in Note 4, in September 2009, the Company acquired Canada-based Custom House, Ltd. ( Custom House ), a provider of international business-to-business payment services, which is included in this segment. Custom House facilitates cross-border, cross-currency payment transactions. While the Company continues to pursue further international expansion of its offerings in this segment, the majority of the segment's revenue was generated in the United States during all periods presented.

All businesses that have not been classified into the consumer-to-consumer or global business payments segments are reported as Other and primarily include the Company's money order services business.

There are legal or regulatory limitations on transferring certain assets of the Company outside of the countries where these assets are located, or which constitute undistributed earnings of affiliates of the Company accounted for under the equity method of accounting. However, there are generally no limitations on the use of these assets within those countries. Additionally, the Company must meet minimum capital requirements in some countries in order to maintain operating licenses. As of June 30, 2010, the amount of net assets subject to these limitations totaled nearly \$190 million.

Various aspects of the Company's services and businesses are subject to United States federal, state and local regulation, as well as regulation by foreign jurisdictions, including certain banking and other financial services regulations.

*Basis of Presentation*

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The accompanying condensed consolidated financial statements are unaudited and were prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) have been condensed or omitted.

The unaudited condensed consolidated financial statements in this quarterly report are presented on a consolidated basis and include the accounts of the Company and its majority-owned subsidiaries. Results of

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**THE WESTERN UNION COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts have been eliminated.

In the opinion of management, these condensed consolidated financial statements include all the normal recurring adjustments necessary to fairly present the Company's condensed consolidated results of operations, financial position and cash flows as of June 30, 2010 and for all periods presented. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements within the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Consistent with industry practice, the accompanying Condensed Consolidated Balance Sheets are unclassified due to the short-term nature of Western Union's settlement obligations contrasted with the Company's ability to invest cash awaiting settlement in long-term investment securities.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

*Restructuring and Related Expenses*

The Company records severance-related expenses once they are both probable and estimable in accordance with the provisions of the applicable accounting guidance for severance provided under an ongoing benefit arrangement. One-time, involuntary benefit arrangements and other exit costs are generally recognized when the liability is incurred. The Company also evaluates impairment issues associated with restructuring activities when the carrying amount of the assets may not be fully recoverable, in accordance with the appropriate accounting guidance. Restructuring and related expenses consist of direct and incremental expenses associated with restructuring and related activities, including severance, outplacement and other employee related benefits; facility closure and migration of the Company's IT infrastructure; and other expenses related to the relocation of various operations to new or existing Company facilities and third-party providers, including hiring, training, relocation, travel and professional fees. Also included in the facility closure expenses are non-cash expenses related to fixed asset and leasehold improvement write-offs and the acceleration of depreciation. For more information on the Company's restructuring and related expenses see Note 3.

*Consolidation of Variable Interest Entities*

On January 1, 2010, the Company adopted new accounting standards for the consolidation of variable interest entities. These new accounting standards amend the evaluation criteria to determine whether an enterprise has a controlling financial interest in a variable interest entity. This determination identifies the primary beneficiary of a variable interest entity as the enterprise that has both the power to direct the activities of a variable interest entity that most significantly impacts the entity's economic performance and the ability to absorb losses or the right to receive benefits of the entity that could potentially be significant to the variable interest entity. The new guidance also requires an ongoing reassessment of the primary beneficiary. Adoption of these new requirements did not have an impact on the Company's consolidated financial position, results of operations or cash flows.



Table of Contents**THE WESTERN UNION COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)****2. Earnings Per Share and Dividends***Earnings Per Share*

The calculation of basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Unvested shares of restricted stock are excluded from basic shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options at the presented dates are exercised and shares of restricted stock have vested, using the treasury stock method. The treasury stock method assumes proceeds from the exercise price of stock options, the unamortized compensation expense and assumed tax benefits of options and restricted stock are available to acquire shares at an average market price throughout the year, and therefore, reduce the dilutive effect.

For the three months ended June 30, 2010 and 2009, there were 36.8 million and 38.0 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation as their effect was anti-dilutive. For the six months ended June 30, 2010 and 2009, there were 36.2 million and 41.5 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation as their effect was anti-dilutive.

The following table provides the calculation of diluted weighted-average shares outstanding (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Basic weighted-average shares outstanding	669.3	700.6	675.6	