

Western Union CO
Form 424B3
November 09, 2006
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File No. 333-137322

Prospectus Supplement No. 1

to Prospectus Dated September 28, 2006

THE WESTERN UNION COMPANY

The Western Union Company 2006 Long-Term Incentive Plan

Shares of Common Stock, Par Value \$0.01 Per Share

This prospectus supplement supplements information contained in the prospectus dated September 28, 2006 relating to the offer and sale of shares of our common stock issuable in connection with Western Union stock options issued in connection with our spin-off from First Data Corporation and effective as of September 29, 2006, the distribution date for the spin-off, to current and former employees and directors of certain subsidiaries of First Data Corporation who held First Data Corporation stock options at that time and who did not become Western Union employees at the time of the spin-off. This prospectus supplement should be read in conjunction with, and may not be delivered or utilized without, the prospectus. This prospectus supplement is qualified by reference to the prospectus, except to the extent that the information in this prospectus supplement supersedes the information contained in the prospectus.

This prospectus supplement includes our attached Quarterly Report on Form 10-Q dated November 8, 2006.

In reviewing this prospectus supplement and the prospectus, you should carefully consider the risks under **Risk Factors beginning on page 10 of the prospectus.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 9, 2006.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-32903

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

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

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

Large accelerated filer Accelerated filer Non-Accelerated filer

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

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As of September 30, 2006, 766,456,165 shares of our common stock were outstanding.

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Table of Contents**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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues:				
Transaction fees	\$ 940.1	\$ 853.9	\$ 2,731.7	\$ 2,458.1
Foreign exchange revenue	169.0	137.4	478.6	386.0
Commission and other revenues	31.3	28.0	86.7	75.6
Total revenues	1,140.4	1,019.3	3,297.0	2,919.7
Expenses:				
Cost of services	626.0	528.5	1,779.4	1,523.8
Selling, general and administrative	177.3	148.1	541.4	440.6
Total expenses*	803.3	676.6	2,320.8	1,964.4
Operating income	337.1	342.7	976.2	955.3
Derivative gains/(losses), net	5.4	1.8	(21.8)	38.6
Foreign exchange effect on notes receivable from First Data, net	14.2	(0.8)	10.1	(10.6)
Interest income from First Data, net	12.2	5.1	35.7	14.3
Interest expense	(1.1)		(1.1)	
Other income, net	12.1	2.5	29.5	8.3
Income before income taxes	379.9	351.3	1,028.6	1,005.9
Provision for income taxes	121.8	109.4	331.8	312.4
Net income	\$ 258.1	\$ 241.9	\$ 696.8	\$ 693.5
Earnings per share:				
Basic	\$ 0.34	\$ 0.32	\$ 0.91	\$ 0.91
Diluted	\$ 0.34	\$ 0.32	\$ 0.91	\$ 0.91
Weighted-average shares outstanding:				
Basic	763.9	763.9	763.9	763.9
Diluted	764.0	763.9	763.9	763.9

* As further described in Note 3, total expenses include amounts paid to related parties of \$110.1 million and \$93.0 million for the three months ended September 30, 2006 and 2005, respectively, and \$306.6 million and \$264.2 million for the nine months ended September 30, 2006 and 2005, respectively.

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)

	September 30, 2006	December 31, 2005
Assets		
Cash and cash equivalents	\$ 1,327.6	\$ 510.2
Settlement assets	1,218.3	929.1
Receivables from First Data, net		192.8
Notes receivable from First Data		751.5
Property and equipment, net of accumulated depreciation of \$206.2 and \$183.6, respectively	157.8	82.4
Goodwill	1,600.7	1,618.0
Other intangible assets, net of accumulated amortization of \$191.0 and \$155.6, respectively	260.3	180.4
Other assets	473.9	342.0
 Total assets	 \$ 5,038.6	 \$ 4,606.4
Liabilities and Stockholders (Deficiency)/Net Investment in The Western Union Company		
Liabilities:		
Accounts payable and accrued liabilities	\$ 418.6	\$ 238.6
Settlement obligations	1,216.5	926.7
Pension obligations	69.2	69.8
Deferred tax liability, net	268.8	248.1
Notes payable to First Data		163.5
Borrowings	3,499.6	
Other liabilities	140.5	147.9
 Total liabilities	 5,613.2	 1,794.6
Commitments and contingencies (Note 4)		
Stockholders (Deficiency)/Net Investment in The Western Union Company:		
Preferred stock, \$1.00 par value; 10 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value; 2,000 shares authorized; 766.5 shares issued and outstanding at September 30, 2006	7.7	
Capital deficiency	(525.4)	
Net investment in The Western Union Company		2,873.9
Retained earnings/(deficit)	(1.5)	
Accumulated other comprehensive loss	(55.4)	(62.1)
 Total Stockholders (Deficiency)/Net Investment in The Western Union Company	 (574.6)	 2,811.8
 Total Liabilities and Stockholders (Deficiency)/ Net Investment in The Western Union Company	 \$ 5,038.6	 \$ 4,606.4

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**THE WESTERN UNION COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(in millions)**

	Nine Months Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 696.8	\$ 693.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	24.8	23.8
Amortization	50.4	34.1
Deferred income tax provision	19.5	21.5
Realized (gain)/loss on derivative instruments	(4.1)	7.9
Other non-cash items, net	34.9	12.9
Decrease in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Other assets	(37.1)	(39.2)
Accounts payable and accrued liabilities	(6.4)	(9.0)
Other liabilities	(1.2)	(34.5)
Net cash provided by operating activities	777.6	711.0
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalization of contract costs	(106.7)	(9.4)
Capitalization of software development costs	(8.4)	(7.0)
Purchases of property and equipment	(42.5)	(23.2)
Notes receivable issued to agents	(140.0)	(8.4)
Proceeds from repayments of notes receivable issued to agents	12.8	
Cash received/(paid) on maturity of foreign currency forwards	4.1	(7.9)
Purchase of equity method investments		(5.8)
Net cash used in investing activities	(280.7)	(61.7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from/(to) affiliates of First Data	160.2	(525.7)
Dividends to First Data	(2,953.9)	
Proceeds from issuance of debt	2,500.0	
Repayments of notes payable to First Data	(154.5)	(227.0)
Notes payable issued to First Data		262.8
Proceeds from repayments of notes receivable from First Data	776.2	
Additions to notes receivable from First Data	(7.5)	(374.7)
Net cash provided by/(used in) financing activities	320.5	(864.6)
Net change in cash and cash equivalents	817.4	(215.3)
Cash and cash equivalents at beginning of period	510.2	469.7
Cash and cash equivalents at end of period	\$ 1,327.6	\$ 254.4
Supplemental cash flow and non-cash activities information:		
Notes issued in conjunction with dividend to First Data, net of debt issuance costs and discount	\$ 995.1	\$
Net liabilities and (assets) transferred from First Data in connection with the September 29, 2006 spin-off	148.2	
Interest paid (primarily to First Data, prior to the September 29, 2006 spin-off)	3.1	0.1

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Income taxes paid (primarily to First Data, prior to the September 29, 2006 spin-off)	312.4	290.9
See Notes to Condensed Consolidated Financial Statements.		

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	Common Stock		Net Investment in The Western Union Company				Accumulated Other Comprehensive Loss		Total Stockholders (Deficiency)/ Net Investment in The Western Union Company
	Shares	Amount		Capital Deficiency	Retained Earnings/ (Deficit)				
Balance, January 1, 2005			\$ 1,994.5			\$ (60.0)		1,934.5	
Net income			927.4					927.4	
Dividends to First Data			(417.2)					(417.2)	
Capital contributed by First Data			369.2					369.2	
Unrealized losses on investment securities, net of tax						(2.2)		(2.2)	
Foreign currency translation adjustment, net of tax						(4.8)		(4.8)	
Minimum pension liability adjustment, net of tax of \$2.7						4.9		4.9	
Balance, December 31, 2005			2,873.9			(62.1)		2,811.8	
Net income			698.3		(1.5)			696.8	
Dividends to First Data			(4,097.2)					(4,097.2)	
Conversion of net investment in The Western Union Company into capital deficiency	765.3	7.7	525.0	(532.7)					
Stock-based compensation	1.2			7.3				7.3	
Unrealized losses on investment securities, net of tax						(0.4)		(0.4)	
Unrealized gains on hedging activities, net of tax						0.1		0.1	
Foreign currency translation adjustment, net of tax						7.0		7.0	
Balance, September 30, 2006	766.5	\$ 7.7	\$	\$ (525.4)	\$ (1.5)	\$ (55.4)	\$	(574.6)	

See Notes to Condensed Consolidated Financial Statements.

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Formation of the Entity and Basis of Presentation

The spin-off by First Data Corporation (First Data) of its money transfer and consumer payments business to The Western Union Company (Western Union or the Company) became effective on September 29, 2006 through a distribution of 100% of the common stock of The Western Union Company to the holders of record of First Data s common stock (the Distribution). The Distribution was pursuant to a separation and distribution agreement by which First Data contributed to The Western Union Company the subsidiaries that operated its money transfer and consumer payments businesses and its interest in a Western Union money transfer agent, as well as related assets, including real estate. The Company has received a private letter ruling from the Internal Revenue Service and an opinion from tax counsel indicating that the spin-off was tax free to the stockholders, First Data and Western Union.

The Western Union business consists of the following segments:

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

Consumer-to-business focuses on payments from consumers to businesses and other organizations that receive consumer payments, including utilities, auto finance companies, mortgage servicers, financial service providers and government agencies, through Western Union s network of third-party agents and various electronic channels. This service is generally available only within the United States. All businesses that have not been classified into the consumer-to-consumer or consumer-to-business segments are reported as Other and include the Company s money order and prepaid services businesses. The Company s money order business sells Western Union branded money orders issued by Integrated Payment Systems Inc. (IPS), a subsidiary of First Data, to consumers at non-bank retail locations. Western Union s prepaid service business markets a Western Union branded prepaid debit card and provides top-up services for third parties that allow consumers to pay in advance for mobile phone and other services. Also included in Other are certain expenses incurred by Western Union to effect the spin-off.

The primary entities providing the services described above are Western Union Financial Services, Inc. (WUFSI), Vigo Remittance Corp. (Vigo), Orlandi Valuta, E Commerce Group and Paymap, Inc. There are additional legal entities included in the Condensed Consolidated Financial Statements of The Western Union Company, including First Financial Management Corporation (FFMC), WUFSI s immediate parent company.

Various aspects of the Company s services and businesses are subject to U.S. federal, state and local regulation, as well as regulation by foreign jurisdictions, including banking regulations in certain foreign countries.

As of September 30, 2006, Western Union has two four-year labor contracts (both expiring August 6, 2008) with the Communications Workers of America, AFL-CIO representing approximately 20% of the Company s workforce.

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Spin-off from First Data

In order to effect the spin-off from First Data, on September 27, 2006, prior to being contributed to the Company, FFMC entered into a \$2.4 billion bridge financing facility with a syndicate of lenders and declared and paid a \$2.4 billion dividend to First Data, as sole stockholder in FFMC, by execution and delivery of a promissory note to First Data. On September 29, 2006, FFMC borrowed an aggregate amount of \$2.4 billion under the bridge facility and used the proceeds to settle the outstanding promissory note issued to First Data.

On September 27, 2006, the Company entered into an unsecured, revolving credit facility with a syndicate of lenders. On September 29, 2006, the Company borrowed \$100 million on such revolving credit facility and transferred the proceeds to First Data, issued notes to First Data of \$1.0 billion and issued 765,255,273 shares of its common stock to First Data, all in consideration for the contribution of First Data's money transfer and consumer payments businesses and related subsidiaries, including FFMC. Immediately following completion of the spin-off, First Data exchanged the \$1.0 billion in notes with two financial institutions for indebtedness of First Data that these two financial institutions held at that time. The financial institutions then received the proceeds from the subsequent sale of the notes in a private offering. Refer to Note 9 for more information on the borrowings of the Company.

As the money transfer and consumer payments businesses, which were contributed by First Data to the Company, have already been reflected in the Company's historical financial statements as if such businesses had always been a part of the Company, the total amount of the cash and debt securities transferred to First Data of \$3.5 billion, including the \$2.4 billion dividend declared by FFMC, has been reflected as a dividend to First Data in the Condensed Consolidated Financial Statements.

The remaining approximately \$602 million reflected as a dividend to First Data was comprised of cash, consideration for an ownership interest held by a First Data subsidiary in one of the Company's agents which had already been reflected as part of the Company, settlement of net intercompany receivables (exclusive of certain intercompany notes discussed in the following paragraph), and transfers of certain liabilities, net of assets.

The Company also settled certain intercompany notes receivable and payable with First Data along with related interest and currency swap agreements associated with such notes as part of the spin-off. The net settlement of the principal and related swaps resulted in a net cash inflow of \$724.0 million to the Company's cash flows from financing activities. The net settlement of interest on such notes receivable and payable of \$40.7 million was reflected in cash flows from operating activities in the Company's Condensed Consolidated Statement of Cash Flows.

Amounts included in Retained earnings/(deficit) reflect the Company's earnings subsequent to the spin-off date of September 29, 2006.

Basis of Presentation

The accompanying Condensed Consolidated Interim Financial Statements are unaudited and are 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 for the periods presented prior to the Distribution are presented on a combined basis and represent those entities that were ultimately transferred to the Company as part of the spin-off. The assets and liabilities presented have been reflected on a historical basis, as prior to the Distribution such assets and liabilities presented were 100% owned by First Data. However, the combined financial statements for the periods presented prior to the Distribution do not include all of the actual expenses that would have been incurred had Western Union been a stand-alone entity during the periods presented and do not reflect Western Union's combined results of operations, financial position and cash

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

flows had Western Union been a stand-alone company during the periods presented. The results of operations for the three and nine months ended September 30, 2006 and 2005 and the cash flows for the nine months ended September 30, 2006 and 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or any other future period as a result of the presentation described above.

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 September 30, 2006 and for all periods presented. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's combined financial statements as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 included within the Company's registration statement on Form 10, as amended. Significant accounting policies disclosed therein have not changed.

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.

Earnings Per Share

The calculation of basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Prior to September 29, 2006, all outstanding shares of Western Union were owned by First Data. Accordingly, for all periods prior to the completion of the Distribution on September 29, 2006, basic and diluted earnings per share are computed using Western Union's shares outstanding as of that date. Unvested shares of restricted stock are excluded from basic shares outstanding. Diluted earnings per share subsequent to September 29, 2006 reflects the potential dilution that could occur if outstanding stock options at the presented dates are exercised and shares of restricted stock have vested and shares have been transferred in settlement of stock unit awards.

Prior to completion of the Distribution, First Data converted options, restricted stock awards, and restricted stock units held by First Data and Western Union employees. For First Data employees, one replacement First Data option and one Western Union option was distributed for every First Data option held prior to the spin-off. For Western Union employees, outstanding First Data options were converted to substitute options to purchase Western Union common stock at a conversion ratio of 2.1955 options to purchase Western Union common stock for every option to purchase First Data common stock prior to the spin-off. The new awards maintained both the pre-conversion aggregate intrinsic value of each award and the ratio of the exercise price per share to the fair market value per share as of the spin-off date. Refer to Note 11, "Stock Compensation Plans," for a more detailed discussion of our stock-based compensation plans.

As of September 30, 2006, there were outstanding options to purchase 20.8 million shares of Western Union stock, for which the exercise price of the options exceeded or was equal to the Company's stock price. Accordingly, these options are excluded from the diluted earnings per share calculation.

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(Unaudited)

The following table provides the calculation of diluted weighted average shares outstanding, and only considers the potential dilution for stock options, restricted stock awards and restricted stock units for the period subsequent to the spin-off date of September 29, 2006 (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2006	2005	September 30, 2006	2005
Basic weighted-average shares	763.9	763.9	763.9	763.9
Common stock equivalents existing after the spin-off	0.1			
Diluted weighted-average shares outstanding	764.0	763.9	763.9	763.9

Significant Non-Cash Financing and Investing Activities

In connection with the spin-off, the Company executed the following transactions which involved no cash:

The Company issued \$1.0 billion in notes to First Data in partial consideration for the contribution by First Data to the Company of its money transfer and consumer payments businesses (Note 9). The Company did not receive any proceeds from the subsequent private offering of the notes.

First Data transferred to the Company its headquarters in Englewood, Colorado and certain other fixed assets with a net book value of \$66.5 million.

The Company transferred to First Data certain investments with a net book value of \$20.9 million.

The Company reclassified certain tax and employee-related obligations from intercompany liabilities totaling \$193.8 million.

First Data distributed 765.3 million shares of Western Union's common stock to holders of First Data common stock.

Stock-Based Compensation

Prior to the spin-off, employees of Western Union participated in First Data's stock-based compensation plans. The Company currently has a stock-based compensation plan that grants Western Union stock options, restricted stock awards and restricted stock units to employees and other key individuals who perform services for the Company. In addition, the Company has a stock-based compensation plan that provides for grants of Western Union stock options and stock unit awards to non-employee directors of the Company.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS No. 123R), using the modified prospective method. SFAS No. 123R requires all stock-based compensation to employees be measured at fair value and expensed over the requisite service period and also requires an estimate of forfeitures when calculating compensation expense. The Company recognizes compensation expense on awards on a straight-line basis over the requisite service period for the entire award. In

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accordance with the Company's chosen method of adoption, results for prior periods have not been adjusted. Prior to the adoption of SFAS No. 123R, the Company followed Accounting Principles Board (APB) Opinion No. 25 which accounts for share-based payments to employees using the intrinsic value method and, as such, generally recognized no compensation expense for employee stock options. Refer to Note 11 for additional discussion regarding details of the Company's stock-based compensation plans and the adoption of SFAS No. 123R.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48), regarding accounting for, and disclosure of, uncertain tax positions. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the potential impact of the adoption of FIN 48 on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company is currently evaluating the potential impact of the adoption of SFAS No. 157 on its consolidated financial position, results of operations and cash flows.

On September 29, 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of SFAS No. 87, 88, 106 and 132(R) (SFAS No. 158). The statement requires employers to recognize the overfunded and underfunded portion of a defined benefit plan as an asset or liability, respectively, and any unrecognized gains and losses or prior service costs as a component of accumulated other comprehensive income. SFAS No. 158 also requires a plan's funded status to be measured at the employer's fiscal year-end. The requirement to recognize the funded status of a defined benefit plan and the disclosure requirements of SFAS No. 158 are effective for the Company as of December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year end is effective for the Company in 2008. The Company is currently evaluating the potential impact of the adoption of SFAS No.158 but does not expect it to have a material impact due to the frozen status of the Company's defined benefit pension plans. However, the Company will need to change its measurement date from September 30 to December 31 no later than 2008.

2. Acquisitions and Disposals

In October 2005, First Data acquired 100% of GMT Group, Inc. (GMT), the owner of Vigo, a provider of consumer-to-consumer money transfer services to various countries, for approximately \$369.2 million, including cash acquired of \$20.1 million. GMT was contributed to Western Union in connection with the spin-off. The results of Vigo's operations have been included in the Condensed Consolidated Financial Statements since the acquisition date. The purchase price allocation resulted in \$83.6 million of identifiable intangible assets, which are being amortized over 3.5 to 11 years, except for acquired trademarks aggregating \$28.6 million, which are being amortized over 25 years. Goodwill of \$285.2 million was recorded in connection with the acquisition of GMT, none of which is expected to be deductible for tax purposes.

In August 2003, the Company acquired a 51% ownership interest in EPOSS Limited (Eposs), a United Kingdom based seller of prepaid products in Europe, for \$12.2 million, including cash acquired of \$9.2 million. The purchase price allocation resulted in identifiable intangible assets of \$7.2 million and goodwill of \$28.0 million. In the fourth quarter of 2005, Western Union recorded a goodwill impairment charge of \$8.7 million due to a change in strategic direction. In the second quarter 2006, the Company sold its majority interest in EPOSS Limited. The fair value of net assets on disposition approximated the net book value subsequent to the recognition of the goodwill impairment charge noted above.

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Related Party Transactions

Related Party Transactions with First Data

The Condensed Consolidated Statements of Income prior to the spin-off include expense allocations for certain corporate functions historically provided to Western Union by First Data. If possible, these allocations were made on a specific identification basis. Otherwise, the expenses related to services provided to Western Union by First Data were allocated to Western Union based on relative percentages, as compared to First Data's other businesses, of headcount or other appropriate methods depending on the nature of each item or cost to be allocated.

Charges for functions historically provided to Western Union by First Data are primarily attributable to First Data's performance of many shared services that the Company benefited from prior to the spin-off, of which certain of these services continue to be provided through transition services agreements as described below. In addition, prior to the spin-off, the Company also participated in certain First Data insurance, benefit and incentive plans, and it received services directly related to the operations of its businesses such as call center services, credit card processing, printing and mailing. The Condensed Consolidated Statements of Income reflect charges from First Data and its affiliates for these services of \$55.3 million and \$48.5 million for the three months ended September 30, 2006 and 2005, respectively, and \$152.4 million and \$135.7 million for the nine months ended September 30, 2006 and 2005, respectively. Included in the charges above are amounts recognized for stock-based compensation expense, as well as net periodic benefit income associated with the Company's pension plans.

The Company has entered into certain transition services agreements with First Data pursuant to which First Data and Western Union are providing each other with a variety of administrative services for a period of time following the spin-off. Services provided by First Data to Western Union include data center hosting, disaster recovery and monitoring services, call center support, network connectivity, system support, information security system support, payroll, benefits and human resources. Services provided by Western Union to First Data include call center support, benefits resource support, software development and support, and network connectivity. Western Union and First Data have agreed to make each service available to the other on an as-needed basis for a period of time not to exceed one year following September 29, 2006, the date of the spin-off. The fees charged by Western Union and First Data are based on either cost plus or local market conditions for comparable services. As of September 30, 2006, minimal costs had been incurred under these agreements.

Western Union and First Data entered into a number of commercial service agreements in connection with the spin-off pursuant to which First Data or its subsidiaries and Western Union are providing services to each other. Services provided by First Data to Western Union include producing and mailing cards and other material on behalf of Western Union, check printing services, check clearing and remittance processing services, lockbox and escheatment services, interactive voice response and maintenance support, transaction validation services, hosting and operating banking software in its data center, access to a risk management application, software development services and payroll card services. Services provided by Western Union to First Data include providing bill payment processing services and payment services. The costs charged by Western Union and First Data for these services are based upon either cost plus or local market conditions for comparable services. These agreements have terms ranging from one to six years. As of September 30, 2006, minimal costs had been incurred under these agreements, as the agreements became effective in connection with the spin-off on September 29, 2006.

First Data and Western Union entered into agreements beginning on September 29, the date of the spin-off with respect to subleasing certain properties to each other. All subleases, the majority of which are subject to renewal within the next two years, are priced at levels reflecting either market rates or the pro-rata share of square footage utilized. First Data has subleased property to Western Union in various states and countries including Georgia, Maryland, New Zealand and Ireland. Western Union has subleased property to First Data in California, Colorado, Florida, Georgia, Texas, India, Japan, South Africa and United Arab Emirates.

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Other Related Party Transactions

The Company has ownership interests in certain of its agents, all of which are accounted for under the equity method of accounting. The Company pays these agents, as it does its other agents, commissions for money transfer and other services provided on the Company's behalf. Commissions paid to these agents for the three months ended September 30, 2006 and 2005 totaled \$54.8 million and \$44.5 million, respectively, and \$154.2 million and \$128.5 million for the nine months ended September 30, 2006 and 2005, respectively.

4. Commitments and Contingencies

In the normal course of business, Western Union is subject to claims and litigation. Management of Western Union believes such matters involving a reasonably possible chance of loss will not, individually or in the aggregate, result in a materially adverse effect on Western Union's financial position, results of operations or cash flows. Western Union accrues for loss contingencies as they become probable and estimable.

On August 21, 2006, the Interregional Inspectorate No. 50 of the Federal Tax Service of the Russian Federation for the City of Moscow (Tax Inspectorate) issued a tax audit report to OOO Western Union MT East (MT East), an indirect wholly owned subsidiary of the Company, asserting claims for the underpayment of Russian Value Added Taxes (VAT) related to the money transfer activities of MT East in Russia during 2003 and 2004. On October 24, 2006, the Tax Inspectorate issued its final decision for tax assessment and tax demand notices to MT East for approximately \$20 million, including a 20% penalty and applicable interest to date. The Company believes that the services provided in Russia by MT East qualify as banking services which are exempt from Russian VAT and intends to defend this position vigorously in Russian courts. In the event MT East is unsuccessful in defending its position, the Tax Inspectorate likely would commence a tax audit of periods subsequent to 2004 and assert a position similar to the position reflected in the current assessment. As of September 30, 2006, the Company has not accrued any potential loss or associated penalties and interest in connection with the Tax Inspectorate's claim based on the current status of the claim and the Company's belief that such services qualify as banking services which are not subject to VAT.

Western Union is subject to unclaimed or abandoned property (escheat) laws in the United States and abroad. These laws require the Company to turn over to certain government authorities the property of others held by the Company that has been unclaimed for a specified period of time, such as unredeemed money transfers. The Company holds property subject to escheat laws and the Company has an ongoing program to comply with the laws. The Company is subject to audits with regard to its escheatment practices.

In 2002, Affiliated Computer Services (ACS) notified First Data of its intent to audit First Data's escheatment practices (and those of all its subsidiaries) on behalf of 19 states (the ACS States). The ACS States have subsequently increased to 44 states. However, the ACS States have agreed to allow First Data and its subsidiaries to conduct an internal examination of their escheatment practices utilizing third-party experts. First Data has independently entered into Voluntary Disclosure Agreements with four other states (the VDA States). Like the ACS States, the VDA States agreed to allow First Data and its subsidiaries to conduct their own internal review in place of an audit by the states.

First Data completed the majority of its internal review in December 2005. As a result of that review, and in addition to amounts already recorded, the Company recognized an \$8.2 million pretax charge in the fourth quarter of 2005 for domestic and international escheatment liabilities (portions of this charge are not scheduled to be remitted until periods beyond 2006). Western Union and First Data have agreed that First Data will continue discussions with the ACS States and VDA States on behalf of Western Union and is authorized to settle the escheat liabilities within specified parameters.

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Western Union expects that the internal review and related discussions will be completed in 2007. Any difference between the amounts accrued by the Company and those claimed by a state or foreign jurisdiction will be reflected in the periods in which any resolutions occur.

5. Settlement Assets and Settlement Obligations

Settlement assets represent funds received or to be received from agents for unsettled money transfers and consumer payments. Western Union records corresponding settlement obligations relating to amounts payable under money transfer and payment service arrangements. The difference in the aggregate amount of settlement assets and obligations is due to cumulative unrealized net investment gains and losses.

Settlement assets and obligations are comprised of the following (in millions):

	As of September 30, 2006	As of December 31, 2005
Settlement assets:		
Cash and cash equivalents	\$ 416.1	\$ 183.9
Receivables from selling agents, net	647.9	593.4
Investment securities	154.3	151.8
	\$ 1,218.3	\$ 929.1
Settlement obligations:		
Money transfer and payment services payables	\$ 715.5	\$ 535.9
Payables to agents	501.0	390.8
	\$ 1,216.5	\$ 926.7

6. Other Comprehensive Income

The components of other comprehensive income are as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2006	2005	September 30, 2006	2005
Net income	\$ 258.1	\$ 241.9	\$ 696.8	\$ 693.5
Unrealized gain (loss) on investment securities	0.4	0.2	(0.4)	1.7
Unrealized gain on hedging activities	0.1		0.1	
Foreign currency translation adjustment	3.2	0.7	7.0	4.2
Total other comprehensive income	\$ 261.8	\$ 242.8	\$ 703.5	\$ 699.4

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The Company's Board of Directors approved The Western Union Company Incentive Savings Plan (401(k)) as of September 29, 2006, covering eligible non-union employees of Western Union. Employees that make voluntary contributions to this plan receive up to a 4% Western Union matching contribution. All matching contributions are immediately 100% vested. In addition, Western Union's Board of Directors adopted a non-qualified deferred compensation plan for highly compensated employees. The plan provides tax-deferred contributions, matching and the restoration of Company matching contributions otherwise limited under the 401(k). No amounts have been charged to expense in connection with the plans as of September 30, 2006 since both plans were adopted on September 29, 2006 and, therefore, no matching contributions were made.

Also, in connection with the spin-off, Western Union adopted The Western Union Company Senior Executive Incentive Plan(SEIP), which will become effective on January 1, 2007 and will allow Western Union to make annual cash-based awards to eligible senior executives based on performance against goals established at the beginning of each year by the Compensation and Benefits Committee of the Company's Board of Directors.

The Company also has a 401(k) plan covering its union employees and two frozen defined benefit pension plans covering retirees, certain non-union management and union employees which were not impacted by the spin-off. The following table provides the components of net periodic benefit expense for the defined benefit pension plans (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Interest costs	\$ 6.2	\$ 6.4	\$ 18.6	\$ 19.2
Expected return on plan assets	(7.5)	(8.4)	(22.4)	(25.3)
Amortization	1.1	0.7	3.2	2.0
Net periodic benefit expense	\$ (0.2)	\$ (1.3)	\$ (0.6)	\$ (4.1)

8. Derivative Financial Instruments

The Company is exposed to risks relating to fluctuations in foreign currency exchange rates, primarily the euro and British pound, related to forecasted revenues and also on settlement assets and obligations. The Company's policy is to minimize its exposure related to adverse changes in foreign currency exchange rates while prohibiting speculative or market-making activities. The Company uses longer-term foreign currency forward contracts, generally with maturities of one year or less, to mitigate some of the risk related to forecasted revenues. Short-term foreign currency forward contracts, generally with maturities of less than two weeks, are utilized to offset foreign exchange rate fluctuations on settlement assets and settlement obligations between transaction initiation and settlement.

The Company previously restated its financial statements for certain derivatives originally intended to qualify as cash flow hedges in accordance with SFAS No.133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138 and SFAS No. 149 (SFAS No. 133). On September 29, 2006, the Company either settled its outstanding derivatives that were determined to not qualify for hedge accounting or offset such derivatives with new derivatives that were not designated as hedges in accordance with SFAS No. 133. In addition, on September 29, 2006, the Company entered into new derivative contracts in accordance with its revised foreign currency derivatives and hedging processes, which were designated and qualify as cash flow hedges under SFAS No. 133. Due to the short duration between execution of these contracts and the balance sheet date, changes in the fair value of these derivative instruments were not significant.

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The Company recognizes all derivative instruments in the Other assets and Other liabilities captions in the accompanying Condensed Consolidated Balance Sheets at their fair value. Changes in the fair value of derivatives, which are designated and qualify as cash flow hedges, are recorded in other comprehensive income (loss) and reclassified into revenue in the same period or periods the hedged item affects earnings to the extent the change in the fair value of the instrument is effective in offsetting the change in fair value of the hedged item. The portion of the change in fair value that is considered ineffective, primarily changes in the fair value due to changes in interest rate differentials between the two currencies, and any change in fair value during periods in which the instrument is not designated as a hedge are recognized immediately in

Derivative gains/(losses), net. Derivative contracts entered into to reduce the variability related to settlement assets and obligations are not designated as hedges for accounting purposes and, as such, changes in their fair value are included in operating expenses consistent with foreign exchange rate fluctuations on the related settlement assets and obligations.

For derivatives designated as hedges (i.e. foreign currency forward contracts generally with maturities of one year or less used to mitigate some of the risks related to forecasted revenues), the details of the hedging relationship are formally documented at the inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness, if any, will be measured. The derivative must be highly effective in offsetting the changes in cash flows, and effectiveness is continually evaluated on a retrospective and prospective basis. The Company assesses the effectiveness of its hedges based on changes in the spot rate of the affected currencies; accordingly, the primary ineffectiveness that could be recorded in earnings is the interest rate differential mentioned earlier.

As of September 30, 2006, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows associated with foreign currency risk related to future revenues is 12 months. Therefore, all gains or losses in accumulated other comprehensive loss related to the forward contracts are expected to be reclassified into revenue within the next 12 months. No amounts have been reclassified into earnings as a result of the underlying transaction no longer being considered probable of occurring within the specified time period.

Western Union does not believe its derivative financial instruments expose it to more than a nominal amount of credit risk as the counterparties are established, well-capitalized financial institutions with credit ratings of A or better from major rating agencies. The credit risk inherent in these agreements represents the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. Western Union performs a review of the credit risk of these counterparties at the inception of the hedge, on a quarterly basis and as circumstances warrant. Western Union also monitors the concentration of its contracts with any individual counterparty. Western Union anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. Western Union's exposures are in liquid currencies, so there is minimal risk that appropriate derivatives to maintain the hedging program would not be available in the future.

The aggregate United States dollar equivalent notional amount of foreign currency forward contracts held by the Company with external third parties as of the balance sheet dates are as follows (in millions):

	As of	As of
	September 30, 2006	December 31, 2005
Contracts not designated as hedges:		
Euro	\$ 207.1	\$ 497.8
British pound	39.0	82.0
Other	48.0	78.1
Contracts designated as hedges:		
Euro	286.7	
British pound	61.1	

As of September 30, 2006 and December 31, 2005, the carrying value and fair value of Western Union's foreign currency forward contracts with external third parties was a \$7.8 million net liability and an \$18.3 million net asset, respectively.

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The aggregate notional amount of foreign currency swap arrangements held by the Company with First Data affiliates totaled 238.1 million euros at December 31, 2005. The fair market value of these swaps (\$7.2 million asset as of December 31, 2005) was settled in cash along with the related notes receivable in connection with the spin-off on September 29, 2006 (Note 1).

9. Borrowings

The Company's and its subsidiary's outstanding borrowings at September 30, 2006 consisted of the following (in millions):

	September 30, 2006
Short-term:	
Revolving credit facility	\$ 100.0
Bridge loan facility, due September 2007	2,400.0
Long-term:	