

Western Union CO
Form 10-Q
October 30, 2014
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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, 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: 001-32903

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 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.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ (Do not check if Smaller reporting company ☐
a 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 October 24, 2014, 522,627,069 shares of our common stock were outstanding.

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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,	
	2014	2013	2014	2013
Revenues:				
Transaction fees	\$1,040.8	\$1,029.9	\$3,057.7	\$3,024.2
Foreign exchange revenues	360.6	347.7	1,034.2	998.1
Other revenues	39.5	31.2	105.4	97.8
Total revenues	1,440.9	1,408.8	4,197.3	4,120.1
Expenses:				
Cost of services	840.5	818.2	2,465.5	2,389.3
Selling, general and administrative	286.3	295.3	867.4	861.8
Total expenses	1,126.8	1,113.5	3,332.9	3,251.1
Operating income	314.1	295.3	864.4	869.0
Other income/(expense):				
Interest income	1.8	4.6	9.4	5.7
Interest expense	(43.2	) (48.8	) (134.2	) (145.7
Derivative gains/(losses), net	0.5	(0.9	) (2.1	) (0.6
Other income/(expense), net	(0.4	) 1.5	(5.2	) 5.7
Total other expense, net	(41.3	) (43.6	) (132.1	) (134.9
Income before income taxes	272.8	251.7	732.3	734.1
Provision for income taxes	38.7	37.3	101.4	109.1
Net income	\$234.1	\$214.4	\$630.9	\$625.0
Earnings per share:				
Basic	\$0.44	\$0.39	\$1.17	\$1.12
Diluted	\$0.44	\$0.39	\$1.17	\$1.11
Weighted-average shares outstanding:				
Basic	527.8	552.1	537.0	558.5
Diluted	531.2	555.8	540.1	561.3
Cash dividends declared per common share	\$0.125	\$0.125	\$0.375	\$0.375

See Notes to Condensed Consolidated Financial Statements.

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THE WESTERN UNION COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)
 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Net income	\$234.1	\$214.4	\$630.9	\$625.0	
Other comprehensive income/(loss), net of tax (Note 9):					
Unrealized gains/(losses) on investment securities	(1.4	) (0.2	) 5.3	(3.7)
Unrealized gains/(losses) on hedging activities	52.4	(25.9	) 56.2	(6.9)
Foreign currency translation adjustments	(1.2	) (2.8	) (8.4	) (8.5)
Defined benefit pension plan adjustments	1.8	1.9	5.0	6.4	
Total other comprehensive income/(loss)	51.6	(27.0	) 58.1	(12.7)
Comprehensive income	\$285.7	\$187.4	\$689.0	\$612.3	

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, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$1,667.4	\$2,073.1
Settlement assets	3,465.8	3,270.4
Property and equipment, net of accumulated depreciation of \$466.4 and \$428.6, respectively	205.7	209.9
Goodwill	3,169.5	3,172.0
Other intangible assets, net of accumulated amortization of \$797.3 and \$672.3, respectively	768.9	833.8
Other assets	569.3	562.1
Total assets	\$9,846.6	\$10,121.3
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$596.1	\$638.9
Settlement obligations	3,465.8	3,270.4
Income taxes payable	201.5	216.9
Deferred tax liability, net	296.0	319.2
Borrowings	3,714.2	4,213.0
Other liabilities	393.3	358.2
Total liabilities	8,666.9	9,016.6
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$1.00 par value; 10 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value; 2,000 shares authorized; 523.6 shares and 548.8 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	5.2	5.5
Capital surplus	429.2	390.9
Retained earnings	856.2	877.3
Accumulated other comprehensive loss	(110.9	) (169.0
Total stockholders' equity	1,179.7	1,104.7
Total liabilities and stockholders' equity	\$9,846.6	\$10,121.3

See Notes to Condensed Consolidated Financial Statements.

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THE WESTERN UNION COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (in millions)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$630.9	\$625.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	49.5	47.5
Amortization	152.9	150.4
Other non-cash items, net	7.5	10.5
Increase/(decrease) in cash, excluding the effects of acquisitions, resulting from changes in:		
Other assets	(16.0)	(30.5)
Accounts payable and accrued liabilities	(47.1)	46.8
Income taxes payable	(6.2)	(25.2)
Other liabilities	3.8	(13.6)
Net cash provided by operating activities	775.3	810.9
Cash flows from investing activities		
Capitalization of contract costs	(49.0)	(68.9)
Capitalization of purchased and developed software	(29.4)	(36.6)
Purchases of property and equipment	(50.9)	(60.7)
Acquisition of business (Note 3)	(10.6)	—
Purchases of non-settlement related investments	—	(100.0)
Proceeds from sale of non-settlement related investments	100.2	—
Net cash used in investing activities	(39.7)	(266.2)
Cash flows from financing activities		
Proceeds from exercise of options	8.6	21.4
Cash dividends paid	(199.9)	(208.6)
Common stock repurchased (Note 9)	(450.0)	(340.6)
Net proceeds from issuance of borrowings	—	249.3
Principal payments on borrowings	(500.0)	(300.0)
Net cash used in financing activities	(1,141.3)	(578.5)
Net change in cash and cash equivalents	(405.7)	(33.8)
Cash and cash equivalents at beginning of period	2,073.1	1,776.5
Cash and cash equivalents at end of period	\$1,667.4	\$1,742.7
Supplemental cash flow information:		
Interest paid	\$97.6	\$112.3
Income taxes paid	\$131.3	\$136.0

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 movement 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 primarily 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 - The Consumer-to-Consumer operating segment facilitates money transfers between two consumers, primarily through a network of third-party agents. The Company's multi-currency, real-time money transfer service is viewed by the Company as one interconnected global network where a money transfer can be sent from one location to another, around the world. 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. This segment also includes money transfer transactions that can be initiated through websites and account based money transfers.

Consumer-to-Business - The Consumer-to-Business operating segment facilitates bill payments from consumers to businesses and other organizations, including utilities, auto finance companies, mortgage servicers, financial service providers, government agencies and other businesses. The significant majority of the segment's revenue was generated in the United States during all periods presented, with the remainder primarily generated in Argentina.

Business Solutions - The Business Solutions operating segment facilitates payment and foreign exchange solutions, primarily cross-border, cross-currency transactions, for small and medium size enterprises and other organizations and individuals. The majority of the segment's business relates to exchanges of currency at the spot rate which enables customers to make cross-currency payments. In addition, in certain countries, the Company writes foreign currency forward and option contracts for customers to facilitate future payments.

All businesses that have not been classified in the above segments are reported as "Other" and include the Company's money order and other businesses and services, in addition to costs for the review and closing of acquisitions.

There are legal or regulatory limitations on transferring certain assets of the Company outside of the countries where these assets are located. 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 September 30, 2014, the amount of net assets subject to these limitations totaled approximately \$300 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

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.

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