

Western Union CO
Form 10-K
February 27, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 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.)

THE WESTERN UNION COMPANY

12500 East Belford Avenue

Englewood, Colorado 80112

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Telephone: (866) 405-5012

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 Par Value	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

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 Act). Yes No

On June 30, 2006, the registrant's common stock was not publicly traded.

As of January 31, 2007, 771,962,878 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the 2007 annual meeting of stockholders are incorporated

into Part III.

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and materials we have filed or will file with the Securities and Exchange Commission (the "SEC") (as well as information included in our other written or oral statements) contain or will contain certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as "expects," "intends," "anticipates," "believes," "estimates" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could" are intended to identify such forward-looking statements. You should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this Annual Report on Form 10-K, including those described under "Risk Factors." The statements are only as of the date they are made, and we undertake no obligation to update any forward-looking statement.

Possible events or factors that could cause results or performance to differ materially from those expressed in our forward-looking statements include the following:

changes in general economic conditions and economic conditions in the geographic regions and industries in which we operate;

the impact of our spin-off from First Data Corporation;

changes in immigration laws, patterns and other factors related to immigrants;

technological changes, particularly with respect to e-commerce;

our ability to attract and retain qualified key employees;

changes in foreign exchange rates, including the impact of foreign exchange spreads on money transfer transactions;

adverse movements and volatility in debt and equity capital markets;

political conditions and related actions by the United States and abroad which may adversely affect our businesses and economic conditions as a whole;

continued growth in the money transfer market and other markets in which we operate at rates approximating recent levels;

deterioration in consumers' confidence in our business, or in traditional money transfer providers generally;

our ability to maintain our agent network;

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successfully managing credit and fraud risks from our agents and consumers;

liabilities resulting from litigation and regulatory investigations, including costs, expenses, settlements and judgments;

our ability to protect our brands and our other intellectual property rights and to defend ourselves against potential patent infringement claims;

changes in domestic or foreign laws, rules and regulations as well as Internal Revenue Service or other governmental agencies interpretations thereof;

changes in accounting standards, rules and interpretations;

competition with banks and other nonbank money transfer services providers;

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our ability to grow our core businesses;

our ability to develop and introduce new products, services and enhancements, and gain market acceptance of such products;

mergers, acquisitions and integration of acquired businesses into our company;

decisions to downsize, sell or close units or otherwise change the business mix;

any material breach of security of our systems or interruptions in our systems;

catastrophic events; and

management's ability to manage these and other risks.

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ITEM 1. BUSINESS

Overview

The Western Union Company is a leader in global money transfer, providing people with fast, reliable and convenient ways to send money around the world, pay bills and purchase money orders. The Western Union® brand is globally recognized. Our services are available through a network of nearly 300,000 agent locations in more than 200 countries and territories. Each location in our agent network is capable of providing one or more of our services. As of December 31, 2006, approximately 75% of our locations had experienced money transfer activity in the prior twelve months. Our consumer-to-consumer money transfer service enables people to send money around the world in minutes. Our consumer-to-business service provides consumers with flexible and convenient options for making one-time or recurring payments.

In 2006, we generated \$4.5 billion in total consolidated revenues and \$914.0 million in consolidated net income. We handled 147 million consumer-to-consumer money transfers in 2006, an increase of 24% over 2005. Our 249 million consumer-to-business transactions in 2006 represented a 16% increase over 2005.

We believe that brand strength, size and reach of our global network, and convenience and reliability for our consumers have been key to the growth of our business. As we continue to meet the needs of our consumers for fast, reliable and convenient money transfer services, we are also working to enhance our existing services and provide our consumers with access to an expanding portfolio of payment and other financial services.

History and Development

The Western Union Company (Western Union or the Company) has roots back to 1851. It first traded on the New York Stock Exchange in 1865. In 1884, Western Union was one of the original 11 companies included on the first Dow Jones average listing. We have a long history of providing innovative services, including creating the universal stock ticker and launching the first United States commercial communications satellite service. We introduced our consumer-to-consumer money transfer service in 1871. We began offering consumer-to-business payment services in 1989 when we introduced Western Union Quick Collect® or Quick Collect , providing consumers in the United States with the ability to conveniently pay bills in cash through our agent network.

Over the past decade, we have become a leader in the development of a formal global remittance market. Today, we offer money transfer and bill payment services under the Western Union®, Orlandi Valuta®, VigoSM and Pago FácilSM brands in over 200 countries and territories.

The Western Union Company was incorporated in Delaware as a wholly owned subsidiary of First Data Corporation, or First Data, on February 17, 2006 in anticipation of the planned spin-off described below.

The Separation of Western Union from First Data

The spin-off by First Data of its money transfer and consumer payments businesses 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 the separation and distribution agreement by which First Data contributed to Western Union 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. We have 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. Refer to Item 1A of Part I for additional details on tax risks associated with the spin-off from First Data. First Data distributed all of the shares of Western Union common stock as a dividend to holders of First Data common stock as of the record date for the Distribution.

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In connection with the spin-off, we transferred to First Data approximately \$3.5 billion in the form of a combination of cash and our debt securities, which included a dividend paid to First Data in the form of a promissory note from our subsidiary, First Financial Management Corporation, or FFMC, in an aggregate principal amount of \$2.4 billion, which we subsequently settled through borrowings under a bridge loan facility as part of the Distribution, the issuance of \$1.0 billion in Western Union notes, the issuance of 765.3 million shares in Western Union common stock, and a cash payment to First Data of \$100.0 million which was financed through borrowings under the \$1.5 billion revolving credit facility that we entered into in connection with the spin-off. The bridge loan was paid off in November 2006 through the issuance of a combination of fixed and floating rate notes with maturities ranging from two to 30 years and commercial paper. The remaining approximately \$602 million reflected as a dividend to First Data in our Consolidated Statements of Stockholders' (Deficiency)/Net Investment in The Western Union Company was comprised of cash, consideration for an ownership interest held by a First Data subsidiary in one of our agents which had already been reflected as part of our Company, settlement of net intercompany receivables (exclusive of certain intercompany notes as described in the following paragraph), and transfers of certain liabilities, net of assets.

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

A significant portion of the expenses to effect the separation were incurred by First Data, such as investment banker fees, outside legal and accounting fees relating to the spin-off, office move costs, costs to separate information systems and consulting costs. Western Union incurred separation costs that have a future benefit to the Company, including stock compensation expense relating to the Distribution, reorganization expenses, other items such as recruiting and relocation expenses associated with hiring senior management positions new to the Company, and the consulting costs incurred to develop ongoing processes.

The financial statements in this Annual report on Form 10-K for the periods ending on or after the Distribution are presented on a consolidated basis and include the accounts of the Company and our majority-owned subsidiaries. The financial statements 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 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 flows had Western Union been a stand-alone company during the periods presented. The results of operations and cash flows for the three years ended December 31, 2006 are not necessarily indicative of the results that may be expected for any other future period as a result of the presentation described above.

Our Relationship with First Data

General

We entered into agreements with First Data prior to the spin-off to govern the terms of the spin-off and to define our ongoing relationship following the spin-off, allocating responsibility for obligations arising before and after the spin-off, including obligations with respect to liabilities relating to First Data's business and to Western Union's business and obligations with respect to our employees, certain transition services and taxes. We entered into these agreements with First Data while we were still a wholly-owned subsidiary of First Data and certain terms of these agreements are not necessarily the same as could have been obtained from an independent third party.

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Separation and Distribution Agreement

The separation and distribution agreement provided, among other things, for the principal corporate transactions that effected the contribution by First Data of the subsidiaries that operate our businesses, the distribution of our common stock to the holders of record of First Data common stock and certain other agreements governing our relationship with First Data after the spin-off.

Western Union and First Data are each liable for, and agreed to perform, all liabilities with respect to their respective businesses. In addition, the separation and distribution agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of our business with us and financial responsibility for the obligations and liabilities of First Data's retained businesses with First Data.

Transition Services Agreement

We entered into a transition services agreement 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. 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.

Employee Matters Agreement

First Data and Western Union entered into an employee matters agreement, providing for their respective obligations to employees and former employees who are or were associated with Western Union (including those employees who transferred employment from First Data to Western Union in connection with the spin-off) and for other employment and employee benefits matters. The employee matters agreement also provides for sharing of specific employee and former employee information to enable First Data and Western Union to comply with their respective obligations.

Tax Allocation Agreement

We entered into a tax allocation agreement with First Data setting forth the rights and obligations of First Data and us with respect to: (i) taxes imposed on our respective businesses both prior to and after the spin-off, which we refer to as "General Taxes" and (ii) taxes and other liabilities that could be imposed as a result of a final determination that is inconsistent with the anticipated tax consequences, as set forth in the private letter ruling, in connection with the spin-off (and certain related transactions) if such transactions do not qualify for tax-free treatment under the Internal Revenue Code, which we refer to as "Restructuring Taxes."

Under the terms of the tax allocation agreement, we are liable for General Taxes attributable to, or imposed in respect of, us or our affiliates, our business, or any employees, assets or transactions of our business, with respect to periods before and after the spin-off, adjusted to reflect the results of any audit.

First Data generally is liable for all Restructuring Taxes, except that we are liable for (i) Restructuring Taxes attributable solely to actions taken by us; and (ii) 50% of Restructuring Taxes (A) that would not have been imposed but for the existence of both an action by us and an action by First Data or (B) where we and First Data each take actions that, standing alone, would have resulted in the imposition of such Restructuring Taxes. We may be similarly liable if we breach certain representations or covenants set forth in the tax allocation agreement.

Money Order Agreement

We manage the consumer-facing aspects of our money order business, including managing the agents who sell the Western Union® branded money orders that are issued by Integrated Payment Systems, Inc., or "IPS." IPS is a subsidiary of First Data; however, in connection with the spin-off we entered into an agreement with IPS that permits us to continue to conduct our money order business. We do not believe the recent announcement of First Data of its plan to exit its official check and money order business will have a significant impact on us, as First Data has indicated it will honor its contract with us through the initial contract term of 2011. We believe this provides us with adequate time to replace the services currently provided by First Data.

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Patent Ownership Agreement

We entered into a patent ownership agreement with First Data which governs the ownership of and rights relating to certain patents. Under the patent ownership agreement, (i) First Data transferred to Western Union all right, title and interest in certain specified patents, including the right to sue for past infringement, (ii) First Data retained ownership of certain other patents and (iii) certain other patents are jointly owned by First Data and Western Union.

The Western Union Business

Our revenue is principally generated by money transfer and payment transactions. We derive our revenue primarily from two sources. Most of our revenue comes from fees that consumers pay when they send money. In certain consumer money transfer transactions involving different send and receive currencies, we generate revenue based on the difference between the exchange rate set by us to the consumer and the rate at which we or our agents are able to acquire currency.

In our consumer-to-consumer segment we provide our third-party agents with our multi-currency, real-time money transfer processing systems used to originate and pay money transfers. Our agents provide the physical infrastructure and staff required to complete the transfers. We generally pay our agents a commission based on a percentage of revenue. The commission is shared between the agent that initiated the transaction, the send agent, and the agent that paid out the transaction, the receive agent. For most agents, the costs of providing the physical infrastructure and staff are typically covered by the agent's primary business (e.g., postal services, banking, check cashing, travel and retail businesses), making the economics of being a Western Union agent attractive to our agents. Western Union's global reach and loyal consumer base allow us to attract agents we believe to be of high quality.

In our consumer-to-business segment we offer consumers options to make payments electronically over the telephone or the Internet, and to make cash payments in person at an agent location. We process electronic payments using the consumer's credit card, debit card or bank account. We process cash payments much like we process consumer-to-consumer transactions.

Geographic Presence

Approximately 80% of our agent locations are outside the United States. Our services are available in almost every country or territory. We have offices in more than 40 countries. In the United States, Costa Rica, Russia, Mexico, Argentina and Australia, our offices include customer service centers, where our employees answer operational questions from agents. Our office in Dublin, Ireland serves as our international headquarters. Other offices, including regional management offices in Denver, Miami, Vienna, and Hong Kong, provide sales, marketing, data processing and other services. Our employees and members of senior management reflect the global nature of our business; natives of many different countries, they speak many languages.

Western Union agents include large networks such as post offices, banks and retailers. We have agreements with postal organizations in France, Germany, Spain, Russia, Argentina, Australia, China, India, New Zealand and elsewhere. Our services are offered through banks such as Société Générale, BNP Paribas, Credit Lyonnais, Millennium BCP, Agricultural Bank of China and the State Bank of India. National and international retailers in the network include Kroger and Publix in the United States and Travelex and DHL International. Many of our agents have multiple locations. Our agents know the markets they serve. They work with our management to develop business plans for their markets, and many of our agents contribute financial resources to marketing the business.

We intend to continue to identify and create opportunities to generate new revenue from our existing distribution channels, including through acquisitions and by equity investments in our agents. An example of our

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execution on this strategy is our acquisition in December 2006 of the remaining 75% interest in Servicio Electrónico de Pago S.A. and related entities (SEPSA), an Argentina-based provider of consumer-to-business payment services to a variety of organizations that receive consumer payments including utilities and government agencies. Prior to the acquisition of the remaining interest, we held a 25% interest in SEPSA.

Financial information relating to the Company's international and domestic revenues and long-lived assets is set forth in Note 17 to the Company's Consolidated Financial Statements in Item 8.

Our Strengths

We believe our strengths position us to continue as the provider of choice for millions of consumers when they need to send or receive money and pay bills. Our strengths include our:

Strong relationships with high quality agents and businesses. We interact with millions of consumers around the world primarily through our global agent network. Our agents facilitate the global distribution and convenience that help define our Western Union brand, which in turn helps create demand for our services and helps us to recruit and retain agents. Our agents tend to be established organizations that provide an array of other consumer products and services. Many are open during nontraditional banking hours, such as nights and weekends, making it easier for consumers to use our services. Although our agent contracts are generally for 5 year terms, our top 40 agents globally have been with us an average of more than 12 years, and in 2006, these agents were involved in transactions that generated more than 50% of our consumer-to-consumer revenue. We occasionally acquire equity interests in, and enter into alliances with, certain of our agents to better align our long-term interests. We hold a majority interest in an alliance with our agent in France, and we hold minority interests in agents that have a presence in Ireland, the United Kingdom, Spain, Greece and Italy, among others.

We have relationships with more than 6,000 businesses and other billers. These relationships are a core component of our consumer-to-business payment services. In 2006, our top 20 billers represented approximately 45% of our consumer-to-business revenue. On average, we have provided our bill payment services to our top 20 billers for more than 10 years.

Global distribution network. The Western Union, Orlandi Valuta and Vigo agent networks are the foundation of our international presence. We have nearly 300,000 agent locations worldwide, with the vast majority offering Western Union branded service and a small number offering service under two or three of our brands. Our global footprint is based on more than a decade of building relationships with agents worldwide.

Success in the consumer-to-consumer money transfer business depends in large part on providing quality service at convenient send and receive locations. Our global network, extending to over 200 countries and territories, provides that convenience. We have emphasized the development of our receive network around the world over the last five years to align the supply of agent locations in the markets that primarily send transactions with those that pay them. Today, we believe we are well-positioned in key receive markets, such as China, India and the Philippines, to meet consumer demand.

To complement the convenience offered by our network's global physical locations, in certain countries we have made our services available through other channels, such as our Internet service, westernunion.com, which allows consumers to send funds through our website, our telephone money transfer service and our direct-to-bank money transfer service, which allows consumers to send money directly to a bank account. For financial information regarding our foreign and United States operations, see Item 7 of Part II and our historical financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K.

Established brands. Our Western Union brand is built on a foundation of more than 150 years of history and consumer-focused service. Our consumers have told us that they believe the Western Union brand represents speed, reliability, trust, value and convenience. In the United States, where the brand has existed the longest, there is a very high level of brand awareness among money transfer users. The international expansion of our

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agent network over the past decade has made the Western Union brand visible today nearly everywhere consumers send and receive money. We are building the level of awareness in Europe and Asia. As people move and travel around the world, they are able to find a well recognized service to send funds to others.

We also offer money transfer services under the Orlandi Valuta and Vigo brands. Over the past three years, Western Union branded transactions have grown the fastest of the three brands. Through our Western Union Quick Collect, Western Union Convenience Pay[®], Pago Fácil, Speedpay[®], and Equity Accelerator[®] brands, we offer cash-based and electronic consumer-to-business payment services.

Our operating results over the past several years have allowed us to invest significantly each year to support our brands. In 2006, we invested more than \$290 million to market, advertise and promote our services and our agents made significant additional investments.

Consumer relationships. One of our strengths has been our focus on our consumers and offering them fast, reliable money transfer services. Our global loyalty card program is available in a growing number of countries. We launched our Gold Card, the principal vehicle of the program, in the United States in 2002. As of December 31, 2006, the loyalty program was available in 62 countries and had more than 8 million active cards, primarily in the United States. The Gold Card offers consumers faster service at the point-of-sale, rewards such as free telephone time and service enhancements including, on a pilot basis in select markets, income continuity insurance. On average, a Gold Card consumer initiates more transactions and has a higher rate of retention than a non-carded consumer. In the United States approximately 45% of Western Union branded consumer-to-consumer transactions are initiated using a Gold Card. We are also seeing increases in usage in Europe and Asia where we began offering the Gold Card in 2004. The global loyalty program is one component of our consumer relationship management, or CRM, program designed to support and enhance long-term relationships with our consumers. Consumer databases supplement these efforts by providing insight on consumer preferences so that we can selectively target consumer communications and marketing.

Operational excellence. An important part of operational excellence is steadfastly reliable technology. Our systems enable us to provide worldwide, multi-currency and real-time money transfer processing with a high degree of reliability. We provide dynamic computer host-to-host interfaces to our largest agents and billers that enable them to offer money transfer and payment services within their own computer environment. We also provide settlement and reconciliation software to our agents and billers with reporting and analysis tools to help them monitor many aspects of their money transfer business, including transactions, profitability and cash flow. Behind the scenes, our settlement systems facilitate the periodic settlement of accounts between our company and our agents and billers. Our systems and processes enable our agents to pay money transfers in over 120 currencies. Many of our agents can also pay in multiple currencies at a single location.

Flexibility is another important component of operational excellence. We continue to work to implement consumer focused enhancements to our services. These efforts have resulted in offerings like telephone and Internet services, and money transfers paid directly to a bank account or to a stored-value card.

Attractive financial profile. While we will continue to incur interest costs in connection with the debt incurred as part of the spin-off, our revenue and net cash flow will provide us with opportunities to invest in our core business growth, new services and new markets. In 2006, we generated \$4.5 billion in revenues, had an operating profit margin of 29% and generated over \$1.1 billion in net cash provided by operating activities.

Experienced management team. Our management team is substantially the same team that managed the Western Union business for First Data before the spin-off. Business leaders at the senior management level and below were involved in Western Union's global expansion and creating and implementing our long-term strategy. Collectively, members of our executive team have an average of nine years with us or First Data.

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Our Strategy

We believe that our strengths position us well to continue to pursue global markets and remain focused on our consumers and their needs. To do so, we developed a number of strategies, including:

Expand and diversify global distribution. We are focused on selectively expanding our agent network and relationships with billers. Examples of this strategy and our recent success in implementing it include:

Adding or enhancing services allowing consumers in many countries to send and receive money transfers within the same country. International intra-country transactions generated over \$65 million in revenue in 2006. Increases in intra-country transactions were driven by growth in the Philippines and Chile.

Launching our internet service internationally, beginning with the United Kingdom in 2004. Westernunion.com, our internet service, generated over \$90 million in revenue in 2006, up 34% from 2005.

Expanding our network in key receive markets, such as China and India. Combined, China and India represented about 4% of our total revenue in 2006, up from 3% in 2005.

We intend to continue to identify and create opportunities to generate new revenue from our existing distribution channels.

Our strategy is to align the number of send and receive agent locations in our markets to correspond to the send and receive demands of our consumers in each market. We have focused on building receive networks in countries with large inbound remittance markets, particularly in Latin America, Africa and eastern Europe, as well as key countries like China, India and elsewhere in Asia. This increased presence in receive markets provides customers from these countries confidence that money they send home will be delivered to a convenient location they know. In the United States, western Europe and other predominantly send markets, we add agent locations in locales that tend to attract immigrants. While we continue to develop our global network, we expect the majority of our growth in the future to come from existing locations.

Until December 2006 when we acquired SEPSA, we offered bill payment services primarily in the United States. We intend to pursue continued global expansion of consumer-to-business payments services, through our existing agent network and through acquisitions and alliances.

Build our brands and enhance our consumers' experience. We remain focused on our brands and make sizable investments to build our brands and enhance our consumers' experience. In each of the last three years, we have spent approximately 7% of our revenue on marketing, including advertising, events, loyalty programs, and employees dedicated to marketing activities. Building our brands and enhancing the consumer experience are strategies that are grounded in our global CRM programs, which emphasize building a lifetime relationship with our consumers and their families. The Western Union Gold Card is a key part of this strategy. The Gold Card program helps build satisfaction and loyalty by offering consumer recognition, added convenience at the point-of-sale and rewards for multiple transactions. As we continue to introduce the Gold Card in additional countries, we expect to combine the benefits of increased usage with enhanced consumer relationships. In addition, in each of the last three years we have invested in consumer-to-consumer pricing decreases designed to meet consumer needs, maximize market opportunities and strengthen our overall competitive position. Pricing decreases generally reduce margins, but are done in anticipation that they will result in increased transaction volumes. Such pricing decreases are implemented in selected corridors or markets. The impact of each pricing decrease and any offsetting increase in volume is shared with our agents through commissions.

Develop consumer convenience and choice. We focus our product development strategy on providing money transfer services that meet consumers' needs for convenience, choice and control, including:

Walk-in money transfer service our traditional cash money transfer service from one person to another through our worldwide agent network. Most of our revenue is generated through this service;

Westernunion.com our Internet service;

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Telephone Money Transfer a service that allows consumers to speak with Western Union operators in a number of languages by phone to send funds;

Money Transfer by Phone a service that allows consumers to speak with Western Union operators in a number of languages by phone from agent locations to send funds;

Direct to Bank a service that allows consumers to send funds directly to a bank account;

Account to Cash a service that allows consumers to debit their bank accounts and send the money through Western Union for payment at any agent location;

Home Delivery of remittances a service that allows funds to be delivered to the recipient rather than picked up at an agent location; and

Western Union@ATM a service that allows consumers to transfer funds to or from certain ATMs.

In the United States, we offer consumers the ability to send payments to billers through a variety of channels, including walk-in locations, telephone and the Internet. In order to pay their bills through these channels, consumers can use various means of payment cash, checks, payments using a bank account through the automated clearing house (ACH), credit card, or debit cards. We intend to increase our consumer payments business in the United States by pursuing existing and emerging electronic payments services and technologies. Equally important, we plan to expand this business outside the United States, as demonstrated by our recent acquisition of SEPSA.

Explore new service offerings. Western Union is exploring new ways to bring additional services to our consumers around the world. For example, Western Union International Bank GmbH or Western Union International Bank , based in Vienna, Austria, has the ability to establish branches and offer money transfer and other financial services directly to consumers in each of the 27 member states of the European Union and the three additional states of the European Economic Area. We continue to explore new services either offered by our company directly or through third parties that are meaningful to our large consumer base.

Our Segments

We manage our business around the consumers we serve and the type of services we offer. Each segment addresses a different combination of consumer needs, distribution networks and services.

Consumer-to-consumer provides money transfer services between consumers, primarily through a global network of third-party agents using our multi-currency, real-time money transfer processing systems.

Consumer-to-business focuses on payments from consumers to billers through our networks of third-party agents and various electronic channels. While we continue to pursue international expansion of our offerings in selected markets, as demonstrated by our December 2006 acquisition of SEPSA, substantially all of the segment's 2006 revenue was generated in the United States. Our other businesses not included in these segments include Western Union branded money orders available through a network of third-party agents primarily in the United States and Canada, and prepaid services. Prepaid services include a Western Union branded prepaid card sold through our agent network primarily in the United States and the Internet, and top-up services for third parties that allow consumers to pay in advance for mobile phone and other services.

Consumer-to-Consumer Segment

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Individual money transfers from one consumer to another are the core of our business, representing 84% of our total consolidated revenues for 2006. We offer consumers a variety of ways to send money. Although most remittances are sent in cash at one of our nearly 300,000 agent locations worldwide, in some countries we also offer the ability to send money over the Internet or the telephone, using a credit or debit card. Some agent

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locations also accept debit cards to initiate a transaction. We also offer consumers several options to receive a money transfer. While the vast majority of transfers are paid in cash at agent locations, in some places we offer payments directly to the receiver's bank account or a stored-value card.

Operations

Our revenue is derived primarily from transaction fees charged to consumers to transfer money. In certain consumer money transfer transactions involving different send and receive currencies, we generate revenue based on the difference between the exchange rate set by us to the consumer and the rate at which we or our agents are able to acquire currency.

In a typical money transfer transaction, a consumer goes to one of our agent locations, completes a form specifying, among other things, the name and address of the recipient, and delivers it, along with the principal amount of the money transfer and the fee, to the agent. This sending agent enters the transaction information into our data processing system and the funds are made available for payment, usually within minutes. The recipient enters any agent location in the designated receiving area or country, presents identification and is paid the transferred amount. Recipients do not pay a fee (although in limited circumstances, a tax may be imposed on the payment of the remittance). We determine the fee paid by the sender, which generally is based on the principal amount of the transaction and the locations from and to which the funds are to be transferred.

We maintain three separate multi-currency, real-time money transfer processing systems through which a consumer can transfer money from a location within that system. Money transfer services are available under the Western Union, Orlandi Valuta and Vigo brands, at least one of which is available in each location in the agent network.

Approximately 85% of our consumer-to-consumer transactions involve at least one non-United States location. No individual country outside the United States and Mexico accounted for more than 10% of the segment's revenue for the years ended December 31, 2006, 2005, and 2004. Mexico, shown separately in the table below, accounted for the largest single source of foreign country revenue in the segment. Certain of our agents facilitate a large number of transactions; however, no individual agent accounted for greater than 10% of the segment's revenue during these periods. The table below presents the geographic components of consumer-to-consumer revenue for Western Union, Orlandi Valuta and Vigo as a percentage of the total segment revenue.

	Years Ended December 31,		
	2006	2005	2004
International (a)	74%	72%	71%
Domestic (b)	16%	19%	21%
Mexico (c)	10%	9%	8%

- (a) Represents transactions between and within foreign countries (excluding Canada and Mexico), transactions originated in the United States or Canada destined for foreign countries and foreign country transactions destined for the United States or Canada. Excludes all transactions between or within the United States and Canada and all transactions to and from Mexico as reflected in (b) and (c) below.
- (b) Represents all transactions between and within the United States and Canada.
- (c) Represents all transactions to and from Mexico.

Seasonality

Consumer-to-consumer segment revenue typically increases sequentially from the first quarter to the fourth quarter each year and declines from the fourth quarter to the first quarter of the following year. This seasonal fluctuation is related to the holiday season in various countries during the fourth quarter.

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Services

We offer money transfer services worldwide. In 2006, over 90% of our consumer-to-consumer transactions were traditional cash money transfers involving our walk-in agent locations around the world. In order to enhance the convenience of our services, we offer a number of options for sending and receiving funds; however, historically, demand for in-person, cash money transfers has been the strongest. The different ways consumers can send or receive money include the following:

Walk-in money transfer service. The majority of Western Union, Orlandi Valuta and Vigo remittances constitute transactions in which cash is collected by the agent and payment (usually cash) is available for pick-up at another agent location in the designated receive country, usually within minutes.

Western Union continues to develop new services that enhance consumer convenience and choice and are customized to meet the needs of consumers in the regions where these services are offered. In the United States, consumers can use a debit card to send transactions from many agent locations. In some United States outbound corridors and in select international corridors, Western Union provides Direct to Bank service, enabling a consumer to send a transaction from an agent location directly to a bank account in another country. In certain countries, Western Union offers payout options through a debit or stored-value card, or through a money order. In a number of countries in Latin America and the Caribbean, Western Union agents offer a bank deposit service, in which the paying agent provides the receiver the option to direct funds to a bank account or to a stored-value card. Vigo also offers Direct to Bank and home delivery service in certain receive countries.

Our Next Day Delivery option is a money transfer that is available for payment 24 hours after it is sent. This option is available in certain markets for domestic service within the United States, and in select United States outbound and international corridors, including Mexico. The Next Day Delivery service gives our consumers a lower-priced option for money transfers that do not need to be received within minutes. The service still offers the convenience, reliability and ease-of-use that the Western Union brand represents.

Our Money Transfer by Phone service is available in select Western Union agent locations in the United States. In a Money Transfer by Phone transaction, the consumer is able to use a telephone in the agent location to speak to a Western Union representative in one of several languages. Typically the sender provides the information necessary to complete the transaction to the Western Union operator on the phone and is given a transaction number, which the sender takes to the agent's in-store representative to send the funds.

Online money transfer service. Our Internet website, westernunion.com, allows consumers to send funds on-line, using a credit or debit card, for pay-out at Western Union-branded agent locations around the world. Transaction capability at westernunion.com was launched in the United States in 2000 and in Canada in 2002. Since 2004, Western Union has expanded the service to additional countries outside the United States.

Telephone money transfer service. Our Telephone Money Transfer service allows Western Union consumers to send funds by telephone without visiting an agent location. Consumers call a toll-free number in the United States or the United Kingdom and use a debit card or credit card to initiate a transaction. The money transfer is then available for pay-out at an agent location.

Distribution and Marketing Channels

We offer our consumer-to-consumer service through our global network of third-party agents and the other initiation and payment methods discussed above. Western Union provides central operating functions such as transaction processing, marketing support and customer relationship management to our agents.

Some of our Western Union agents outside the United States manage subagents. Although these subagents are under contract with our primary agents (and not with Western Union directly), the subagent locations have access to the same technology and services that our agent locations do.

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Our international agents are able to customize services as appropriate for their geographic markets. In some markets individual agents are independently offering specific services such as stored-value payout options and direct to bank service. Our marketing relies on feedback from our agents and consumers, and our agents also market our services.

In February 2005, Western Union International Bank began operations. We chartered the bank in order to adapt to the challenges presented by the growing trend among the member states of the European Union to regulate the money transfer business. Western Union International Bank holds a full credit institution license, allowing it to offer a range of financial services throughout the 27 member states of the European Union and the three additional states of the European Economic Area. Today, the bank offers retail service in over 20 locations in three countries and online money transfer services in seven countries.

Industry Trends

We participate in a large and growing market for money transfer. Growth in the money transfer business tends to correlate to immigration and related employment rates worldwide. Therefore, an indicator for future growth is the size of the international migrant population, which to a certain extent follows economic opportunity worldwide. In 2006, the United Nations reported that there were 191 million people living outside their country of origin in 2005. We anticipate that demand for money transfer services will continue to grow as individuals continue to migrate to countries outside of their country of origin. According to a 2005 United Nations report, during 2005 to 2050, the net number of international migrants moving to more developed regions of the world is projected to increase by 98 million or an average of 2.2 million annually.

Aite Group, LLC or Aite , an independent research and advisory firm, estimated in a January 2005 report that the total value of remittances sent by workers to developed and emerging regions would be \$269 billion in 2006 and that this amount would grow to \$289 billion in 2007. These figures were estimated primarily by using balance of payments data reported by the International Monetary Fund, the Inter-American Development Bank, central banks and money transmitters. They do not capture all of the money transfers sent through informal channels and do not measure the size of the intra-country market. The World Bank estimates that unrecorded remittances are at least half as large as recorded remittances.

In 2006, consumers transferred \$53 billion in consumer-to-consumer transactions through our company in both cross-border and intra-country transactions. Funds transferred through our agent network have increased at a compound annual growth rate of 26% from 2004 to 2006.

Another significant trend impacting the money transfer industry is the increase in regulation in recent years. Regulation in the United States and elsewhere focuses, in part, on anti-money laundering and anti-terrorist financing compliance efforts. Regulations require money transfer providers, banks and other financial institutions, to develop systems to monitor and report appropriately on certain transactions.

Competition

We face robust competition in the highly-fragmented consumer-to-consumer money transfer industry. We compete with a variety of money transfer service providers, including:

Global money transfer providers Global money transfer providers allow consumers to send money to a wide variety of locations, in both their home countries and abroad.

Regional money transfer providers Regional money transfer companies, or niche players, provide the same services as global money transfer providers, but focus on a small group of corridors or services within one region, such as North America to the Caribbean, Central or South America, or western Europe to north Africa.

Banks Banks of all sizes compete with us in a number of ways, including bank wire services and card-based services. We believe that banks often use wire transfer services and other money transfer methods to attract immigrant consumers to their banks so they can sell them other services and products.

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Informal networks Informal networks enable people to transfer funds without formal mechanisms, such as receipts, and, often, without compliance with government reporting requirements.

Alternative channels Alternative channels, including mail and commercial courier services, online money transfer services that allow consumers to send money over the Internet and card-based options, such as ATM cards and stored-value cards, allow consumers to send or receive money.

The most significant competitive factors in consumer-to-consumer remittances relate to brand recognition, distribution network, consumer experience and price.

For additional details regarding our consumer-to-consumer segment, including financial information regarding our international and United States operations, see Item 7 of Part II and our financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K.

Consumer-to-Business Segment

We provide a portfolio of electronic and cash payment options that provide consumers with fast and convenient ways to make one-time or recurring payments. These services facilitate payments to a variety of organizations that receive consumer payments including utilities, auto finance companies, mortgage servicers, financial service providers and governmental agencies which we sometimes refer to as billers. Revenues from this segment represented 14% of our revenue in 2006.

Operations

Our revenue in this segment is derived primarily from transaction fees paid by the consumer or the biller. These fees are typically less than the fees charged in our consumer-to-consumer segment. In order to make an electronic payment, the consumer or biller initiates a transaction over the telephone or the Internet which we process using the consumer's credit card, debit card or bank account (processed through the ACH). In order to make a cash payment, the consumer goes to an agent location and makes the payment to the agent. While we continue to pursue international expansion of our offerings in select markets, such as the December 2006 acquisition of SEPSA, substantially all of the segment's 2006 revenue was generated in the United States. No individual biller accounted for greater than 10% of this segment's revenue during all periods presented.

Services

Our consumer-to-business services strive to give consumers choices as to the payment channel and method of payment, and include the following:

Electronic payments. Consumers and billers use our Speedpay service in the United States and the United Kingdom to make consumer payments to a variety of billers using credit cards, debit cards and ACH. Payments are initiated over the telephone or the Internet.

Our Equity Accelerator service is provided in the mortgage service industry, enabling consumers to make mortgage payments by ACH. It is marketed as a convenient way for homeowners to schedule additional recurring principal payments on their mortgages. Consumers enroll in the service, customize their payment schedule and make payments through one or more bank accounts.

Cash payments. Consumers use our Quick Collect service to send guaranteed funds to businesses and government agencies from over 50,000 Western Union agent locations across the United States and Canada, using cash and, in select locations, a debit card. Consumers use our Convenience Pay service to send payments by cash or check from a smaller number of Convenience Pay agent locations primarily to utilities and telecommunication providers. We also offer Quick Cash, a cash disbursement service used by businesses and government agencies to send money to employees or individuals with whom they have accounts or other business relationships. In addition, our recent acquisition, SEPSA, provides a walk-in bill payment service in Argentina and operates under the well-known Pago Fácil brand.

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Distribution and Marketing Channels

Our electronic payment services are available primarily through the telephone and the Internet, while our cash-based services are available through our agent networks. Billers market our services to consumers in a number of ways, and we market our services directly to consumers using a variety of means, including advertising materials and promotional activities at our agent locations. Consumers can also participate in the Western Union Gold Card program when making cash payments to billers.

Industry Trends

The consumer-to-business payment industry has evolved with technological innovations that created new methods of processing payments from individuals to businesses. We believe that the United States is in the midst of a trend away from paper checks toward electronic payment methods accessible through multiple technologies. We believe that the market will reward those companies that are able to provide consumers with fast and reliable ways to make payments by the method and through the means of their choice. Historically, the majority of bills in the United States were paid through checks in the mail. In 1989, Western Union began offering an agent-based cash bill payment solution which provided consumers with a convenient, walk-in, cash-based way to pay their bills. Further innovation in the industry led to the creation of electronic options for consumer payments including telephone and online services. In a February 2005 report, Aite estimated that more than 18 billion bill payments would be made in 2005 in the United States alone.

The consumer-to-business payment industry outside the United States is at varying stages of development. In some countries, walk-in cash payments at a biller's office or through a third party network are widely used, while in other countries electronic payment options are finding ready acceptance by consumers and businesses alike.

Competition

We face robust competition in the highly-fragmented consumer-to-business payment industry. Competition in electronic payments includes financial institutions (which may offer bill-payment services in their own name or may host payment services operated under the names of their clients), billers offering their own or third-party services to their own customers, and third-party providers of all sizes offering services directly to consumers. In many cases, competitors specialize in a small number of industries. Competitors for cash payments include a biller's own walk-in locations, or those provided by others, some only on a regional basis, as well as mail and courier services. There is also competition between electronic and cash-based payments methods.

The most significant competitive factors in this segment relate to brand recognition, convenience, variety of payment methods and price.

For additional details regarding our consumer-to-business segment, see Item 7 of Part II and our historical financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K.

Other

Our remaining business units are grouped in the Other category, which includes money orders and prepaid services.

We sell Western Union branded money orders, issued by IPS, to consumers at non-bank retail locations primarily in the United States and Canada. Money order revenue is generated through a combination of commissions collected from IPS and per item fees collected from agents. In a money order transaction, a consumer purchases a money order from an agent. The agent selling the money order generally remits the funds collected from the consumer to IPS promptly following the sale date. Agents generally receive no commissions from us on money order sales, but rather earn revenue by charging a fee to the consumer for the purchase of the money order. We do not believe the recent announcement of First Data of its plan to exit its official check and money order business will have a significant impact on us, as First Data has indicated it will honor its contract with us through the initial contract term of 2011. We believe this provides us with adequate time to replace the services currently provided by First Data.

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Western Union also offers prepaid services consisting of: