

Western Union CO
Form 10-Q
October 30, 2014
Table of Contents

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 80112
ENGLEWOOD, CO
(Address of Principal Executive Offices) (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.

Table of ContentsTHE WESTERN UNION COMPANY
INDEX

	PAGE NUMBER
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited):</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
Item 4. <u>Controls and Procedures</u>	<u>53</u>
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>54</u>
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>55</u>
Item 1A. <u>Risk Factors</u>	<u>62</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>62</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>62</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>62</u>
Item 5. <u>Other Information</u>	<u>62</u>
Item 6. <u>Exhibits</u>	<u>62</u>

Table of ContentsPART 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,	
	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.

Table of Contents

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

	Three Months Ended		Nine Months Ended		
	September 30,		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.

4

Table of ContentsTHE 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.

Table of Contents

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.

Table of Contents

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.

7

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The unaudited condensed consolidated financial statements in this quarterly report are presented on a consolidated basis and include the accounts of the Company and its majority-owned subsidiaries. Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts were eliminated as of and for the three and nine months ended September 30, 2014.

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, 2014 and for all periods presented. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements within the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

Use of Estimates

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

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued a new accounting pronouncement regarding revenue from contracts with customers. This new standard provides guidance on recognizing revenue, including a five step model to determine when revenue recognition is appropriate. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the new standard is effective for reporting periods beginning after December 15, 2016, with early adoption not permitted. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures, and will adopt the provisions of this new standard in the first quarter of 2017.

2. Earnings Per Share

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

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For the three months ended September 30, 2014 and 2013, there were 14.2 million and 15.7 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation, as their effect was anti-dilutive. For the nine months ended September 30, 2014 and 2013, there were 16.3 million and 22.5 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation, as their effect was anti-dilutive.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Basic weighted-average shares outstanding	527.8	552.1	537.0	558.5
Common stock equivalents	3.4	3.7	3.1	2.8
Diluted weighted-average shares outstanding	531.2	555.8	540.1	561.3

3. Acquisitions

During the first quarter of 2014, the Company acquired the Brazilian foreign exchange operations of Fitta DTVM S.A. and Fitta Turismo Ltda. for total consideration of \$18.5 million. The Company expects that the acquisition will enable the Company to leverage its existing infrastructure to enter the retail walk-in foreign exchange business in Brazil and accelerate the introduction of additional Western Union products and services.

Of the total consideration noted above, \$15.6 million was allocated to identifiable intangible assets, the majority of which relates to contractual relationships. The identifiable intangible assets are being amortized over a period of two to twelve years with a weighted average life of ten years. The Company recognized \$2.4 million of goodwill related to this acquisition.

4. Productivity and Cost-Savings Initiatives Expenses

In the fourth quarter of 2012 and throughout 2013, the Company implemented initiatives to improve productivity and reduce costs. The following table summarizes the activity for the employee termination benefits and other costs related to the productivity and cost-savings initiatives accruals as of and for the nine months ended September 30, 2014 (in millions):

	Severance, Outplacement and Related Benefits	Other (a)	Total
Balance, December 31, 2013	\$ 45.4	\$ 1.0	\$ 46.4
Cash payments	(34.3	) (1.0	) (35.3
Balance, September 30, 2014	\$ 11.1	\$—	\$ 11.1

(a) Other expenses primarily related to the relocation of various operations to new and existing Company facilities and third-party providers including expenses for hiring, training, relocation, travel and professional fees. All such expenses were recorded when incurred.

The following table presents expenses related to productivity and cost-savings initiatives as reflected in the Condensed Consolidated Statements of Income (in millions):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Cost of services	\$4.5	\$13.9
Selling, general and administrative	1.7	10.0
Total expenses, pre-tax	\$6.2	\$23.9
Total expenses, net of tax	\$4.3	\$16.6

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes expenses related to productivity and cost-savings initiatives incurred by reportable segment during the three and nine months ended September 30, 2013 (in millions):

	Consumer-to-Consumer	Consumer-to-Business	Business Solutions	Other	Total
First quarter 2013	\$ 3.2	\$ 0.5	\$—	\$0.5	\$4.2
Second quarter 2013	11.7	1.4	0.1	0.3	13.5
Third quarter 2013	5.5	0.5	0.1	0.1	6.2
Total expenses	\$ 20.4	\$ 2.4	\$0.2	\$0.9	\$23.9

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Fair Value Measurements

Fair value, as defined by the relevant accounting standards, represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For additional information on how the Company measures fair value, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The following tables reflect assets and liabilities that were measured at fair value on a recurring basis (in millions):

September 30, 2014	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Settlement assets:				
State and municipal debt securities	\$—	\$974.3	\$—	\$974.3
State and municipal variable rate demand notes	—	412.4	—	412.4
Other debt securities	—	9.4	—	9.4
Other assets:				
Derivatives	—	333.7	—	333.7
Total assets	\$—	\$1,729.8	\$—	\$1,729.8
Liabilities:				
Notes and other borrowings	\$—	\$3,916.7	\$—	\$3,916.7
Derivatives	—	260.5	—	260.5
Total liabilities	\$—	\$4,177.2	\$—	\$4,177.2
December 31, 2013	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Settlement assets:				
State and municipal debt securities	\$—	\$874.2	\$—	\$874.2
State and municipal variable rate demand notes	—	865.0	—	865.0
Other debt securities	—	11.3	—	11.3
Other assets:				
Short-term bond mutual fund	100.2	—	—	100.2
Derivatives	—	224.3	—	224.3