Western Union CO
Form 10-Q
August 07, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013

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 þ 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 þ 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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if smaller reporting company)	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 þ

As of July 31, 2013, 551,935,745 shares of our common stock were outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

THE WESTERN UNION COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Transaction fees	$1,016.3	$1,059.4	$1,994.3	$2,100.3
Foreign exchange revenues	338.0	334.6	650.4	657.2
Other revenues	31.6	31.1	66.6	61.0
Total revenues	1,385.9	1,425.1	2,711.3	2,818.5
Expenses:				
Cost of services	811.7	797.5	1,571.1	1,580.5
Selling, general and administrative	297.4	281.7	566.5	559.6
Total expenses	1,109.1	1,079.2	2,137.6	2,140.1
Operating income	276.8	345.9	573.7	678.4
Other income/(expense):				
Interest income	0.7	1.2	1.1	2.7
Interest expense	(48.0)	(45.1)	(96.9)	(89.5)
Derivative gains/(losses), net	(0.2)	(0.7)	0.3	0.9
Other income, net	2.9	8.8	4.2	7.7
Total other expense, net	(44.6)	(35.8)	(91.3)	(78.2)
Income before income taxes	232.2	310.1	482.4	600.2
Provision for income taxes	33.6	38.9	71.8	81.7
Net income	$198.6	$271.2	$410.6	$518.5
Earnings per share:				
Basic	$0.36	$0.44	$0.73	$0.84
Diluted	$0.36	$0.44	$0.73	$0.84
Weighted-average shares outstanding:				
Basic	555.7	610.9	561.7	615.0
Diluted	558.3	613.1	564.0	617.5
Cash dividends declared per common share	$0.125	$0.10	$0.25	$0.20

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$198.6	$271.2	$410.6	$518.5
Other comprehensive income, net of tax (Note 8):				
Unrealized gains/(losses) on investment securities	(2.6)	0.1	(3.5)	2.9
Unrealized gains/(losses) on hedging activities	(1.4)	25.5	19.0	4.3
Foreign currency translation adjustments	(2.6)	(1.8)	(5.7)	1.0
Defined benefit pension plan adjustments	2.0	1.7	4.5	3.3
Total other comprehensive income	(4.6)	25.5	14.3	11.5
Comprehensive income	$194.0	$296.7	$424.9	$530.0

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)

	June 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$1,395.4	$1,776.5
Settlement assets	3,462.8	3,114.6
Property and equipment, net of accumulated depreciation of $407.2 and $384.5, respectively	203.6	196.1
Goodwill	3,176.3	3,179.7
Other intangible assets, net of accumulated amortization of $577.1 and $519.7, respectively	897.6	878.9
Other assets	453.7	319.9
Total assets	$9,589.4	$9,465.7
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$541.5	$556.2
Settlement obligations	3,462.8	3,114.6
Income taxes payable	210.7	218.3
Deferred tax liability, net	350.5	352.1
Borrowings	3,717.3	4,029.2
Other liabilities	378.0	254.7
Total liabilities	8,660.8	8,525.1
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, $1.00 par value; 10 shares authorized; no shares issued	—	—
Common stock, $0.01 par value; 2,000 shares authorized; 551.8 shares and 572.1 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	5.5	5.7
Capital surplus	354.0	332.8
Retained earnings	707.4	754.7
Accumulated other comprehensive loss	(138.3)	(152.6)
Total stockholders' equity	928.6	940.6
Total liabilities and stockholders' equity	$9,589.4	$9,465.7

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities		
Net income	$410.6	$518.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	31.6	31.3
Amortization	97.7	91.6
Other non-cash items, net	7.6	1.2
Increase/(decrease) in cash, excluding the effects of acquisitions, resulting from changes in:		
Other assets	(26.8)	(19.8)
Accounts payable and accrued liabilities	(16.3)	(45.3)
Income taxes payable (Note 12)	(13.2)	(111.1)
Other liabilities	(13.7)	(20.7)
Net cash provided by operating activities	477.5	445.7
Cash flows from investing activities		
Capitalization of contract costs	(42.1)	(78.3)
Capitalization of purchased and developed software	(28.8)	(15.6)
Purchases of property and equipment	(35.8)	(27.4)
Acquisition of business, net	—	(4.8)
Net cash used in investing activities	(106.7)	(126.1)
Cash flows from financing activities		
Proceeds from exercise of options	3.9	45.0
Cash dividends paid	(139.6)	(122.3)
Common stock repurchased	(316.2)	(302.4)
Net proceeds from commercial paper	—	93.0
Principal payments on borrowings	(300.0)	—
Net cash used in financing activities	(751.9)	(286.7)
Net change in cash and cash equivalents	(381.1)	32.9
Cash and cash equivalents at beginning of period	1,776.5	1,370.9
Cash and cash equivalents at end of period	$1,395.4	$1,403.8
Supplemental cash flow information:		
Interest paid	$98.1	$94.5
Income taxes paid (Note 12)	$82.8	$204.9

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 the Company's 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.

- 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, prepaid services, mobile money transfer, and other businesses and services, in addition to costs for the investigation 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 June 30, 2013, the amount of net assets subject to these limitations totaled approximately $305 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.

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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.

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 have been eliminated.

In the opinion of management, these condensed consolidated financial statements include all the normal recurring adjustments necessary to fairly present the Company's condensed consolidated results of operations, financial position and cash flows as of June 30, 2013 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, 2012.

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.

2. Earnings Per Share and Dividends

Earnings Per Share

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

For the three months ended June 30, 2013 and 2012, there were 26.3 million and 24.1 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation, as their effect was anti-dilutive. For the six months ended June 30, 2013 and 2012, there were 25.9 million and 22.3 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation as their effect was anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Basic weighted-average shares outstanding	555.7	610.9	561.7	615.0
Common stock equivalents	2.6	2.2	2.3	2.5
Diluted weighted-average shares outstanding	558.3	613.1	564.0	617.5

Cash Dividends Paid

The Company’s Board of Directors declared quarterly cash dividends of $0.125 per common share in both the first and second quarters of 2013, representing $139.6 million in total dividends. Of this amount, approximately $69.3 million was paid on June 28, 2013 and $70.3 million was paid on March 29, 2013. The Company’s Board of Directors declared quarterly cash dividends of $0.10 per common share in both the first and second quarters of 2012, representing $122.3 million in total dividends. Of this amount, $60.7 million was paid on June 29, 2012 and $61.6 million was paid on March 30, 2012.

On July 18, 2013, the Company's Board of Directors declared a quarterly cash dividend of $0.125 per common share payable on September 30, 2013.

3. Productivity and Cost-Savings Initiatives Expenses

In the fourth quarter of 2012, the Company began implementing additional initiatives to improve productivity and reduce costs. Additional productivity and cost-savings initiatives were implemented in the first two quarters of 2013 and will be implemented in the remainder of 2013.

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THE WESTERN UNION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

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 June 30, 2013 and the total expenses expected to be incurred (in millions):

	Severance, Outplacement and Related Benefits	Other (b)	Total
Balance, December 31, 2012	$ 25.7	$ 1.6	$ 27.3
Expenses (a)	11.0	6.7	17.7
Cash payments	(12.0)	(5.1)	(17.1)
Non-cash benefit/(expense) (a)	0.2	(0.2)	—
Balance, June 30, 2013	$ 24.9	$ 3.0	$ 27.9
Cumulative expenses incurred to date	$ 39.9	$ 8.7	$ 48.6
Estimated additional expenses expected to be incurred	7.0	20.0	27.0
Total expenses	$ 46.9	$ 28.7	$ 75.6

(a) Expenses include a non-cash benefit for adjustments to stock compensation for awards forfeited by employees. Other expenses also include non-cash write-offs and accelerated depreciation of fixed assets and leasehold improvements. These amounts were recognized outside of the accrual.

(b) 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 or will be 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 June 30, 2013	Six Months Ended June 30, 2013
Cost of services	$ 7.8	$ 9.4
Selling, general and administrative	5.7	8.3
Total expenses, pre-tax	$ 13.5	$ 17.7
Total expenses, net of tax	$ 9.0	$ 12.3

There were no expenses related to productivity and cost-savings initiatives incurred during the three and six months ended June 30, 2012.

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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 (in millions):

	Consumer-to-Consumer	Consumer-to-Business	Business Solutions	Other	Total
2012 expenses	$ 20.9	$ 4.0	$—	$6.0	$30.9
First quarter 2013	3.2	0.5	—	0.5	4.2
Second quarter 2013	11.7	1.4	0.1	0.3	13.5
Cumulative expenses incurred to date	$ 35.8	$ 5.9	$0.1	$6.8	$48.6

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THE WESTERN UNION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

4. 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, 2012.
The following tables reflect assets and liabilities that were measured at fair value on a recurring basis (in millions):

	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
June 30, 2013	Level 1	Level 2	Level 3	
Assets:				
State and municipal debt securities	$—	$883.6	$—	$883.6
State and municipal variable rate demand notes	—	565.5	—	565.5
Other debt securities	—	12.2	—	12.2
Derivatives	—	224.2	—	224.2
Total assets	$—	$1,685.5	$—	$1,685.5
Liabilities:				
Notes and other borrowings	$—	$3,884.5	$—	$3,884.5
Derivatives	—	179.0	—	179.0
Total liabilities	$—	$4,063.5	$—	$4,063.5

	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
December 31, 2012	Level 1	Level 2	Level 3	
Assets:				
State and municipal debt securities	$—	$1,003.7	$—	$1,003.7
State and municipal variable rate demand notes	—	463.3	—	463.3
Other debt securities	—	47.8	—	47.8
Derivatives	—	96.8	—	96.8
Total assets	$—	$1,611.6	$—	$1,611.6
Liabilities:				
Notes and other borrowings	$—	$4,200.8	$—	$4,200.8
Derivatives	—	86.1	—	86.1
Total liabilities	$—	$4,286.9	$—	$4,286.9

No non-recurring fair value adjustments were recorded during the three and six months ended June 30, 2013 and June 30, 2012.

Other Fair Value Measurements

The carrying amounts for many of the Company's financial instruments, including cash and cash equivalents, settlement cash and cash equivalents, and settlement receivables and settlement obligations approximate fair value due to their short maturities. The aggregate fair value of the Company's borrowings was based on quotes from multiple banks and excluded the impact of related interest rate swaps. All the assets and liabilities in the above tables were carried at fair value in the Condensed Consolidated Balance Sheets, with the exception of borrowings, which had a carrying value of $3,717.3 million and $4,029.2 million as of June 30, 2013 and December 31, 2012, respectively (see Note 11).

5. Commitments and Contingencies

Letters of Credit and Bank Guarantees

The Company had approximately $95 million in outstanding letters of credit and bank guarantees as of June 30, 2013 with expiration dates through 2016, the majority of which contain a one-year renewal option. The letters of credit and bank guarantees are primarily held in connection with lease arrangements and certain agent agreements. The Company expects to renew the letters of credit and bank guarantees prior to expiration in most circumstances.

Litigation and Related Contingencies

The Company and one of its subsidiaries are defendants in two purported class action lawsuits: James P. Tennille v. The Western Union Company and Robert P. Smet v. The Western Union Company, both of which are pending in the United States District Court for the District of Colorado. The original complaints asserted claims for violation of various consumer protection laws, unjust enrichment, conversion and declaratory relief, based on allegations that the Company waits too long to inform consumers if their money transfers are not redeemed by the recipients and that the Company uses the unredeemed funds to generate income until the funds are escheated to state governments. The Tennille complaint was served on the Company on April 27, 2009. The Smet complaint was served on the Company on April 6, 2010. On September 21, 2009, the Court granted the Company's motion to dismiss the Tennille complaint and gave the plaintiff leave to file an amended complaint. On October 21, 2009, Tennille filed an amended complaint. The Company moved to dismiss the Tennille amended complaint and the Smet complaint. On November 8, 2010, the Court denied the motion to dismiss as to the plaintiffs' unjust enrichment and conversion claims. On February 4, 2011, the Court dismissed plaintiffs' consumer protection claims. On March 11, 2011, the plaintiffs filed an amended complaint that adds a claim for breach of fiduciary duty, various elements to its declaratory relief claim and Western Union Financial Services, Inc. ("WUFSI"), a subsidiary of the Company, as a defendant. On April 25, 2011, the Company and WUFSI filed a motion to dismiss the breach of fiduciary duty and declaratory relief claims. WUFSI also moved to compel arbitration of the plaintiffs' claims and to stay the action pending arbitration. On November 21, 2011, the Court denied the motion to compel arbitration and the stay request. Both companies appealed the decision. On January 24, 2012, the United States Court of Appeals for the Tenth Circuit granted the companies' request to stay the District Court proceedings pending their appeal. During the fourth quarter of 2012, the parties executed a settlement agreement, which the Court preliminarily approved on January 3, 2013. On June 25, 2013, the Court entered an order certifying the class and granting final approval to the settlement. Under the approved settlement, a substantial amount of the settlement proceeds would be paid from the Company's existing related unclaimed property liabilities. During the final approval hearing, the Court overruled objections to the settlement that had been filed by several class members. In July 2013, two of those class members filed notices of appeal. If the Court of Appeals sets aside the settlement and another settlement is not completed or approved, the Company and WUFSI intend to vigorously defend themselves against both lawsuits.

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On February 11, 2010, the Company signed an agreement and settlement ("Settlement Agreement"), which resolved all outstanding legal issues and claims with the State of Arizona and required the Company to fund a multi-state not-for-profit organization promoting safety and security along the United States and Mexico border, in which California, Texas and New Mexico are participating with Arizona. As part of the Settlement Agreement, the Company has made and expects to make certain investments in its compliance programs along the United States and Mexico border and a monitor has been engaged for those programs. Pursuant to the terms and conditions of the Settlement Agreement, the costs of the investments in the Company's programs and for the monitor were expected to be $23.0 million over the period from signing through 2013; however, actual costs have exceeded this amount. The monitor has made a number of recommendations related to the Company's compliance programs. In addition, in the fourth quarter of 2012, the Company's Business Solutions business was included in the scope of the monitor's review. On June 14, 2013, WUFSI and the State of Arizona filed a Joint Application for Order Tolling Time and Extending Benefits and Obligations of Settlement Agreement (the "Motion") in the Superior Court of the State of Arizona In and For the County of Maricopa (the "Superior Court"). The Motion requested, among other things, that the Superior Court issue an order to extend the timeframe during which the recommendations of the monitor appointed pursuant to the Settlement Agreement must be implemented for an additional 90 days beyond the original required implementation date of July 31, 2013. The Superior Court issued the requested order on June 14, 2013. The purpose of the 90 day extension period is to allow the parties to discuss amendments to the Settlement Agreement that, if agreed to, would among other things extend the term of the Settlement Agreement to provide additional time to implement the monitor's recommendations. Any such modifications to the Settlement Agreement would require the approval of the State of Arizona and could have further adverse effects on the Company's business, including further costs. If WUFSI is not able to negotiate a further extension or amendment of the Settlement Agreement or other arrangement and the State of Arizona determines that WUFSI has committed a willful and material breach of the Settlement Agreement, the State of Arizona has indicated that it will pursue remedies under the Settlement Agreement, which could include initiating civil or criminal actions. The pursuit by the State of Arizona of such remedies could have a material adverse effect on the Company's business, financial condition or results of operations.

On March 20, 2012, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Central District of California ("USAO") seeking documents relating to Shen Zhou International ("US Shen Zhou"), a former Western Union agent located in Monterey Park, California. The principal of US Shen Zhou was indicted in 2010 and is currently awaiting trial in U.S. v. Zhi He Wang (SA CR 10-196, C.D. Cal.). Concurrent with the government's service of the subpoena, the government notified the Company that it is a target of an ongoing investigation into structuring and money laundering. Since March 20, 2012, the Company has received additional subpoenas from the USAO seeking additional documents relating to US Shen Zhou, materials relating to certain other former and current agents and other materials relating to the Company's anti-money laundering compliance policies and procedures. The government has interviewed several current and former Western Union employees and has served grand jury subpoenas seeking testimony from several current and former employees. The government's investigation is ongoing and the Company may receive additional requests for information as part of the investigation. The Company continues to cooperate fully with the government. The Company is unable to predict the outcome of the government's investigation, or the possible loss or range of loss, if any, which could be associated with the resolution of any possible criminal charges or civil claims that may be brought against the Company. Should such charges or claims be brought, the Company could face significant fines, damage awards or regulatory consequences which could have a material adverse effect on the Company's business, financial condition and results of operations.

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

On January 26, 2006, the First Data Corporation ("First Data") Board of Directors announced its intention to pursue the distribution of all of its money transfer and consumer payments business and its interest in a Western Union money transfer agent, as well as its related assets, including real estate, through a tax-free distribution to First Data shareholders (the "Spin-off"). The Spin-off resulted in the formation of the Company and these assets and businesses no longer being part of First Data. Pursuant to the separation and distribution agreement with First Data in connection with the Spin-off, First Data and the Company are each liable for, and agreed to perform, all liabilities with respect to their respective businesses. In addition, the separation and distribution agreement also provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of the Company's business with the Company and financial responsibility for the obligations and liabilities of First Data's retained businesses with First Data. The Company also entered into a tax allocation agreement that sets forth the rights and obligations of First Data and the Company with respect to taxes imposed on their respective businesses both prior to and after the Spin-off as well as potential tax obligations for which the Company may be liable in conjunction with the Spin-off (see Note 12).

6. Related Party Transactions

The Company has ownership interests in certain of its agents accounted for under the equity method of accounting. The Company pays these agents, as it does its other agents, commissions for money transfer and other services provided on the Company's behalf. Commission expense recognized for these agents for the three months ended June 30, 2013 and 2012 totaled $16.2 million and $16.7 million, respectively, and $31.4 million and $32.8 million for the six months ended June 30, 2013 and 2012, respectively.

The Company has a director who is also a director for a company that previously held significant investments in two of the Company's existing agents. During the first quarter of 2012, this company sold its interest in one of these agents, so that for the three and six months ended June 30, 2013, this company held a significant investment in only one agent. These agents had been agents of the Company prior to the director being appointed to the board. The Company recognized commission expense of $4.1 million and $4.8 million for the three months ended June 30, 2013 and 2012, respectively, and $8.2 million and $18.8 million for the six months ended June 30, 2013 and 2012, respectively, related to these agents during the periods the agents were affiliated with the Company's director.

7. Settlement Assets and Obligations

Settlement assets represent funds received or to be received from agents for unsettled money transfers, money orders and consumer payments. The Company records corresponding settlement obligations relating to amounts payable under money transfers, money orders and consumer payment service arrangements. Settlement assets and obligations also include amounts receivable from, and payable to, customers for the value of their cross-currency payment transactions related to the Business Solutions segment.

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

	June 30, 2013	December 31, 2012
Settlement assets:		
Cash and cash equivalents	$849.0	$574.5
Receivables from selling agents and Business Solutions customers	1,152.5	1,025.3
Investment securities	1,461.3	1,514.8
	$3,462.8	$3,114.6
Settlement obligations:		
Money transfer, money order and payment service payables	$2,511.0	$2,297.1
Payables to agents	951.8	817.5
	$3,462.8	$3,114.6

Investment securities consist primarily of highly-rated state and municipal debt securities, including variable rate demand notes. Variable rate demand note securities can be put (sold at par) typically on a daily basis with settlement periods ranging from the same day to one week, but have varying maturities through 2051. Generally, these securities are used by the Company for short-term liquidity needs and are held for short periods of time, typically less than 30 days. The Company is required to hold specific highly-rated, investment grade securities and such investments are restricted to satisfy outstanding settlement obligations in accordance with applicable state and foreign country requirements. The substantial majority of the Company's investment securities are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk. Western Union regularly monitors credit risk and attempts to mitigate its exposure by investing in highly-rated securities and through investment diversification. As of June 30, 2013, the majority of the Company's investment securities had credit ratings of "AA-" or better from a major credit rating agency.

Unrealized gains and losses on available-for-sale securities are excluded from earnings and presented as a component of accumulated other comprehensive income or loss, net of related deferred taxes. Gains and losses on investments are calculated using the specific-identification method and are recognized during the period in which the investment is sold or when an investment experiences an other-than-temporary decline in value. Proceeds from the sale and maturity of available-for-sale securities during the six months ended June 30, 2013 and 2012 were $9.3 billion and $7.3 billion, respectively.

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The components of investment securities are as follows (in millions):

June 30, 2013	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains
State and municipal debt securities (a)	$877.0	$883.6	$8.1	$(1.5)	$6.6
State and municipal variable rate demand notes	565.5	565.5	—	—	—
Other debt securities	12.1	12.2	0.1	—	0.1
	$1,454.6	$1,461.3	$8.2	$(1.5)	$6.7
December 31, 2012	**Amortized Cost**	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Net Unrealized Gains**
State and municipal debt securities (a)	$991.5	$1,003.7	$12.5	$(0.3)	$12.2
State and municipal variable rate demand notes	463.3	463.3	—	—	—
Other debt securities	47.7	47.8	0.1	—	0.1
	$1,502.5	$1,514.8	$12.6	$(0.3)	$12.3

(a) The majority of these securities are fixed-rate instruments.

The following summarizes the contractual maturities of investment securities as of June 30, 2013 (in millions):

	Fair Value
Due within 1 year	$173.5
Due after 1 year through 5 years	698.4
Due after 5 years through 10 years	86.2
Due after 10 years	503.2
	$1,461.3

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay the obligations or the Company may have the right to put the obligation prior to its contractual maturity, as with variable rate demand notes. Variable rate demand notes, having a fair value of $6.1 million, $39.2 million, $21.2 million and $499.0 million, are included in the “Due within 1 year,” “Due after 1 year through 5 years,” “Due after 5 years through 10 years” and “Due after 10 years” categories, respectively, in the table above.

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8. Accumulated Other Comprehensive Loss

The following table summarizes the components of accumulated other comprehensive loss, net of tax (in millions). All amounts reclassified from accumulated other comprehensive loss affect the line items noted below within the Condensed Consolidated Statements of Income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Unrealized gains on investment securities, beginning of period	$6.8	$7.7	$7.7	$4.9
Unrealized gains/(losses)	(3.5)	2.6	(2.0)	8.5
Tax (expense)/benefit	1.4	(1.1)	0.8	(3.3)
Reclassification of gains into “Other revenues”	(0.7)	(2.3)	(3.6)	(3.7)
Tax expense related to reclassifications	0.2	0.9	1.3	1.4
Net unrealized gains/(losses) on investment securities	(2.6)	0.1	(3.5)	2.9
Unrealized gains on investment securities, end of period	$4.2	$7.8	$4.2	$7.8
Unrealized gains/(losses) on hedging activities, beginning of period	$(1.5)	$(16.1)	$(21.9)	$5.1
Unrealized gains	4.4	32.5	28.2	9.5
Tax expense	(1.6)	(4.6)	(5.3)	(1.2)
Reclassification of gains into “Transaction fees”	(4.1)	(2.5)	(4.5)	(4.4)
Reclassification of gains into “Foreign exchange revenues”	(1.6)	(0.8)	(1.7)	(1.4)
Reclassification of losses into “Interest expense”	0.9	0.9	1.8	1.8
Tax benefit related to reclassifications	0.6	—	0.5	—
Net unrealized gains/(losses) on hedging activities	(1.4)	25.5	19.0	4.3
Unrealized gains/(losses) on hedging activities, end of period	$(2.9)	$9.4	$(2.9)	$9.4
Foreign currency translation adjustments, beginning of period	$(11.6)	$(3.5)	$(8.5)	$(6.3)
Foreign currency translation adjustments	(4.0)	(2.9)	(6.3)	0.4
Tax benefit	1.4	1.1	0.6	0.6
Net foreign currency translation adjustments	(2.6)	(1.8)	(5.7)	1.0
Foreign currency translation adjustments, end of period	$(14.2)	$(5.3)	$(14.2)	$(5.3)
Defined benefit pension plan adjustments, beginning of period	$(127.4)	$(120.6)	$(129.9)	$(122.2)
Reclassification of losses into “Cost of services”	3.1	2.7	6.2	5.3
Tax benefit related to reclassifications and other	(1.1)	(1.0)	(1.7)	(2.0)
Net defined benefit pension plan adjustments	2.0	1.7	4.5	3.3
Defined benefit pension plan adjustments, end of period	$(125.4)	$(118.9)	$(125.4)	$(118.9)
Accumulated other comprehensive loss, end of period	$(138.3)	$(107.0)	$(138.3)	$(107.0)

9. Employee Benefit Plan

The Company has one frozen defined benefit pension plan (the “Plan”) for which it had a recorded unfunded pension obligation of $85.2 million and $102.1 million as of June 30, 2013 and December 31, 2012, respectively, included in “Other liabilities” in the Condensed Consolidated Balance Sheets. The Company is required to fund $16 million to the Plan in 2013, of which approximately $13 million was contributed during the six months ended June 30, 2013.

The following table provides the components of net periodic benefit cost for the Plan (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest cost	$3.1	$3.6	$6.1	$7.3
Expected return on plan assets	(5.2)	(5.2)	(10.4)	(10.4)
Amortization of actuarial loss	3.1	2.7	6.2	5.3
Net periodic benefit cost	$1.0	$1.1	$1.9	$2.2

10. Derivatives

The Company is exposed to foreign currency exchange risk resulting from fluctuations in exchange rates, primarily the euro, and to a lesser degree the Canadian dollar, British pound, Australian dollar, and other currencies, related to forecasted money transfer revenues and on money transfer settlement assets and obligations. The Company is also exposed to risk from derivative contracts written to its customers arising from its cross-currency Business Solutions payments operations. Additionally, the Company is exposed to interest rate risk related to changes in market rates both prior to and subsequent to the issuance of debt. The Company uses derivatives to (a) minimize its exposures related to changes in foreign currency exchange rates and interest rates and (b) facilitate cross-currency Business Solutions payments by writing derivatives to customers.

The Company executes derivatives with established financial institutions, with the substantial majority of these financial institutions having credit ratings of “A-” or better from a major credit rating agency. The Company also writes Business Solutions derivatives mostly with small and medium size enterprises. The primary credit risk inherent in derivative agreements represents the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. The Company performs a review of the credit risk of these counterparties at the inception of the contract and on an ongoing basis. The Company also monitors the concentration of its contracts with any individual counterparty. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements, but takes action (including termination of contracts) when doubt arises about the counterparties’ ability to perform. The Company’s hedged foreign currency exposures are in liquid currencies; consequently, there is minimal risk that appropriate derivatives to maintain the hedging program would not be available in the future.

Foreign Currency — Consumer-to-Consumer

The Company's policy is to use longer-term foreign currency forward contracts, with maturities of up to 36 months at inception and a targeted weighted-average maturity of approximately one year, to mitigate some of the risk that changes in foreign currency exchange rates compared to the United States dollar could have on forecasted revenues denominated in other currencies related to its business. As of June 30, 2013, the Company's longer-term foreign currency forward contracts had maturities of a maximum of 24 months with a weighted-average maturity of approximately one year. These contracts are accounted for as cash flow hedges of forecasted revenue, with effectiveness assessed based on changes in the spot rate of the affected currencies during the period of designation. Accordingly, all changes in the fair value of the hedges not considered effective or portions of the hedge that are excluded from the measure of effectiveness are recognized immediately in "Derivative gains/(losses), net" within the Company's Condensed Consolidated Statements of Income.

The Company also uses short duration foreign currency forward contracts, generally with maturities from a few days up to one month, to offset foreign exchange rate fluctuations on settlement assets and obligations between initiation and settlement. In addition, forward contracts, typically with maturities of less than one year at inception, are utilized to offset foreign exchange rate fluctuations on certain foreign currency denominated cash positions. None of these contracts are designated as accounting hedges.

The aggregate equivalent United States dollar notional amounts of foreign currency forward contracts as of June 30, 2013 were as follows (in millions):

Contracts not designated as hedges:	
Euro	$227.5
Canadian dollar	61.1
British pound	39.2
Other (a)	167.2
Contracts designated as hedges:	
Euro	$429.5
Canadian dollar	127.6
British pound	93.2
Australian dollar	45.6
Other	88.1

(a) Comprised of exposures to 17 different currencies. None of these individual currency exposures is greater than $20 million.

Foreign Currency — Business Solutions

The Company writes derivatives, primarily foreign currency forward contracts and option contracts, mostly with small and medium size enterprises and derives a currency spread from this activity as part of its Business Solutions operations. The Company aggregates its Business Solutions payments foreign currency exposures arising from customer contracts, including the derivative contracts described above, and hedges the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties (economic hedge contracts). The derivatives written are part of the broader portfolio of foreign currency positions arising from its cross-currency Business Solutions payments operations, which primarily include spot exchanges of currency in addition to forwards and options. Foreign exchange revenues from the total portfolio of positions were $88.7 million and $82.5 million for the three months ended June 30, 2013 and 2012, respectively, and $172.7 million and $162.6 million for the six months ended June 30, 2013 and 2012, respectively. None of the derivative contracts used in Business Solutions operations are designated as accounting hedges. The duration of these derivative contracts at inception is generally less than one year.

The aggregate equivalent United States dollar notional amounts of foreign currency derivative customer contracts held by the Company in its Business Solutions operations as of June 30, 2013 were approximately $4.3 billion. The significant majority of customer contracts are written in major currencies such as the Canadian dollar, euro, Australian dollar, and British pound.

Interest Rate Hedging — Corporate

The Company utilizes interest rate swaps to effectively change the interest rate payments on a portion of its notes from fixed-rate payments to short-term LIBOR-based variable rate payments in order to manage its overall exposure to interest rates. The Company designates these derivatives as fair value hedges. The change in fair value of the interest rate swaps is offset by a change in the carrying value of the debt being hedged within “Borrowings” in the Condensed Consolidated Balance Sheets and “Interest expense” in the Condensed Consolidated Statements of Income has been adjusted to include the effects of interest accrued on the swaps and hedge ineffectiveness.

The Company, at times, utilizes derivatives to hedge the forecasted issuance of fixed-rate debt. These derivatives are designated as cash flow hedges of the variability in the fixed-rate coupon of the debt expected to be issued. The effective portion of the change in fair value of the derivatives is recorded in “Accumulated other comprehensive loss” in the Condensed Consolidated Balance Sheets.

The Company held interest rate swaps in an aggregate notional amount of $1,050.0 million and $800.0 million as of June 30, 2013 and December 31, 2012, respectively. Of this aggregate notional amount held at June 30, 2013, $500.0 million related to notes due in 2014, $250.0 million related to notes due in 2015, and $300.0 million related to notes due in 2018.

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Balance Sheet
The following table summarizes the fair value of derivatives reported in the Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012 (in millions):

	Derivative Assets			Derivative Liabilities		
		Fair Value			Fair Value	
	Balance Sheet Location	June 30, 2013	December 31, 2012	Balance Sheet Location	June 30, 2013	December 31, 2012
Derivatives — hedges:						
Interest rate fair value hedges — Corporate	Other assets	$12.3	$13.1	Other liabilities	$6.0	$—
Foreign currency cash flow hedges — Consumer-to-Consumer	Other assets	24.7	10.8	Other liabilities	7.0	17.6
Total		$37.0	$23.9		$13.0	$17.6
Derivatives — undesignated:						
Foreign currency — Business Solutions	Other assets	$183.0	$71.9	Other liabilities	$165.2	$66.5
Foreign currency — Consumer-to-Consumer	Other assets	4.2	1.0	Other liabilities	0.8	2.0
Total		$187.2	$72.9		$166.0	$68.5
Total derivatives		$224.2	$96.8		$179.0	$86.1

The fair values of derivative assets and liabilities associated with contracts that include netting language that the Company believes to be enforceable have been netted in the following tables to present the Company’s net exposure with these counterparties. The Company’s rights under these agreements generally allow for transactions to be settled on a net basis, including upon early termination, which could occur upon the counterparty’s default, a change in control, or other conditions.
In addition, certain of the Company’s other agreements include netting provisions, the enforceability of which may vary from jurisdiction to jurisdiction and depending on the circumstances. Due to the uncertainty related to the enforceability of these provisions, the derivative balances associated with these agreements are included within “Derivatives that are not or may not be subject to master netting arrangement or similar agreement” in the following tables. In certain circumstances, the Company may require its Business Solutions customers to maintain collateral balances which may mitigate the risk associated with potential customer defaults.

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The following tables summarize the gross and net fair value of derivative assets and liabilities as of June 30, 2013 and December 31, 2012 (in millions):

Offsetting of Derivative Assets

June 30, 2013	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in the Condensed Consolidated Balance Sheets	Derivatives Not Offset in the Condensed Consolidated Balance Sheets	Net Amounts
Derivatives subject to a master netting arrangement or similar agreement	$148.1	$—	$148.1	$(67.9)	$80.2
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	76.1				
Total	$224.2				
December 31, 2012					
Derivatives subject to a master netting arrangement or similar agreement	$39.1	$—	$39.1	$(19.6)	$19.5
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	57.7				
Total	$96.8				

Offsetting of Derivative Liabilities

June 30, 2013	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in the Condensed Consolidated Balance Sheets	Derivatives Not Offset in the Condensed Consolidated Balance Sheets	Net Amounts
Derivatives subject to a master netting arrangement or similar agreement	$85.4	$—	$85.4	$(67.9)	$17.5
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	93.6				
Total	$179.0				
December 31, 2012					
Derivatives subject to a master netting arrangement or similar agreement	$30.5	$—	$30.5	$(19.6)	$10.9
	55.6				

Derivatives that are not or may not be subject to master netting arrangement or similar agreement	
Total	$86.1

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Income Statement
The following tables summarize the location and amount of gains and losses of derivatives in the Condensed Consolidated Statements of Income segregated by designated, qualifying hedging instruments and those that are not, for the three and six months ended June 30, 2013 and 2012 (in millions):
Fair Value Hedges
The following table presents the location and amount of gains/(losses) from fair value hedges for the three months ended June 30, 2013 and 2012 (in millions):

Derivatives	Gain/(Loss) Recognized in Income on Derivatives			Hedged Item	Gain/(Loss) Recognized in Income on Related Hedged Item (a)			Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	Income Statement Location	Amount June 30, 2013	June 30, 2012		Income Statement Location	Amount June 30, 2013	June 30, 2012	Income Statement Location	Amount June 30, 2013	June 30, 2012
Interest rate contracts	Interest expense	$(7.5)	$0.7	Fixed-rate debt	Interest expense	$10.2	$1.3	Interest expense	$0.1	$—
Total gain/(loss)		$(7.5)	$0.7			$10.2	$1.3		$0.1	$—

The following table presents the location and amount of gains/(losses) from fair value hedges for the six months ended June 30, 2013 and 2012 (in millions):

Derivatives	Gain/(Loss) Recognized in Income on Derivatives			Hedged Item	Gain/(Loss) Recognized in Income on Related Hedged Item (a)			Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	Income Statement Location	Amount June 30, 2013	June 30, 2012		Income Statement Location	Amount June 30, 2013	June 30, 2012	Income Statement Location	Amount June 30, 2013	June 30, 2012
Interest rate contracts	Interest expense	$(8.1)	$2.4	Fixed-rate debt	Interest expense	$13.5	$1.5	Interest expense	$—	$—
Total gain/(loss)		$(8.1)	$2.4			$13.5	$1.5		$—	$—

Cash Flow Hedges
The following table presents the location and amount of gains/(losses) from cash flow hedges for the three months ended June 30, 2013 and 2012 (in millions):

Derivatives	Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)		
	Amount June 30, 2013	June 30, 2012	Income Statement Location	Amount June 30, 2013	June 30, 2012	Income Statement Location	Amount June 30, 2013	June 30, 2012
	$4.4	$32.5	Revenue	$5.7	$3.3		$(0.1)	$(1.8)

Foreign currency contracts						Derivative gains/(losses), net		
Interest rate contracts (c)	—	—	Interest expense	(0.9)	(0.9)	Interest expense	—	—
Total gain/(loss)	$4.4	$32.5		$4.8	$2.4		$(0.1)	$(1.8)

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The following table presents the location and amount of gains/(losses) from cash flow hedges for the six months ended June 30, 2013 and 2012 (in millions):

	Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)		
	Amount			Amount			Amount	
Derivatives	June 30, 2013	June 30, 2012	Income Statement Location	June 30, 2013	June 30, 2012	Income Statement Location	June 30, 2013	June 30, 2012
Foreign currency contracts	$28.2	$9.5	Revenue	$6.2	$5.8	Derivative gains/(losses), net	$(0.3)	$(0.4)
Interest rate contracts (c)	—	—	Interest expense	(1.8)	(1.8)	Interest expense	—	—
Total gain/(loss)	$28.2	$9.5		$4.4	$4.0		$(0.3)	$(0.4)

Undesignated Hedges

The following table presents the location and amount of net gains from undesignated hedges for the three and six months ended June 30, 2013 and 2012 (in millions):

	Gain/(Loss) Recognized in Income on Derivatives (d)				
	Income Statement Location	Amount			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives		2013	2012	2013	2012
Foreign currency contracts (e)	Selling, general and administrative	$5.7	$14.5	$13.4	$(0.3)
Foreign currency contracts (f)	Derivative gains/(losses), net	(0.1)	1.1	0.6	1.3
Total gain		$5.6	$15.6	$14.0	$1.0

(a) The gain of $10.2 million and $1.3 million in the three months ended June 30, 2013 and 2012, respectively, was comprised of a gain/(loss) in value on the debt of $7.5 million and $(0.7) million, respectively, and amortization of hedge accounting adjustments of $2.7 million and $2.0 million, respectively. The gain of $13.5 million and $1.5 million in the six months ended June 30, 2013 and 2012, respectively, was comprised of a gain/(loss) in value on the debt of $8.1 million and $(2.4) million, respectively, and amortization of hedge accounting adjustments of $5.4 million and $3.9 million, respectively.

(b) The portion of the change in fair value of a derivative excluded from the effectiveness assessment for foreign currency forward contracts designated as cash flow hedges represents the difference between changes in forward rates and spot rates.

(c) The Company uses derivatives to hedge the forecasted issuance of fixed-rate debt and records the effective portion of the derivative's fair value in "Accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets. These amounts are reclassified to "Interest expense" in the Condensed Consolidated Statements of Income over the life of the related notes.

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(d) The Company uses foreign currency forward and option contracts as part of its Business Solutions payments operations. These derivative contracts are excluded from this table as they are managed as part of a broader currency portfolio that includes non-derivative currency exposures. The gains and losses on these derivatives are included as part of the broader disclosure of portfolio revenue for this business discussed above.

(e) The Company uses foreign currency forward contracts to offset foreign exchange rate fluctuations on settlement assets and obligations as well as certain foreign currency denominated positions. Foreign exchange losses on settlement assets and obligations and cash balances, not including amounts related to derivatives activity as displayed above, were $5.8 million and $12.0 million for the three and six months ended June 30, 2013, respectively, and $17.9 million and $1.8 million for the three and six months ended June 30, 2012, respectively.

(f) The derivative contracts used in the Company's revenue hedging program are not designated as hedges in the final month of the contract.

An accumulated other comprehensive pre-tax gain of $16.1 million related to the foreign currency forward contracts is expected to be reclassified into revenue within the next 12 months as of June 30, 2013. Approximately $3.6 million of net losses on the forecasted debt issuance hedges are expected to be recognized in "Interest expense" in the Condensed Consolidated Statements of Income within the next 12 months as of June 30, 2013. No amounts have been reclassified into earnings as a result of the underlying transaction being considered probable of not occurring within the specified time period.

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11. Borrowings

The Company's outstanding borrowings consisted of the following (in millions):

	June 30, 2013	December 31, 2012
Due in less than one year:		
Commercial paper (a)	$—	$—
Floating rate notes (b)	—	300.0
Due in greater than one year (c):		
6.500% notes (effective rate of 5.6%) due 2014	500.0	500.0
2.375% notes due 2015 (d)	250.0	250.0
5.930% notes due 2016 (d)	1,000.0	1,000.0
2.875% notes due 2017 (d)	500.0	500.0
3.650% notes due 2018 (d)	400.0	400.0
5.253% notes due 2020 (d)	324.9	324.9
6.200% notes due 2036 (d)	500.0	500.0
6.200% notes due 2040 (d)	250.0	250.0
Other borrowings	5.7	5.8
Total borrowings at par value	3,730.6	4,030.7
Fair value hedge accounting adjustments, net (c)	6.7	20.2
Unamortized discount, net	(20.0)	(21.7)
Total borrowings at carrying value (e)	$3,717.3	$4,029.2

(a) Pursuant to the Company's commercial paper program, the Company may issue unsecured commercial paper notes in an amount not to exceed $1.5 billion outstanding at any time, reduced to the extent of borrowings outstanding on the Company's Revolving Credit Facility in excess of $150 million. The commercial paper notes may have maturities of up to 397 days from date of issuance.

(b) The floating rate notes due in March 2013 were repaid using the Company's cash, including cash generated from operations and proceeds from the Company's issuance of notes due 2015 and 2017.

(c) The Company utilizes interest rate swaps designated as fair value hedges to effectively change the interest rate payments on a portion of its notes from fixed-rate payments to short-term LIBOR-based variable rate payments in order to manage its overall exposure to interest rates. The changes in fair value of these interest rate swaps result in an offsetting hedge accounting adjustment recorded to the carrying value of the related note. These hedge accounting adjustments will be reclassified as reductions to or increases in "Interest expense" in the Condensed Consolidated Statements of Income over the life of the related notes, and cause the effective rate of interest to differ from the notes' stated rate.

(d) The difference between the stated interest rate and the effective interest rate is not significant.

(e) As of June 30, 2013, the Company's weighted-average effective rate on total borrowings was approximately 5.0%.

The Company's maturities of borrowings at par value as of June 30, 2013 are $500.0 million in 2014, $250.0 million in 2015, $1.0 billion in 2016, $500.0 million in 2017, $400.0 million in 2018, and approximately $1.1 billion thereafter.

The Company's obligations with respect to its outstanding borrowings, as described above, rank equally.

12. Income Taxes

The Company's effective tax rates on pre-tax income for the three months ended June 30, 2013 and 2012 were 14.5% and 12.5%, respectively, and 14.9% and 13.6% for the six months ended June 30, 2013 and 2012, respectively. The increase in the Company's effective tax rate for the three and six months ended June 30, 2013 is primarily due to the combined effect of various discrete items, which lowered the Company's effective tax rate in 2012, partially offset by an increasing proportion of profits that were foreign-derived in 2013, and therefore taxed at lower rates than the Company's combined federal and state tax rates in the United States. Certain portions of the Company's foreign source income are subject to United States federal and state income tax as earned due to the nature of the income, and dividend repatriations of the Company's foreign source income are generally subject to United States federal and state income tax.

Uncertain Tax Positions

The Company has established contingency reserves for a variety of material, known tax exposures. The Company's tax reserves reflect management's judgment as to the resolution of the issues involved if subject to judicial review or other settlement. While the Company believes its reserves are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be resolved at a financial cost that does not exceed its related reserve. With respect to these reserves, the Company's income tax expense would include (i) any changes in tax reserves arising from material changes during the period in the facts and circumstances (i.e., new information) surrounding a tax issue and (ii) any difference from the Company's tax position as recorded in the financial statements and the final resolution of a tax issue during the period. Such resolution could materially increase or decrease income tax expense in the Company's consolidated financial statements in future periods and could impact operating cash flows.

Unrecognized tax benefits represent the aggregate tax effect of differences between tax return positions and the amounts otherwise recognized in the Company's consolidated financial statements, and are reflected in "Income taxes payable" in the Condensed Consolidated Balance Sheets. The total amount of unrecognized tax benefits as of June 30, 2013 and December 31, 2012 was $108.3 million and $103.2 million, respectively, excluding interest and penalties. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $98.7 million and $93.5 million as of June 30, 2013 and December 31, 2012, respectively, excluding interest and penalties.

The Company recognizes interest and penalties with respect to unrecognized tax benefits in "Provision for income taxes" in its Condensed Consolidated Statements of Income, and records the associated liability in "Income taxes payable" in its Condensed Consolidated Balance Sheets. The Company recognized $1.2 million and $0.4 million in interest and penalties during the three months ended June 30, 2013 and 2012, respectively, and $1.9 million and $(1.1) million during the six months ended June 30, 2013 and 2012, respectively. The Company has accrued $22.0 million and $20.0 million for the payment of interest and penalties as of June 30, 2013 and December 31, 2012, respectively.

The unrecognized tax benefits accrual as of June 30, 2013 consists of federal, state and foreign tax matters. It is reasonably possible that the Company's total unrecognized tax benefits will decrease by approximately $24.0 million during the next 12 months in connection with various matters which may be resolved.

The Company and its subsidiaries file tax returns for the United States, for multiple states and localities, and for various non-United States jurisdictions, and the Company has identified the United States as its major tax jurisdiction, as the income tax imposed by any one foreign country is not material to the Company. The United States federal income tax returns of First Data, which include the Company, are eligible to be examined for 2005 and 2006. The

Company's United States federal income tax returns since the Spin-off are also eligible to be examined.

The United States Internal Revenue Service ("IRS") completed its examination of the United States federal consolidated income tax returns of First Data for 2003 and 2004, which included the Company, and issued a Notice of Deficiency in December 2008. In December 2011, the Company reached an agreement with the IRS resolving substantially all of the issues related to the Company's restructuring of its international operations in 2003 ("IRS Agreement"). As a result of the IRS Agreement, the Company expects to make cash payments of approximately $190 million, of which $92.4 million were made in the year ended December 31, 2012. No payments were made in the three and six months ended June 30, 2013. The IRS completed its examination of the United States federal consolidated income tax returns of First Data, which include the Company's 2005 and pre-Spin-off 2006 taxable periods and issued its report on October 31, 2012 ("FDC 30-Day Letter"). Furthermore, the IRS completed its examination of the Company's United States federal consolidated income tax returns for the 2006 post-Spin-off period through 2009 and issued its report also on October 31, 2012 ("WU 30-Day Letter"). Both the FDC 30-Day Letter and the WU 30-Day Letter propose tax adjustments affecting the Company, some of which are agreed and some of which are unagreed. Both First Data and the Company filed their respective protests with the IRS Appeals Division on November 28, 2012 related to the unagreed proposed adjustments. The Company believes its reserves are adequate with respect to both the agreed and unagreed adjustments.

As of June 30, 2013, no provision had been made for United States federal and state income taxes on certain of the Company's outside tax basis differences, which primarily relate to accumulated foreign earnings of approximately $4.7 billion, which are expected to be reinvested outside the United States indefinitely. Upon distribution of those earnings to the United States in the form of actual or constructive dividends, the Company would be subject to United States income taxes (subject to an adjustment for foreign tax credits), state income taxes and possible withholding taxes payable to various foreign countries. Such taxes could be significant. Determination of this amount of unrecognized deferred United States tax liability is not practicable because of the complexities associated with its hypothetical calculation.

Tax Allocation Agreement with First Data

The Company and First Data each are liable for taxes imposed on their respective businesses both prior to and after the Spin-off. If such taxes have not been appropriately apportioned between First Data and the Company, subsequent adjustments may occur that may impact the Company's financial condition or results of operations.

Also under the tax allocation agreement, with respect to taxes and other liabilities that result from a final determination that is inconsistent with the anticipated tax consequences of the Spin-off (as set forth in the private letter ruling and relevant tax opinion) ("Spin-off Related Taxes"), the Company will be liable to First Data for any such Spin-off Related Taxes attributable solely to actions taken by or with respect to the Company. In addition, the Company will also be liable for half of any Spin-off Related Taxes (i) that would not have been imposed but for the existence of both an action by the Company and an action by First Data or (ii) where the Company and First Data each take actions that, standing alone, would have resulted in the imposition of such Spin-off Related Taxes. The Company may be similarly liable if it breaches certain representations or covenants set forth in the tax allocation agreement. If the Company is required to indemnify First Data for taxes incurred as a result of the Spin-off being taxable to First Data, it likely would have a material adverse effect on the Company's business, financial condition and results of operations. First Data generally will be liable for all Spin-off Related Taxes, other than those described above.

13. Stock Compensation Plans

For the three and six months ended June 30, 2013, the Company recognized stock-based compensation expense of $9.8 million and $20.2 million, respectively, resulting from stock options, restricted stock units, performance-based restricted stock units and bonus stock units in the Condensed Consolidated Statements of Income. For the three and six months ended June 30, 2012, the Company recognized stock-based compensation expense of $9.2 million and $19.7 million, respectively. During the first half of 2013, the Company granted 4.0 million options at a weighted-average exercise price of $14.00, 2.3 million restricted stock units at a weighted-average grant date fair value of $12.73 and 0.8 million performance-based restricted stock units at a weighted-average grant date fair value of $13.56. The performance-based restricted stock units granted in 2013 are restricted stock units, primarily granted to the Company's executives, which require certain financial objectives to be met during 2013 and 2014 plus an additional vesting period and are subject to a payout modifier based on the Company's relative total shareholder return over a three year performance period (2013 through 2015).

As of June 30, 2013, the Company had 27.4 million outstanding options at a weighted-average exercise price of $17.97, and had 20.9 million options exercisable at a weighted-average exercise price of $18.65. The Company had 6.8 million non-vested restricted stock units at a weighted-average grant date fair value of $15.66 as of June 30, 2013. The Company used the following assumptions for the Black-Scholes option pricing model to determine the value of Western Union options granted in the six months ended June 30, 2013:

Stock options granted:		
Weighted-average risk-free interest rate	1.2	%
Weighted-average dividend yield	3.7	%
Volatility	35.3	%
Expected term (in years)	6.09	
Weighted-average grant date fair value	$3.20	

All assumptions used to calculate the fair value of Western Union's stock options granted during the six months ended June 30, 2013 were determined on a consistent basis with those assumptions disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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THE WESTERN UNION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

14. Segments

As previously described in Note 1, the Company classifies its businesses into three segments: Consumer-to-Consumer, Consumer-to-Business and Business Solutions. Operating segments are defined as components of an enterprise that engage in business activities, about which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding where to allocate resources and in assessing performance.

The Consumer-to-Consumer operating segment facilitates money transfers between two consumers. The Company's 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, including related transactions that can be initiated through the Company's websites and account based money transfers. The segment includes six regions whose functions are limited to generating, managing and maintaining agent relationships and localized marketing activities. These regions interact on transactions with consumers and share common processes and systems, thereby constituting one global Consumer-to-Consumer money transfer business and one operating segment.

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 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.

All businesses that have not been classified in the above segments are reported as "Other" and include the Company's money order, prepaid services, mobile money transfer, and other businesses and services.

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THE WESTERN UNION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table presents the Company's reportable segment results for the three and six months ended June 30, 2013 and 2012 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Consumer-to-Consumer:				
Transaction fees	$848.4	$893.6	$1,658.0	$1,765.6
Foreign exchange revenues	246.0	248.9	471.6	488.3
Other revenues	14.4	12.5	29.4	25.7
	1,108.8	1,155.0	2,159.0	2,279.6
Consumer-to-Business:				
Transaction fees	145.1	142.1	290.9	289.8
Foreign exchange and other revenues	7.9	7.3	15.8	14.7
	153.0	149.4	306.7	304.5
Business Solutions:				
Foreign exchange revenues	88.7	82.5	172.7	162.6
Transaction fees and other revenues	9.6	10.0	18.4	16.8
	98.3	92.5	191.1	179.4
Other:				
Total revenues	25.8	28.2	54.5	55.0
Total consolidated revenues	$1,385.9	$1,425.1	$2,711.3	$2,818.5
Operating income/(loss):				
Consumer-to-Consumer	$257.3	$328.9	$524.4	$640.2
Consumer-to-Business	31.4	33.5	69.3	74.6
Business Solutions (a)	(7.3)	(14.5)	(13.5)	(29.3)
Other	(4.6)	(2.0)	(6.5)	(7.1)
Total consolidated operating income	$276.8	$345.9	$573.7	$678.4

(a) During the three and six months ended June 30, 2013 and 2012, the Company incurred $6.2 million and $10.1 million, respectively, and $14.5 million and $20.9 million, respectively, of integration expenses related to the acquisition of Travelex Global Business Payments ("TGBP"), which was acquired in November 2011. TGBP integration expense consists primarily of severance and other benefits, retention, direct and incremental expense consisting of facility relocation, consolidation and closures; IT systems integration; amortization of a transitional trademark license; and other expenses such as training, travel and professional fees. Integration expense does not include costs related to the completion of the TGBP acquisition, which are included in Other.

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THE WESTERN UNION COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Item 2.

This report on Form 10-Q contains 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," "guides," "provides guidance," "provides outlook" and other similar expressions or futur conditional verbs such as "will," "should," "would" and "could" are intended to identify such forward-looking statements. Readers of the Form 10-Q of The Western Union Company (the "Company," "Western Union," "we," "our" or "us") should no rely solely on the forward-looking statements and should consider all uncertainties and risks discussed in the "Risk Factors" section and throughout the Annual Report on Form 10-K for the year ended December 31, 2012. The statements are only as of the date they are made, and the Company undertakes 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: (i) events related to our business and industry, such as: deterioration in consumers' and clients' confidence in our business, or in money transfer and payment service providers generally; changes in general economic conditions and economic conditions in the regions and industries in which we operate, including global economic and trade downturns and financial market disruptions; political conditions and related actions in the United States and abroad which may adversely affect our business and economic conditions as a whole; failure to compete effectively in the money transfer and payment service industry with respect to global and niche or corridor money transfer providers, banks and other money transfer and payment service providers, including telecommunications providers, card associations, card-based payment providers and electronic and Internet providers; the pricing of our services and any pricing reductions, and their impact on our consumers and our financial results; our ability to adapt technology in response to changing industry and consumer needs or trends; our failure to develop and introduce new services and enhancements, and gain market acceptance of such services; changes in, and failure to manage effectively, exposure to foreign exchange rates, including the impact of the regulation of foreign exchange spreads on money transfers and payment transactions; interruptions of United States government relations with countries in which we have or are implementing significant business relationships with agents or clients; changes in immigration laws, interruptions in immigration patterns and other factors related to migrants; mergers, acquisitions and integration of acquired businesses and technologies into our Company, including Travelex Global Business Payments, and the realization of anticipated financial benefits from these acquisitions, and events requiring us to write down our goodwill; decisions to change our business mix; failure to manage credit and fraud risks presented by our agents, clients and consumers or non-performance by our banks, lenders, other financial services providers or insurers; adverse movements and volatility in capital markets and other events which affect our liquidity, the liquidity of our agents or clients, or the value of, or our ability to recover our investments or amounts payable to us; any material breach of security or safeguards of or interruptions in any of our systems; our ability to attract and retain qualified key employees and to manage our workforce successfully; our ability to maintain our agent network and business relationships under terms consistent with or more advantageous to us than those currently in place; adverse rating actions by credit rating agencies; our ability to realize the anticipated benefits from productivity and cost-savings and other related initiatives, which may include decisions to downsize or to transition operating activities from one location to another, and to minimize any disruptions in our workforce that may result from those initiatives; our ability to protect our brands and our other intellectual property rights; our failure to manage the potential both for patent protection and patent liability in the context of a rapidly developing legal framework for intellectual property protection; changes in tax laws and unfavorable resolution of tax contingencies; cessation of or defects in various services provided to us by third-party vendors; material changes in the market value or liquidity of securities

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that we hold; restrictions imposed by our debt obligations; significantly slower growth or declines in the money transfer, payment service, and other markets in which we operate; and changes in industry standards affecting our business; (ii) events related to our regulatory and litigation environment, such as: the failure by us, our agents or their subagents to comply with laws and regulations, including regulatory or judicial interpretations thereof, designed to detect and prevent money laundering, terrorist financing, fraud and other illicit activity, and increased costs or loss of business associated with compliance with those laws and regulations; changes in United States or foreign laws, rules and regulations including the Internal Revenue Code, governmental or judicial interpretations thereof and industry practices and standards, including the impact of the Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act; liabilities resulting from a failure of our agents or their subagents to comply with laws and regulations; increased costs or loss of business due to regulatory initiatives and changes in laws, regulations and industry practices and standards affecting us, our agents, or their subagents; liabilities and unanticipated developments resulting from governmental investigations and consent agreements with, or enforcement actions by, regulators, including those associated with compliance with, failure to comply with, or extension of, the settlement agreement with the State of Arizona; the impact on our business from the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), the rules promulgated there-under, and the actions of the Consumer Financial Protection Bureau; liabilities resulting from litigation, including class-action lawsuits and similar matters, including costs, expenses, settlements and judgments; failure to comply with regulations regarding consumer privacy and data use and security; effects of unclaimed property laws; failure to maintain sufficient amounts or types of regulatory capital to meet the changing requirements of our regulators worldwide; and changes in accounting standards, rules and interpretations; and (iii) other events, such as: adverse tax consequences from our spin-off from First Data Corporation; catastrophic events; and management's ability to identify and manage these and other risks.

Overview

We are a leading provider of money movement services, operating in three business segments:

- Consumer-to-Consumer - The Consumer-to-Consumer operating segment facilitates money transfers between two consumers, primarily through a network of third-party agents. Our multi-currency, real-time money transfer service is viewed by us as one interconnected global network where a money transfer can be sent from one location to another, around the world. Our money transfer services are 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 our 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.
- 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, we write 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 our money order, prepaid services, mobile money transfer, and other businesses and services, in addition to costs for the investigation and closing of acquisitions.

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Significant Financial and Other Highlights

Significant financial and other highlights for the three and six months ended June 30, 2013 included:

- We generated $1,385.9 million and $2,711.3 million in total consolidated revenues, respectively, compared to $1,425.1 million and $2,818.5 million, respectively, for the comparable periods in the prior year, representing a decrease of 3% and 4%, respectively.
- We generated $276.8 million and $573.7 million in consolidated operating income, respectively, compared to $345.9 million and $678.4 million, respectively, for the comparable periods in the prior year, representing a decrease of 20% and 15%, respectively.
- Our effective tax rate was 14.5% and 14.9%, respectively, compared to 12.5% and 13.6%, respectively, for the comparable periods in the prior year. For the three months ended June 30, 2013 and 2012, 110% and 83% of our pre-tax income was derived from foreign sources, respectively, and for the six months ended June 30, 2013 and 2012, this percentage was 103% and 84%, respectively. While the income tax imposed by any one foreign country is not material to us, our overall effective tax rate could be adversely affected by changes in tax laws, both foreign and domestic. Certain portions of our foreign source income are subject to United States federal and state income tax as earned due to the nature of the income, and dividend repatriations of our foreign source income are generally subject to United States federal and state income tax.
- Consolidated net income was $198.6 million and $410.6 million, respectively, compared to $271.2 million and $518.5 million, respectively, for the comparable periods in the prior year, representing a decrease of 27% and 21%, respectively.
- Our consumers transferred $20.5 billion and $39.4 billion in Consumer-to-Consumer principal, respectively, of which $18.5 billion and $35.4 billion related to cross-border principal, respectively, which represented an increase of 2% in both Consumer-to-Consumer principal and cross-border principal over the three months ended in the prior year, and a decrease of 1% in both Consumer-to-Consumer principal and cross-border principal over the six months ended in the prior year.
- Consolidated cash flows provided by operating activities for the six months ended June 30, 2013 was $477.5 million compared to $445.7 million for the comparable period in the prior year. Cash flows provided by operating activities for the six months ended June 30, 2012 were impacted by tax payments of approximately $100 million made as a result of an agreement with the IRS related to audits of previous years (“IRS Agreement”).

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Results of Operations

The following discussion of our consolidated results of operations and segment results refers to the three and six months ended June 30, 2013 compared to the same periods in 2012. The results of operations should be read in conjunction with the discussion of our segment results of operations, which provide more detailed discussions concerning certain components of the Condensed Consolidated Statements of Income. All significant intercompany accounts and transactions between our segments have been eliminated.

Overview

The following table sets forth our results of operations for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions, except per share amounts)	2013	2012	% Change	2013	2012	% Change
Revenues:						
Transaction fees	$1,016.3	$1,059.4	(4)%	$1,994.3	$2,100.3	(5)%
Foreign exchange revenues	338.0	334.6	1%	650.4	657.2	(1)%
Other revenues	31.6	31.1	2%	66.6	61.0	9%
Total revenues	1,385.9	1,425.1	(3)%	2,711.3	2,818.5	(4)%
Expenses:						
Cost of services	811.7	797.5	2%	1,571.1	1,580.5	(1)%
Selling, general and administrative	297.4	281.7	6%	566.5	559.6	1%
Total expenses	1,109.1	1,079.2	3%	2,137.6	2,140.1	0%
Operating income	276.8	345.9	(20)%	573.7	678.4	(15)%
Other income/(expense):						
Interest income	0.7	1.2	(42)%	1.1	2.7	(59)%
Interest expense	(48.0)	(45.1)	6%	(96.9)	(89.5)	8%
Derivative gains/(losses), net	(0.2)	(0.7)	(71)%	0.3	0.9	(67)%
Other income, net	2.9	8.8	(67)%	4.2	7.7	(45)%
Total other expense, net	(44.6)	(35.8)	25%	(91.3)	(78.2)	17%
Income before income taxes	232.2	310.1	(25)%	482.4	600.2	(20)%
Provision for income taxes	33.6	38.9	(14)%	71.8	81.7	(12)%
Net income	$198.6	$271.2	(27)%	$410.6	$518.5	(21)%
Earnings per share:						
Basic	$0.36	$0.44	(18)%	$0.73	$0.84	(13)%