

WESTERN UNION CO

FORM 10-Q (Quarterly Report)

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Address	12500 EAST BELFORD AVENUE ENGLEWOOD, CO 80112
Telephone	(720) 332-3361
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Industry	Business Services
Sector	Services
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

or

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

Commission File Number: 001-32903

THE WESTERN UNION COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

20-4531180
(I.R.S. Employer
Identification No.)

12500 EAST BELFORD AVENUE
ENGLEWOOD, CO
(Address of Principal Executive Offices)

80112
(Zip Code)

Registrant's telephone number, including area code (866) 405-5012

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer 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 July 27, 2012, 602,392,455 shares of our common stock were outstanding.

THE WESTERN UNION COMPANY
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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,	
	2012	2011	2012	2011
Revenues:				
Transaction fees	\$ 1,059.4	\$ 1,057.0	\$ 2,100.3	\$ 2,055.0
Foreign exchange revenues	334.6	279.2	657.2	535.3
Other revenues	31.1	30.1	61.0	59.0
Total revenues	1,425.1	1,366.3	2,818.5	2,649.3
Expenses:				
Cost of services	797.5	764.2	1,580.5	1,509.6
Selling, general and administrative	281.7	251.4	559.6	476.1
Total expenses	1,079.2	1,015.6	2,140.1	1,985.7
Operating income	345.9	350.7	678.4	663.6
Other income/(expense):				
Interest income	1.2	1.3	2.7	2.5
Interest expense	(45.1)	(44.2)	(89.5)	(87.6)
Derivative gains/(losses), net	(0.7)	(1.3)	0.9	0.6
Other income, net	8.8	26.9	7.7	29.0
Total other expense, net	(35.8)	(17.3)	(78.2)	(55.5)
Income before income taxes	310.1	333.4	600.2	608.1
Provision for income taxes	38.9	70.2	81.7	134.7
Net income	\$ 271.2	\$ 263.2	\$ 518.5	\$ 473.4
Earnings per share:				
Basic	\$ 0.44	\$ 0.42	\$ 0.84	\$ 0.74
Diluted	\$ 0.44	\$ 0.41	\$ 0.84	\$ 0.74
Weighted-average shares outstanding:				
Basic	610.9	631.1	615.0	639.0
Diluted	613.1	635.8	617.5	644.0
Cash dividends declared per common share	\$ 0.10	\$ 0.08	\$ 0.20	\$ 0.15

See Notes to Condensed Consolidated Financial Statements.

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 271.2	\$ 263.2	\$ 518.5	\$ 473.4
Other comprehensive income/(loss):				
Unrealized gains on investment securities:				
Unrealized gains	2.6	6.6	8.5	7.0
Tax expense	(1.1)	(2.5)	(3.3)	(2.6)
Reclassification of gains into earnings	(2.3)	(0.9)	(3.7)	(1.1)
Tax expense	0.9	0.3	1.4	0.4
Net unrealized gains on investment securities	0.1	3.5	2.9	3.7
Unrealized gains/(losses) on hedging activities:				
Unrealized gains/(losses)	32.5	(22.0)	9.5	(57.6)
Tax (expense)/benefit	(4.6)	3.6	(1.2)	8.8
Reclassification of (gains)/losses into earnings	(2.4)	15.0	(4.0)	21.2
Tax benefit	—	(2.6)	—	(4.0)
Net unrealized gains/(losses) on hedging activities	25.5	(6.0)	4.3	(31.6)
Foreign currency translation adjustments:				
Foreign currency translation adjustments	(2.9)	(2.1)	0.4	2.4
Tax benefit/(expense)	1.1	0.4	0.6	(0.6)
Net foreign currency translation adjustments	(1.8)	(1.7)	1.0	1.8
Defined benefit pension plan:				
Reclassification of losses into earnings	2.7	2.1	5.3	4.1
Tax benefit	(1.0)	(1.0)	(2.0)	(1.7)
Net defined benefit pension plan adjustments	1.7	1.1	3.3	2.4
Total other comprehensive income/(loss)	25.5	(3.1)	11.5	(23.7)
Comprehensive income	\$ 296.7	\$ 260.1	\$ 530.0	\$ 449.7

See Notes to Condensed Consolidated Financial Statements.

THE WESTERN UNION COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in millions, except per share amounts)

	June 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 1,403.8	\$ 1,370.9
Settlement assets	3,103.3	3,091.2
Property and equipment, net of accumulated depreciation of \$391.0 and \$429.7, respectively	196.4	198.1
Goodwill	3,174.1	3,198.9
Other intangible assets, net of accumulated amortization of \$473.2 and \$462.5, respectively	861.6	847.4
Other assets	426.8	363.4
Total assets	<u>\$ 9,166.0</u>	<u>\$ 9,069.9</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 496.0	\$ 535.0
Settlement obligations	3,103.3	3,091.2
Income taxes payable	189.6	302.4
Deferred tax liability, net	388.8	389.7
Borrowings	3,673.1	3,583.2
Other liabilities	262.4	273.6
Total liabilities	<u>8,113.2</u>	<u>8,175.1</u>
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; 604.5 shares and 619.4 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	6.0	6.2
Capital surplus	311.0	247.1
Retained earnings	842.8	760.0
Accumulated other comprehensive loss	(107.0)	(118.5)
Total stockholders' equity	<u>1,052.8</u>	<u>894.8</u>
Total liabilities and stockholders' equity	<u>\$ 9,166.0</u>	<u>\$ 9,069.9</u>

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 518.5	\$ 473.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	31.3	30.4
Amortization	91.6	60.9
Gain on revaluation of equity interest (Note 3)	—	(29.4)
Other non-cash items, net	1.2	3.6
Increase/(decrease) in cash, excluding the effects of acquisitions, resulting from changes in:		
Other assets	(19.8)	(3.4)
Accounts payable and accrued liabilities	(45.3)	(48.4)
Income taxes payable (Note 12)	(111.1)	42.4
Other liabilities	(20.7)	(23.2)
Net cash provided by operating activities	445.7	506.3
Cash flows from investing activities		
Capitalization of contract costs	(78.3)	(44.8)
Capitalization of purchased and developed software	(15.6)	(4.0)
Purchases of property and equipment	(27.4)	(26.6)
Acquisition of businesses	(4.8)	(135.7)
Net cash used in investing activities	(126.1)	(211.1)
Cash flows from financing activities		
Proceeds from exercise of options	45.0	91.6
Cash dividends paid	(122.3)	(95.0)
Common stock repurchased	(302.4)	(658.5)
Net proceeds from commercial paper	93.0	—
Net proceeds from issuance of borrowings	—	299.0
Net cash used in financing activities	(286.7)	(362.9)
Net change in cash and cash equivalents	32.9	(67.7)
Cash and cash equivalents at beginning of period	1,370.9	2,157.4
Cash and cash equivalents at end of period	\$ 1,403.8	\$ 2,089.7
Supplemental cash flow information:		
Interest paid	\$ 94.5	\$ 101.0
Income taxes paid (Note 12)	\$ 204.9	\$ 94.3

See Notes to Condensed Consolidated Financial Statements.

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 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. This segment primarily consists of United States bill payments, Pago Fácil (bill payments in Argentina), and international bill payments. 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 business-to-business payment solutions, primarily cross-border, cross-currency transactions, mainly for small and medium size enterprises and other organizations. 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. Travelex Global Business Payments (“TGBP”), which was acquired in November 2011 (see Note 3), is also included in this segment.

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.

The Company's previously reported segments were Consumer-to-Consumer, Global Business Payments, and Other. The changes in the Company's segment structure primarily relate to the separation of the Global Business Payments segment into two new reportable segments, Consumer-to-Business and Business Solutions. All prior segment information has been reclassified to reflect these new segments.

There are legal or regulatory limitations on transferring certain assets of the Company outside of the countries where these assets are located, or which constitute undistributed earnings of affiliates of the Company accounted for under the equity method of accounting. 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, 2012, the amount of net assets subject to these limitations totaled approximately \$285 million.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

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, 2012 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, 2011 .

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.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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, 2012 and 2011, there were 24.1 million and 8.2 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, 2012 and 2011, there were 22.3 million and 8.0 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,	
	2012	2011	2012	2011
Basic weighted-average shares outstanding	610.9	631.1	615.0	639.0
Common stock equivalents	2.2	4.7	2.5	5.0
Diluted weighted-average shares outstanding	613.1	635.8	617.5	644.0

Cash Dividends Paid

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. The Company's Board of Directors declared quarterly cash dividends of \$0.08 per common share in the second quarter of 2011 and \$0.07 per common share in the first quarter of 2011, representing \$95.0 million in total dividends. Of this amount, \$50.3 million was paid on June 30, 2011 and \$44.7 million was paid on March 31, 2011.

THE WESTERN UNION COMPANY**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****3. Acquisitions**

On November 7, 2011, the Company acquired the business-to-business payment business known as Travelex Global Business Payments from Travelex Holdings Limited for cash consideration of £603 million (\$967.8 million). In connection with the July 5, 2011 purchase agreement, on May 4, 2012, the Company acquired the French assets of TGBP for cash consideration of £3 million (\$4.8 million) after receiving regulatory approval. The final consideration and the final purchase price allocation for TGBP are subject to a working capital adjustment, further analysis of tax balances, final valuation of identifiable intangible assets, and other items. With the acquisition of TGBP and the Company's existing Business Solutions business, the Company has the ability to leverage TGBP's business-to-business payments market expertise, distribution, product and capabilities with Western Union's brand, existing Business Solutions operations, global infrastructure and relationships, and financial strength. The results of operations for TGBP have been included in the Company's consolidated financial statements from the date of acquisition.

On October 31, 2011 and April 20, 2011, the Company acquired the remaining 70% interests in European-based Finint S.r.l. ("Finint") and Angelo Costa S.r.l. ("Costa"), respectively, two of the Company's largest agents providing services in a number of European countries. The Company previously held a 30% equity interest in each of these agents. The Company expects these acquisitions will help accelerate the introduction of additional Western Union products and services and will leverage its existing European infrastructure to build new opportunities across the European Union. The acquisitions do not impact the Company's money transfer revenue, because the Company was already recording all of the revenue arising from money transfers originating at Finint's and Costa's subagents. As of the acquisition dates, the Company no longer incurs commission costs for transactions related to Finint and Costa; rather the Company now pays commissions to Finint and Costa subagents, resulting in lower overall commission expense. The Company's operating expenses include costs attributable to Finint's and Costa's operations subsequent to the acquisition dates.

The Company acquired the remaining 70% interest in Finint for cash consideration of €99.6 million (\$139.4 million). The Company revalued its previous 30% equity interest to fair value of approximately \$47.7 million on the acquisition date, resulting in total value of \$187.1 million .

The Company acquired the remaining 70% interest in Costa for cash consideration of €95 million (\$135.7 million). The final consideration is subject to the resolution of a working capital adjustment. The Company revalued its previous 30% equity interest to fair value of approximately \$46.2 million on the acquisition date, resulting in total value of \$181.9 million . In conjunction with the revaluation, the Company recognized a gain of \$29.4 million , recorded in "Other income, net" in the Company's Consolidated Statements of Income, for the amount by which the fair value of the 30% equity interest exceeded its previous carrying value.

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

All assets and liabilities have been recorded at fair value, excluding deferred tax liabilities. The following table summarizes the final allocations of purchase price for Finint and Costa and the preliminary allocation of purchase price for TGBP (in millions):

	Travelex Global Business Payments (b)	Finint S.r.l	Angelo Costa S.r.l
Assets:			
Cash and cash equivalents	\$ 25.3	\$ —	\$ —
Settlement assets	171.6	52.2	46.3
Property and equipment	5.1	0.5	3.0
Goodwill	705.7	153.6	174.2
Other intangible assets	314.2	64.8	51.4
Other assets	65.5	2.0	1.5
Total assets	\$ 1,287.4	\$ 273.1	\$ 276.4
Liabilities:			
Accounts payable and accrued liabilities	\$ 45.2	\$ 6.1	\$ 10.8
Settlement obligations	171.6	57.5	55.7
Income taxes payable	1.1	3.1	10.3
Deferred tax liability, net	75.1	15.8	15.5
Other liabilities	21.8	3.5	2.2
Total liabilities	314.8	86.0	94.5
Total purchase price (a)	\$ 972.6	\$ 187.1	\$ 181.9

- (a) Total purchase price includes cash consideration transferred and the revaluation of the Company's previous equity interest, if any, to fair value on the acquisition date.
- (b) Amounts include the impact of the acquisition of the French assets of TGBP on May 4, 2012.

The valuation of assets acquired was derived using primarily unobservable Level 3 inputs, which require significant management judgment and estimation, and resulted in identifiable intangible assets as follows (in millions):

	Travelex Global Business Payments (a)	Finint S.r.l	Angelo Costa S.r.l
Customer and other contractual relationships	\$ 264.5	\$ —	\$ —
Network of subagents	—	53.9	44.6
Other	49.7	10.9	6.8
Total identifiable intangible assets	\$ 314.2	\$ 64.8	\$ 51.4

- (a) Amounts include the impact of the acquisition of the French assets of TGBP on May 4, 2012.

Customer and other contractual relationships and network of subagents identifiable intangible assets were valued using an income approach and are being amortized over 9 to 15 years, subject to valuation completion for TGBP. Other intangibles were valued using both income and cost approaches and are being amortized over one to five years. For the remaining assets and liabilities excluding goodwill and deferred tax liabilities, fair value approximated carrying value.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The goodwill recognized for TGBP of \$705.7 million is attributable to expected synergies, the projected long-term business growth in current and new markets and an assembled workforce and relates entirely to the Business Solutions segment. The goodwill recognized for Finint and Costa of \$153.6 million and \$174.2 million, respectively, is attributable to growth opportunities that will arise from the Company directly managing its agent relationships, expected synergies, projected long-term business growth and an assembled workforce and relates entirely to the Consumer-to-Consumer segment. Based on the preliminary allocation of purchase price, goodwill expected to be deductible for income tax purposes for TGBP is approximately \$423.9 million. Goodwill expected to be deductible for income tax purposes for Finint and Costa is approximately \$97.0 million and \$104.9 million, respectively.

4. Restructuring and Related Expenses

On May 25, 2010 and as subsequently revised, the Company's Board of Directors approved a restructuring plan (the "Restructuring Plan") designed to reduce the Company's overall headcount and migrate positions from various facilities, primarily within North America and Europe, to regional operating centers. As of September 30, 2011, the Company had incurred all of the expenses related to the Restructuring Plan.

The following table summarizes the activity for the restructuring accruals as of June 30, 2012 (in millions):

	Severance, Outplacement and Related Benefits	Other (a)	Total
Balance, December 31, 2011	\$ 13.7	\$ 0.2	\$ 13.9
Cash payments	(8.6)	(0.2)	(8.8)
Balance, June 30, 2012	\$ 5.1	\$ —	\$ 5.1

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

Restructuring and related expenses are reflected in the Condensed Consolidated Statements of Income as follows (in millions):

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Cost of services	\$ 0.5	\$ 7.4
Selling, general and administrative	8.4	25.5
Total restructuring and related expenses, pre-tax	\$ 8.9	\$ 32.9
Total restructuring and related expenses, net of tax	\$ 5.9	\$ 22.3

There were no restructuring and related expenses incurred during the three and six months ended June 30, 2012.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the restructuring and related expenses incurred by reportable segment (in millions). These expenses have not been allocated to the Company's segments disclosed in Note 14. While these items are identifiable to the Company's segments, these expenses have been excluded from the measurement of segment operating profit provided to the chief operating decision maker ("CODM") for purposes of assessing segment performance and decision making with respect to resource allocation.

	Consumer-to- Consumer	Consumer-to- Business	Business Solutions	Other	Total
First quarter 2011	\$ 19.1	\$ 3.5	\$ —	\$ 1.4	\$ 24.0
Second quarter 2011	6.8	0.9	0.9	0.3	8.9
Total restructuring and related expenses	<u>\$ 25.9</u>	<u>\$ 4.4</u>	<u>\$ 0.9</u>	<u>\$ 1.7</u>	<u>\$ 32.9</u>

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, 2011 .

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

June 30, 2012	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
State and municipal debt securities	\$ —	\$ 832.3	\$ —	\$ 832.3
State and municipal variable rate demand notes	—	975.2	—	975.2
Corporate debt and other	0.1	56.9	—	57.0
Derivatives	—	168.8	—	168.8
Total assets	\$ 0.1	\$ 2,033.2	\$ —	\$ 2,033.3
Liabilities:				
Commercial paper	\$ —	\$ 390.0	\$ —	\$ 390.0
Notes and other borrowings	—	3,619.1	—	3,619.1
Total borrowings	—	4,009.1	—	4,009.1
Derivatives	—	97.1	—	97.1
Total liabilities	\$ —	\$ 4,106.2	\$ —	\$ 4,106.2

December 31, 2011	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
State and municipal debt securities	\$ —	\$ 866.5	\$ —	\$ 866.5
State and municipal variable rate demand notes	—	376.9	—	376.9
Corporate debt and other	0.1	88.5	—	88.6
Derivatives	—	124.8	—	124.8
Total assets	\$ 0.1	\$ 1,456.7	\$ —	\$ 1,456.8
Liabilities:				
Commercial paper	\$ —	\$ 297.0	\$ —	\$ 297.0
Notes and other borrowings	—	3,563.5	—	3,563.5
Total borrowings	—	3,860.5	—	3,860.5
Derivatives	—	86.6	—	86.6
Total liabilities	\$ —	\$ 3,947.1	\$ —	\$ 3,947.1

No non-recurring fair value adjustments were recorded during the three and six months ended June 30, 2012 and June 30, 2011, respectively, except those associated with acquisitions, as disclosed in Note 3.

THE WESTERN UNION COMPANY**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)***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, settlement receivables and settlement obligations, and commercial paper approximate fair value due to their short maturities. The aggregate fair value of the Company's borrowings, excluding commercial paper, 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 Company's Condensed Consolidated Balance Sheets, with the exception of borrowings, which had a carrying value of \$3,673.1 million and \$3,583.2 million as of June 30, 2012 and December 31, 2011, respectively (see Note 11).

6. 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, 2012 with expiration dates through 2015, 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

In the second quarter of 2009, the Antitrust Division of the United States Department of Justice ("DOJ") served one of the Company's subsidiaries with a grand jury subpoena requesting documents in connection with an investigation into money transfers, including related foreign exchange rates, from the United States to the Dominican Republic from 2004 through the date of subpoena. The Company is cooperating fully with the DOJ investigation. Due to the stage of the investigation, the Company is unable to predict the outcome of the 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.

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. as a defendant. On April 25, 2011, the Company and Western Union Financial Services, Inc. filed a motion to dismiss the breach of fiduciary duty and declaratory relief claims. Western Union Financial Services, Inc. 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. The plaintiffs have not sought and the Court has not granted class certification. A preliminary agreement in principle has been reached with the plaintiffs and is subject to the negotiation and execution of a definitive settlement agreement between the parties and the Court's approval. The preliminary agreement would result in a substantial amount of the settlement proceeds to be paid from the Company's existing related unclaimed property liabilities. If a settlement agreement is not completed or approved, the Company and Western Union Financial Services, Inc. intend to vigorously defend themselves against both lawsuits.

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

On February 11, 2010, the Company signed an agreement and settlement, 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. The accrual included amounts for reimbursement to the State of Arizona for its costs associated with this matter. In addition, as part of the agreement and settlement, 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. The costs of the investments in the Company's programs and for the monitor are expected to be \$23.0 million over the period from signing to 2013, pursuant to the terms of the agreement and settlement; however, actual costs incurred for these programs will likely exceed this amount.

In the normal course of business, the Company is subject to 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).

7. 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, 2012 and 2011 totaled \$16.7 million and \$35.0 million, respectively, and \$32.8 million and \$79.0 million for the six months ended June 30, 2012 and 2011, respectively. Commission expense recognized for Finint prior to October 31, 2011 and Costa prior to April 20, 2011, the date of the acquisitions (see Note 3), was considered a related party transaction.

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. As of June 30, 2012, this company holds a significant investment in 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 \$4.8 million and \$15.0 million for the three months ended June 30, 2012 and 2011, respectively, and \$18.8 million and \$28.4 million for the six months ended June 30, 2012 and 2011, respectively, related to these agents during the period the agents were affiliated with the Company's director.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. 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 businesses for the value of customer cross-currency payment transactions related to the Business Solutions segment.

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

	June 30, 2012	December 31, 2011
Settlement assets:		
Cash and cash equivalents	\$ 170.6	\$ 712.5
Receivables from selling agents and Business Solutions customers	1,068.2	1,046.7
Investment securities	1,864.5	1,332.0
	<u>\$ 3,103.3</u>	<u>\$ 3,091.2</u>
Settlement obligations:		
Money transfer, money order and payment service payables	\$ 2,245.9	\$ 2,242.3
Payables to agents	857.4	848.9
	<u>\$ 3,103.3</u>	<u>\$ 3,091.2</u>

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, 2012, 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, 2012 and 2011 were \$7.3 billion and \$6.9 billion, respectively.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)
June 30, 2012					
State and municipal debt securities (a)	\$ 820.1	\$ 832.3	\$ 12.5	\$ (0.3)	\$ 12.2
State and municipal variable rate demand notes	975.2	975.2	—	—	—
Corporate debt and other	56.5	57.0	0.5	—	0.5
	<u>\$ 1,851.8</u>	<u>\$ 1,864.5</u>	<u>\$ 13.0</u>	<u>\$ (0.3)</u>	<u>\$ 12.7</u>
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)
December 31, 2011					
State and municipal debt securities (a)	\$ 858.5	\$ 866.5	\$ 10.4	\$ (2.4)	\$ 8.0
State and municipal variable rate demand notes	376.9	376.9	—	—	—
Corporate debt and other	88.7	88.6	0.6	(0.7)	(0.1)
	<u>\$ 1,324.1</u>	<u>\$ 1,332.0</u>	<u>\$ 11.0</u>	<u>\$ (3.1)</u>	<u>\$ 7.9</u>

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

The following summarizes the contractual maturities of investment securities as of June 30, 2012 (in millions):

	Fair Value
Due within 1 year	\$ 170.7
Due after 1 year through 5 years	688.7
Due after 5 years through 10 years	153.5
Due after 10 years	851.6
	<u>\$ 1,864.5</u>

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 \$21.6 million, \$48.2 million, \$64.9 million and \$840.5 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.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Employee Benefit Plan

The Company has a frozen defined benefit pension plan (the “Plan”) for which it had a recorded unfunded pension obligation of \$93.9 million and \$112.7 million as of June 30, 2012 and December 31, 2011, respectively, included in “Other liabilities” in the Condensed Consolidated Balance Sheets. The Company is required to fund \$20 million to the Plan in 2012. Through June 2012, the Company has made contributions of approximately \$16 million to the Plan, including a discretionary contribution of approximately \$5 million.

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,	
	2012	2011	2012	2011
Interest cost	\$ 3.6	\$ 4.5	\$ 7.3	\$ 9.0
Expected return on plan assets	(5.2)	(5.4)	(10.4)	(10.7)
Amortization of actuarial loss	2.7	2.1	5.3	4.1
Net periodic benefit cost	\$ 1.1	\$ 1.2	\$ 2.2	\$ 2.4

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-to-business 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-to-business 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.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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, 2012, 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, 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, 2012 were as follows (in millions):

Contracts not designated as hedges:		
Euro	\$	177.1
Australian dollar		35.8
British pound		34.8
Canadian dollar		34.5
Other		133.1
Contracts designated as hedges:		
Euro	\$	506.2
Canadian dollar		119.5
British pound		101.8
Australian dollar		48.6
Other		81.5

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-to-business 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-to-business 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 \$82.5 million and \$29.2 million for the three months ended June 30, 2012 and 2011, respectively, and \$162.6 million and \$56.9 million for the six months ended June 30, 2012 and 2011, respectively. None of the derivative contracts used in Business Solutions operations are designated as accounting hedges. The duration of these derivative contracts is generally nine months or less.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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, 2012 were approximately \$3.7 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 utilizing the short-cut method, which permits an assumption of no ineffectiveness if certain criteria are met. 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 the Company's "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.

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 \$500.0 million , related to notes due in 2014, as of both June 30, 2012 and December 31, 2011 .

Balance Sheet

The following table summarizes the fair value of derivatives reported in the Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 (in millions):

	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		Fair Value		Fair Value	
		June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Derivatives — hedges:					
Interest rate fair value hedges — Corporate	Other assets	\$ 12.3	\$ 4.4	Other liabilities	\$ — \$ —
Foreign currency cash flow hedges — Consumer-to-Consumer	Other assets	37.1	37.0	Other liabilities	3.0 6.6
Total		\$ 49.4	\$ 41.4		\$ 3.0 \$ 6.6
Derivatives — undesignated:					
Foreign currency — Business Solutions	Other assets	\$ 118.9	\$ 79.8	Other liabilities	\$ 85.6 \$ 67.6
Foreign currency —Consumer-to-Consumer	Other assets	0.5	3.6	Other liabilities	8.5 12.4
Total		\$ 119.4	\$ 83.4		\$ 94.1 \$ 80.0
Total derivatives		\$ 168.8	\$ 124.8		\$ 97.1 \$ 86.6

THE WESTERN UNION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
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, 2012 and 2011 (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, 2012 and 2011 (in millions):

Derivatives	Gain/(Loss) Recognized in Income on Derivatives				Hedged Items	Gain/(Loss) Recognized in Income on Related Hedged Item (a)			
	Income Statement Location	Amount		Income Statement Location		Amount			
		June 30, 2012	June 30, 2011			June 30, 2012	June 30, 2011		
Interest rate contracts	Interest expense	\$ 0.7	\$ 8.4	Fixed-rate debt	Interest expense	\$ 1.3	\$ (1.6)		
Total gain/(loss)		\$ 0.7	\$ 8.4			\$ 1.3	\$ (1.6)		

The following table presents the location and amount of gains/(losses) from fair value hedges for the six months ended June 30, 2012 and 2011 (in millions):

Derivatives	Gain/(Loss) Recognized in Income on Derivatives				Hedged Items	Gain/(Loss) Recognized in Income on Related Hedged Item (a)			
	Income Statement Location	Amount		Income Statement Location		Amount			
		June 30, 2012	June 30, 2011			June 30, 2012	June 30, 2011		
Interest rate contracts	Interest expense	\$ 2.4	\$ 8.2	Fixed-rate debt	Interest expense	\$ 1.5	\$ 5.7		
Total gain/(loss)		\$ 2.4	\$ 8.2			\$ 1.5	\$ 5.7		

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, 2012 and 2011 (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		Income Statement Location	Amount		Income Statement Location	Amount		
	June 30, 2012	June 30, 2011		June 30, 2012	June 30, 2011		June 30, 2012	June 30, 2011	
Foreign currency contracts	\$ 32.5	\$ (19.6)	Revenue	\$ 3.3	\$ (14.6)	Derivative gains/(losses), net	\$ (1.8)	\$ (1.8)	
Interest rate contracts (c)	—	(2.4)	Interest expense	(0.9)	(0.4)	Interest expense	—	—	
Total gain/(loss)	\$ 32.5	\$ (22.0)		\$ 2.4	\$ (15.0)		\$ (1.8)	\$ (1.8)	

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the location and amount of gains/(losses) from cash flow hedges for the six months ended June 30, 2012 and 2011 (in millions):

Derivatives	Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion)		Income Statement Location	Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Income Statement Location	Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	Amount			Amount			Amount	
	June 30, 2012	June 30, 2011		June 30, 2012	June 30, 2011		June 30, 2012	June 30, 2011
Foreign currency contracts	\$ 9.5	\$ (55.2)	Revenue	\$ 5.8	\$ (20.4)	Derivative gains/(losses), net	\$ (0.4)	\$ 0.5
Interest rate contracts (c)	—	(2.4)	Interest expense	(1.8)	(0.8)	Interest expense	—	—
Total gain/(loss)	\$ 9.5	\$ (57.6)		\$ 4.0	\$ (21.2)		\$ (0.4)	\$ 0.5

Undesignated Hedges

The following table presents the location and amount of net losses from undesignated hedges for the three and six months ended June 30, 2012 and 2011 (in millions):

Derivatives	Income Statement Location	Gain/(Loss) Recognized in Income on Derivatives (d)			
		Amount			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
Foreign currency contracts (e)	Selling, general and administrative	\$ 14.5	\$ (10.6)	\$ (0.3)	\$ (33.3)
Foreign currency contracts (f)	Derivative gains/(losses), net	1.1	(1.1)	1.3	(3.1)
Total gain/(loss)		\$ 15.6	\$ (11.7)	\$ 1.0	\$ (36.4)

- (a) The gain/(loss) of \$1.3 million and \$(1.6) million in the three months ended June 30, 2012 and 2011, respectively, was comprised of a loss in value on the debt of \$0.7 million and \$8.4 million, respectively, and amortization of hedge accounting adjustments of \$2.0 million and \$6.8 million, respectively. The gain of \$1.5 million and \$5.7 million in the six months ended June 30, 2012 and 2011, respectively, was comprised of a loss in value on the debt of \$2.4 million and \$8.2 million, respectively, and amortization of hedge accounting adjustments of \$3.9 million and \$13.9 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.
- (d) The Company uses foreign currency forward and option contracts as part of its business-to-business 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 loss on settlement assets and obligations and cash balances for the three and six months ended June 30, 2012 was \$17.9 million and \$1.8 million, respectively. Foreign exchange gain on settlement assets and obligations and cash balances for the three and six months ended June 30, 2011 was \$5.4 million and \$25.6 million, 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.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

An accumulated other comprehensive pre-tax gain of \$22.8 million related to the foreign currency forward contracts is expected to be reclassified into revenue within the next 12 months as of June 30, 2012 . 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, 2012 . 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.

11. Borrowings

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

	June 30, 2012	December 31, 2011
Due in less than one year:		
Commercial paper	\$ 390.0	\$ 297.0
Floating rate notes (effective rate of 1.0%) due 2013	300.0	300.0
Due in greater than one year (a):		
6.500% notes (effective rate of 5.6%) due 2014	500.0	500.0
5.930% notes due 2016 (b)	1,000.0	1,000.0
3.650% notes (effective rate of 4.4%) due 2018	400.0	400.0
5.253% notes due 2020 (b)	324.9	324.9
6.200% notes due 2036 (b)	500.0	500.0
6.200% notes due 2040 (b)	250.0	250.0
Other borrowings	5.8	8.8
Total borrowings at par value	3,670.7	3,580.7
Fair value hedge accounting adjustments, net (a)	22.4	23.9
Unamortized discount, net	(20.0)	(21.4)
Total borrowings at carrying value (c)	\$ 3,673.1	\$ 3,583.2

- (a) 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.
- (b) The difference between the stated interest rate and the effective interest rate is not significant.
- (c) As of June 30, 2012 , the Company's weighted-average effective rate on total borrowings was approximately 4.7% .

The Company's maturities of borrowings at par value as of June 30, 2012 are \$390.0 million in 2012 , \$300.0 million in 2013, \$500.0 million in 2014, \$1.0 billion in 2016 and approximately \$1.5 billion thereafter.

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

THE WESTERN UNION COMPANY**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)***Commercial Paper Program*

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. The Commercial Paper Notes may have maturities of up to 397 days from date of issuance. The Company's commercial paper borrowings as of June 30, 2012 had a weighted-average annual interest rate of approximately 0.4% and a weighted-average term of 5 days. During the three and six months ended June 30, 2012, the average commercial paper balance outstanding was \$306.9 million and \$224.3 million, respectively. For both the three and six months ended June 30, 2012, the maximum balance outstanding was \$422.8 million. Proceeds from the Company's commercial paper borrowings were used for general corporate purposes.

12. Income Taxes

The Company's effective tax rates on pre-tax income for the three months ended June 30, 2012 and 2011 were 12.5% and 21.1%, respectively, and 13.6% and 22.2% for the six months ended June 30, 2012 and 2011, respectively. The significant decrease in the Company's effective tax rate for the three and six months ended June 30, 2012 is primarily due to an agreement with the United States Internal Revenue Service ("IRS Agreement") resolving substantially all of the issues related to the Company's restructuring of its international operations in 2003, as described below, and the resolution of other foreign and United States tax matters. Higher taxes in 2011 were also a result of the Costa remeasurement gain which was recognized in connection with the acquisition (see Note 3). The Company continues to benefit from a significant proportion of its profits being foreign-derived, and therefore taxed at lower rates than its combined federal and state tax rates in the United States. For the three and six months ended June 30, 2012, 83% and 84%, respectively, of the Company's pre-tax income was from foreign sources. However, 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, 2012 and December 31, 2011 was \$103.3 million and \$123.7 million, respectively, excluding interest and penalties. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$97.0 million and \$115.6 million as of June 30, 2012 and December 31, 2011, 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 \$0.4 million and \$0.6 million in interest and penalties during the three months ended June 30, 2012 and 2011, respectively, and \$(1.1) million and \$3.6 million during the six months ended June 30, 2012 and 2011, respectively. The Company has accrued \$19.8 million and \$20.7 million for the payment of interest and penalties as of June 30, 2012 and December 31, 2011, respectively.

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

The unrecognized tax benefits accrual as of June 30, 2012 consists of federal, state and foreign tax matters. It is reasonably possible that the Company's total unrecognized tax benefits will decrease by approximately \$26 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. As a result of the IRS Agreement, the Company expects to make cash payments of approximately \$190 million, of which approximately \$100 million were made in the six months ended June 30, 2012. An examination of the United States federal consolidated income tax returns of First Data that cover the Company's 2005 and pre-Spin-off 2006 taxable periods is ongoing, as is an examination of the Company's United States federal consolidated income tax returns for the 2006 post-Spin-off period through 2009.

As of June 30, 2012, 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 \$4.0 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.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Stock Compensation Plans

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, 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, 2011, the Company recognized stock-based compensation expense of \$7.8 million and \$15.3 million, respectively. During the first half of 2012, the Company granted 2.7 million options at a weighted-average exercise price of \$17.85, 1.9 million restricted stock units at a weighted-average grant date fair value of \$16.76 and 0.6 million performance-based restricted stock units at a weighted-average grant date fair value of \$16.73. The performance-based restricted stock units granted in 2012 are restricted stock units, primarily granted to the Company's executives, which require certain financial and strategic performance objectives to be met over the next two years plus an additional one year vesting period. Achievement is also limited if certain total shareholder return metrics are not met over the three year vesting period.

As of June 30, 2012, the Company had 28.7 million outstanding options at a weighted-average exercise price of \$18.41, and had 23.2 million options exercisable at a weighted-average exercise price of \$18.63. Approximately 26% of the outstanding options as of June 30, 2012 were held by employees of First Data. The Company had 5.4 million non-vested restricted stock units at a weighted-average grant date fair value of \$17.38 as of June 30, 2012.

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, 2012:

Stock options granted:	
Weighted-average risk-free interest rate	1.2%
Weighted-average dividend yield	1.8%
Volatility	33.2%
Expected term (in years)	6.09
Weighted-average grant date fair value	\$ 4.92

All assumptions used to calculate the fair value of Western Union's stock options granted during the six months ended June 30, 2012 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, 2011.

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 CODM 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, systems and licenses, 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 business-to-business payment solutions, primarily cross-border, cross-currency transactions, mainly for small and medium size enterprises and other organizations.

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.

There were no restructuring and related expenses incurred during the three and six months ended June 30, 2012 , but the Company incurred expenses of \$8.9 million and \$32.9 million for the three and six months ended June 30, 2011 , respectively. These expenses were not allocated to the Company's segments. While these items were identifiable to the Company's segments, they were not included in the measurement of segment operating profit provided to the CODM for purposes of assessing segment performance and decision making with respect to resource allocation. For additional information on restructuring and related activities, refer to Note 4.

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

In the first quarter of 2012, the Company began assessing performance and allocating resources based on the segment structure described above. Segment results for the three and six months ended June 30, 2011 have been reclassified to reflect this structure. The following table presents the Company's reportable segment results for the three and six months ended June 30, 2012 and 2011 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Consumer-to-Consumer:				
Transaction fees	\$ 893.6	\$ 898.0	\$ 1,765.6	\$ 1,737.8
Foreign exchange revenues	248.9	245.4	488.3	472.8
Other revenues	12.5	11.7	25.7	22.6
	1,155.0	1,155.1	2,279.6	2,233.2
Consumer-to-Business:				
Transaction fees	142.1	144.1	289.8	288.8
Foreign exchange revenues	0.9	2.3	1.7	3.2
Other revenues	6.4	7.1	13.0	14.7
	149.4	153.5	304.5	306.7
Business Solutions:				
Transaction fees	10.0	1.1	16.5	2.0
Foreign exchange revenues	82.5	30.1	162.6	56.9
Other revenues	—	0.2	0.3	0.4
	92.5	31.4	179.4	59.3
Other:				
Total revenues	28.2	26.3	55.0	50.1
	28.2	26.3	55.0	50.1
Total consolidated revenues	\$ 1,425.1	\$ 1,366.3	\$ 2,818.5	\$ 2,649.3
Operating income/(loss):				
Consumer-to-Consumer	\$ 328.9	\$ 329.8	\$ 640.2	\$ 638.4
Consumer-to-Business	33.5	37.7	74.6	72.3
Business Solutions	(14.5)	(1.8)	(29.3)	(6.1)
Other	(2.0)	(6.1)	(7.1)	(8.1)
Total segment operating income	345.9	359.6	678.4	696.5
Restructuring and related expenses (Note 4)	—	(8.9)	—	(32.9)
Total consolidated operating income	\$ 345.9	\$ 350.7	\$ 678.4	\$ 663.6

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 future or 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 not 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, 2011. 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 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; interruptions of United States government relations with countries in which we have or are implementing material agent contracts; 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; changes in immigration laws, interruptions in immigration patterns and other factors related to migrants; 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; mergers, acquisitions and integration of acquired businesses and technologies into our Company, and the realization of anticipated financial benefits from these acquisitions; decisions to downsize, sell or close units, or to transition operating activities from one location to another or to third parties, particularly transitions from the United States to other countries; 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; failure to compete effectively in the money transfer industry with respect to global and niche or corridor money transfer providers, banks and other money transfer services providers, including telecommunications providers, card associations, card-based payment providers and electronic and Internet providers; 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 various services provided to us by third-party vendors; material changes in the market value or liquidity of securities that we hold; restrictions imposed by our debt obligations; significantly slower growth or declines in the money transfer market 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 designed to detect and prevent money laundering, terrorist financing, fraud and other illicit activity; 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; liabilities resulting from a failure of our agents or subagents to comply with laws and regulations; increased costs due to regulatory initiatives and changes in laws, regulations and industry practices and standards affecting our agents; liabilities and unanticipated developments resulting from governmental investigations and consent agreements with, or enforcement actions by, regulators, including those

associated with compliance with, or a failure to comply with, the settlement agreement with the State of Arizona; the impact on our business of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the rules promulgated there-under and the creation 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 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. This segment primarily consists of United States bill payments, Pago Fácil (bill payments in Argentina), and international bill payments. 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 business-to-business payment solutions, primarily cross-border, cross-currency transactions, mainly for small and medium size enterprises and other organizations. 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. Travelex Global Business Payments ("TGBP"), which was acquired in November 2011, is also included in this segment.

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.

Our previously reported segments were Consumer-to-Consumer, Global Business Payments, and Other. The changes in our segment structure primarily relate to the separation of the Global Business Payments segment into two new reportable segments, Consumer-to-Business and Business Solutions. All prior segment information has been reclassified to reflect these new segments.

Significant Financial and Other Highlights

Significant financial and other highlights for the three and six months ended June 30, 2012 included:

- We generated \$1,425.1 million and \$2,818.5 million in total consolidated revenues, respectively, compared to \$1,366.3 million and \$2,649.3 million, respectively, for the comparable periods in the prior year, representing an increase of 4% and 6%, respectively. The acquisition of TGBP contributed approximately 4% of consolidated revenue growth for both the three and six months ended June 30, 2012.
- We generated \$345.9 million and \$678.4 million in consolidated operating income, respectively, compared to \$350.7 million and \$663.6 million, respectively, for the comparable periods in the prior year, representing a decrease of 1% and an increase of 2%, respectively. The current year results include \$14.5 million and \$20.9 million, respectively, of integration expenses resulting from the acquisition of TGBP. The prior year results include \$8.9 million and \$32.9 million, respectively, of restructuring and related expenses. For additional information on TGBP integration and restructuring and related expenses, refer to "Operating expenses overview."
- Our operating income margin was 24% for both the three and six month periods ended June 30, 2012, compared to 26% and 25%, respectively, for the comparable periods in the prior year.

- Our effective tax rate was 12.5% and 13.6% , respectively, compared to 21.1% and 22.2% , respectively, for the comparable periods in the prior year, primarily due to an agreement with the United States Internal Revenue Service (“IRS Agreement”) resolving substantially all of the issues related to our restructuring of our international operations in 2003. We continue to benefit from a significant proportion of our profits being foreign-derived, and therefore taxed at lower rates than our combined federal and state tax rates in the United States. For the three and six months ended June 30, 2012 , 83% and 84% , respectively, of our pre-tax income was from foreign sources. 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 \$271.2 million and \$518.5 million , respectively, representing an increase of 3% and 10%, respectively, over the comparable periods in the prior year. The current year results include \$10.2 million and \$14.5 million of TGBP integration expenses, net of tax, respectively. The prior year results include \$5.9 million and \$22.3 million in restructuring and related expenses, net of tax, respectively, and an \$18.3 million gain, net of tax, related to our acquisition of Angelo Costa S.r.l. ("Costa").
- Our consumers transferred \$20.1 billion and \$39.6 billion in Consumer-to-Consumer principal, respectively, of which \$18.2 billion and \$35.7 billion related to cross-border principal, respectively, which represented decreases of 2% in both Consumer-to-Consumer principal and cross-border principal over the three months ended in the prior year, and flat 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, 2012 and 2011 were \$445.7 million and \$506.3 million , respectively. 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 the IRS Agreement.

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, 2012 compared to the same periods in 2011. 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.

There were no restructuring and related expenses incurred during the three and six months ended June 30, 2012 , but we incurred expenses of \$8.9 million and \$32.9 million for the three and six months ended June 30, 2011 , respectively, which were not allocated to the segments. While these items were identifiable to our segments, they were not included in the measurement of segment operating profit provided to the Chief Operating Decision Maker (“CODM”) for purposes of assessing segment performance and decision making with respect to resource allocation. For additional information on restructuring and related activities refer to “Operating Expenses Overview.”

Overview

The following table sets forth our results of operations for the three and six months ended June 30, 2012 and 2011.

(in millions, except per share amounts)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
Revenues:						
Transaction fees	\$ 1,059.4	\$ 1,057.0	0 %	\$ 2,100.3	\$ 2,055.0	2 %
Foreign exchange revenues	334.6	279.2	20 %	657.2	535.3	23 %
Other revenues	31.1	30.1	3 %	61.0	59.0	3 %
Total revenues	1,425.1	1,366.3	4 %	2,818.5	2,649.3	6 %
Expenses:						
Cost of services	797.5	764.2	4 %	1,580.5	1,509.6	5 %
Selling, general and administrative	281.7	251.4	12 %	559.6	476.1	18 %
Total expenses	1,079.2	1,015.6	6 %	2,140.1	1,985.7	8 %
Operating income	345.9	350.7	(1)%	678.4	663.6	2 %
Other income/(expense):						
Interest income	1.2	1.3	(8)%	2.7	2.5	8 %
Interest expense	(45.1)	(44.2)	2 %	(89.5)	(87.6)	2 %
Derivative gains/(losses), net	(0.7)	(1.3)	(46)%	0.9	0.6	50 %
Other income, net	8.8	26.9	(67)%	7.7	29.0	(73)%
Total other expense, net	(35.8)	(17.3)	*	(78.2)	(55.5)	41 %
Income before income taxes	310.1	333.4	(7)%	600.2	608.1	(1)%
Provision for income taxes	38.9	70.2	(45)%	81.7	134.7	(39)%
Net income	\$ 271.2	\$ 263.2	3 %	\$ 518.5	\$ 473.4	10 %
Earnings per share:						
Basic	\$ 0.44	\$ 0.42	5 %	\$ 0.84	\$ 0.74	14 %
Diluted	\$ 0.44	\$ 0.41	7 %	\$ 0.84	\$ 0.74	14 %
Weighted-average shares outstanding:						
Basic	610.9	631.1		615.0	639.0	
Diluted	613.1	635.8		617.5	644.0	

* Calculation not meaningful

Revenues Overview

The majority of transaction fees and foreign exchange revenues were contributed by our Consumer-to-Consumer segment, which is discussed in greater detail in "Segment Discussion."

For the three and six months ended June 30, 2012 compared to the corresponding periods in the prior year, consolidated revenue increased 4% and 6%, respectively, due to Consumer-to-Consumer transaction growth and the acquisition of TGBP, which contributed approximately 4% to consolidated revenue growth for both periods, partially offset by the strengthening of the United States dollar compared to most other foreign currencies and slight price reductions. The strengthening of the United States dollar compared to most other foreign currencies negatively impacted revenue growth by approximately 3% and 2% for the three and six months ended June 30, 2012, respectively. Revenue for the six months ended June 30, 2012 was also negatively impacted by geographic and product mix.

The majority of the revenues in our Consumer-to-Consumer segment are recognized in the Europe and the Commonwealth of Independent States (“CIS”) and North America regions. These two regions represented 22% and 21% of our total consolidated revenue for both the three and six months ended June 30, 2012, respectively. For the three and six months ended June 30, 2012 compared to the same periods in 2011, the Europe and CIS region experienced revenue declines of 8% and 4%, respectively, on transaction declines of 2% and 1%, respectively. The strengthening of the United States dollar compared to most other foreign currencies and price reductions negatively impacted revenues in the region for the three and six months ended June 30, 2012. The region has been impacted by continued economic softness in Southern Europe and increased competition in Russia. For the three and six months ended June 30, 2012, the North America region experienced flat revenue and revenue growth of 2%, respectively, on transaction growth of 2% and 4%, respectively, partially offset by geographic and product mix. For the three and six months ended June 30, 2012, we experienced revenue growth in our domestic business (transactions between and within the United States and Canada) due to transaction growth. Additionally, our United States outbound business experienced transaction and revenue growth in the three and six months ended June 30, 2012 ; however, transaction and revenue growth moderated in the three months ended June 30, 2012 compared to the first quarter of 2012 in both our domestic and United States outbound businesses. Our Mexico business declined for the three and six months ended June 30, 2012, partially due to changes to our compliance related practices and business model.

Foreign exchange revenues increased for the three and six months ended June 30, 2012 over the corresponding previous periods due to the acquisition of TGBP and increasing foreign exchange revenues in our Consumer-to-Consumer segment, driven primarily by revenue from our international business.

Fluctuations in the exchange rate between the United States dollar and currencies other than the United States dollar have resulted in a reduction to transaction fees and foreign exchange revenues for the three and six months ended June 30, 2012 of \$34.6 million and \$42.7 million, respectively, over the same periods in the previous year, net of foreign currency hedges, that would not have occurred had there been constant currency rates.

No individual country, other than the United States, represented more than approximately 7% of our consolidated revenues during both of the three and six month periods ended June 30, 2012 and 2011.

Operating Expenses Overview

TGBP integration expenses

During the three and six months ended June 30, 2012, we incurred \$14.5 million and \$20.9 million, respectively, of integration expenses related to the acquisition of TGBP. TGBP was acquired on November 7, 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. We expect to incur integration expenses resulting from the acquisition of TGBP throughout the remainder of 2012 and in 2013.

Restructuring and related activities

On May 25, 2010 and as subsequently revised, our Board of Directors approved a restructuring plan (the “Restructuring Plan”) designed to reduce our overall headcount and migrate positions from various facilities, primarily within North America and Europe, to regional operating centers. As of September 30, 2011, we had incurred all of the expenses related to this Restructuring Plan. Total expense incurred under the Restructuring Plan from the period from May 25, 2010 through September 30, 2011 was \$106 million, of which \$8.9 million and \$32.9 million was recognized in the three and six months ended June 30, 2011 , respectively. Total cost savings of approximately \$70 million are expected to be generated in 2012 and annually thereafter. We recognized \$55 million of cost savings related to the Restructuring Plan in 2011.

There were no restructuring and related expenses incurred during the three and six months ended June 30, 2012 , but for the three and six months ended June 30, 2011 , expenses of \$0.5 million and \$7.4 million , respectively, are classified within “Cost of services” and \$8.4 million and \$25.5 million , respectively, are classified within “Selling, general and administrative” in the Condensed Consolidated Statements of Income.

Cost of services

Cost of services primarily consists of agent commissions, which represent approximately 70% of total cost of services for both the three and six months ended June 30, 2012. Also included in cost of services are expenses for call centers, settlement operations and related information technology costs. Expenses within these functions include personnel, software, equipment, telecommunications, bank fees, depreciation, amortization and other expenses incurred in connection with providing money transfer and other payment services. Cost of services increased for the three and six months ended June 30, 2012 compared to the same periods in the prior year primarily due to incremental costs associated with the TGBP acquisition, including depreciation and amortization. Cost of services also increased due to investments in our strategic initiatives and compliance program costs (see "Enhanced Regulatory Compliance" discussion below), partially offset by the strengthening of the United States dollar compared to most other foreign currencies, which resulted in a positive impact on the translation of our expenses, net commission savings, including the impact from the acquisitions of Finint S.r.l ("Finint") and Costa, and a net decrease in debit card bank fees due to the Durbin Amendment of the Dodd-Frank Act ("Durbin legislation"), which was effective beginning in the fourth quarter of 2011. The six months ended June 30, 2012 was also impacted by agent commissions, which increase in relation to revenue increases. Cost of services as a percentage of revenue was 56% for both the three and six months ended June 30, 2012, and 56% and 57% for the three and six months ended June 30, 2011, respectively. The change in cost of services as a percentage of revenue compared to the same periods in 2011 was primarily due to net commission savings, including the impact from the acquisitions of Finint and Costa and decreased debit card bank fees due to the Durbin legislation, partially offset by investments in our strategic initiatives and increased compliance program costs.

Selling, general and administrative

Selling, general and administrative expenses ("SG&A") increased for the three months ended June 30, 2012 compared to the same period in the prior year primarily due to increased expenses resulting from the acquisitions of TGBP, Finint and Costa, including integration costs, and investments in strategic initiatives and compliance program costs, partially offset by the strengthening of the United States dollar compared to most other foreign currencies, which resulted in a positive impact on the translation of our expenses, restructuring costs incurred in 2011, which did not recur in 2012, and lower marketing expense. SG&A increased for the six months ended June 30, 2012 compared to the same period in the prior year primarily due to increased expenses resulting from the acquisitions of TGBP, Finint and Costa, including integration costs, higher employee compensation and related expenses, investments in strategic initiatives and compliance program costs, partially offset by the restructuring costs incurred in 2011, which did not recur in 2012, and the strengthening of the United States dollar compared to most other foreign currencies, which resulted in a positive impact on the translation of our expenses.

Marketing-related expenditures, principally classified within SG&A, were 3.7% of revenue for both the three and six months ended June 30, 2012, and 4.1% and 3.7% for the three and six months ended June 30, 2011, respectively. Marketing-related expenditures include advertising, events, costs related to administering our loyalty programs, and the cost of employees dedicated to marketing activities. When making decisions with respect to marketing investments, we review opportunities for advertising and other marketing-related expenditures together with opportunities for fee adjustments, as discussed in "Segment Discussion," for Consumer-to-Consumer revenues and other initiatives in order to best maximize the return on these investments.

Enhanced Regulatory Compliance

We regularly review our compliance programs. In connection with that review and growing global regulatory complexity, and as we dialogue with governmental and regulatory authorities, we have made, and continue to make, enhancements to our processes and systems designed to detect and prevent money laundering, terrorist financing, fraud and other illicit activity. These enhancements, along with other enhancements to improve consumer protection related to the Dodd-Frank Act and other matters, have resulted in, and in coming quarters we expect them to continue to result in, changes to certain of our business practices and increased costs. We believe some of these changes will have an adverse effect on our business, financial condition and results of operations.

Total other expense, net

Total other expense, net increased during the three and six months ended June 30, 2012 compared to the corresponding periods in the prior year primarily due to the gain of \$29.4 million in the prior year in connection with the remeasurement of our former equity interest in Costa to fair value, associated with our acquisition of the remaining 70% interest.

Income taxes

Our effective tax rates on pre-tax income were 12.5% and 21.1% for the three months ended June 30, 2012 and 2011, respectively, and 13.6% and 22.2% for the six months ended June 30, 2012 and 2011, respectively. The significant decrease in our effective tax rate for the three and six months ended June 30, 2012 is primarily due to an agreement with the United States Internal Revenue Service resolving substantially all of the issues related to the restructuring of our international operations in 2003, as described below, and the resolution of other foreign and United States tax matters. Higher taxes in 2011 were also a result of taxes associated with the Costa remeasurement gain which was recognized in connection with the acquisition.

We continue to benefit from a significant proportion of profits being foreign-derived, and therefore taxed at lower rates than our combined federal and state tax rates in the United States. For the three and six months ended June 30, 2012, 83% and 84%, respectively, of our pre-tax income was from foreign sources. Our foreign pre-tax income is subject to tax in multiple foreign jurisdictions, virtually all of which have statutory income tax rates lower than the United States. 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.

We have established contingency reserves for a variety of material, known tax exposures. As of June 30, 2012, the total amount of tax contingency reserves was \$115.3 million, including accrued interest and penalties, net of related benefits. Our tax reserves reflect our judgment as to the resolution of the issues involved if subject to judicial review or other settlement. While we believe that our 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 our related reserve. With respect to these reserves, our income tax expense would include (i) any changes in tax reserves arising from material changes during the period in facts and circumstances (i.e., new information) surrounding a tax issue and (ii) any difference from our 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 our consolidated financial statements in future periods and could impact our operating cash flows.

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, of which we are a part, and issued a Notice of Deficiency in December 2008. In December 2011, we reached an agreement with the IRS resolving substantially all of the issues related to the restructuring of our international operations in 2003.

Earnings per share

During the three months ended June 30, 2012 and 2011, basic earnings per share were \$0.44 and \$0.42, respectively, and diluted earnings per share were \$0.44 and \$0.41, respectively. During the six months ended June 30, 2012 and 2011, basic and diluted earnings per share were \$0.84 and \$0.74, respectively. 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. For the three months ended June 30, 2012 and 2011, there were 24.1 million and 8.2 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation under the treasury stock method as their effect was anti-dilutive. For the six months ended June 30, 2012 and 2011, there were 22.3 million and 8.0 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation under the treasury stock method as their effect was anti-dilutive.

Earnings per share increased for the three and six months ended June 30, 2012 compared to the same periods in the prior year as a result of the previously described factors impacting net income and lower weighted-average shares outstanding. The lower number of shares outstanding was due to stock repurchases exceeding stock option exercises.

Segment Discussion

We manage our business around the consumers and businesses we serve and the types of services we offer. Each of our three segments addresses a different combination of consumer groups, distribution networks and services offered. Our segments are Consumer-to-Consumer, Consumer-to-Business and Business Solutions. Businesses not considered part of these segments are categorized as “Other.”

There were no restructuring and related expenses incurred during the three and six months ended June 30, 2012, but we incurred expenses of \$8.9 million and \$32.9 million for the three and six months ended June 30, 2011, respectively, which were not allocated to the segments. While these items were identifiable to our segments, they were not included in the measurement of segment operating profit provided to the CODM for purposes of assessing segment performance and decision making with respect to resource allocation. For additional information on restructuring and related activities refer to “Operating Expenses Overview.”

Consumer-to-Consumer Segment

The following table sets forth our Consumer-to-Consumer segment results of operations for the three and six months ended June 30, 2012 and 2011.

(dollars and transactions in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
Revenues:						
Transaction fees	\$ 893.6	\$ 898.0	0 %	\$ 1,765.6	\$ 1,737.8	2%
Foreign exchange revenues	248.9	245.4	1 %	488.3	472.8	3%
Other revenues	12.5	11.7	7 %	25.7	22.6	14%
Total revenues	<u>\$ 1,155.0</u>	<u>\$ 1,155.1</u>	0 %	<u>\$ 2,279.6</u>	<u>\$ 2,233.2</u>	2%
Operating income	\$ 328.9	\$ 329.8	0 %	\$ 640.2	\$ 638.4	0%
Operating income margin	28%	29%		28%	29%	
Key indicator:						
Consumer-to-Consumer transactions	58.5	56.3	4 %	114.9	109.1	5%

The table below sets forth supplemental transaction and revenue growth rate information by region for the three and six months ended June 30, 2012 .

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Consumer-to-Consumer transaction growth/(decline) (a)		
Europe and CIS	(2)%	(1)%
North America	2 %	4 %
Middle East and Africa	9 %	9 %
APAC	5 %	6 %
LACA	5 %	6 %
westernunion.com	35 %	38 %
Consumer-to-Consumer revenue growth/(decline) (a)		
Europe and CIS	(8)%	(4)%
North America	0 %	2 %
Middle East and Africa	3 %	5 %
APAC	4 %	5 %
LACA	5 %	3 %
westernunion.com	23 %	30 %

- (a) Significant allocations are made in determining the revenue and transaction growth rates under the regional view in the above table. The geographic split for transactions and revenue is determined based upon the region where the money transfer is initiated and the region where the money transfer is paid. For transactions originated and paid in different regions, we split the transaction count and revenue between the two regions, with each region receiving 50%. For money transfers initiated and paid in the same region, 100% of the revenue and transactions are attributed to that region. For money transfers initiated through our websites (“westernunion.com”), 100% of the revenue and transactions are attributed to westernunion.com.

Transaction fees and foreign exchange revenues

For the three and six months ended June 30, 2012 compared to the corresponding period in the prior year, Consumer-to-Consumer money transfer revenue, which represented 81% of our total consolidated revenue for both periods, was flat and grew 2% , respectively, on transaction growth of 4% and 5% , respectively. Transaction growth was offset by the strengthening of the United States dollar compared to most other foreign currencies, which negatively impacted revenue, and slight price reductions. The results for the six months ended June 30, 2012 were also impacted by geographic and product mix. The strengthening of the United States dollar compared to most other foreign currencies negatively impacted our revenue growth by approximately 3% and 2% for the three and six months ended June 30, 2012 , respectively.

For the three and six months ended June 30, 2012 compared to the corresponding periods in the prior year, revenue in our Europe and CIS region, which represented 22% of our total consolidated revenue for both periods, decreased 8% and 4% respectively, on transaction declines of 2% and 1%, respectively. The strengthening of the United States dollar compared to most other foreign currencies and price reductions negatively impacted revenues in the Europe and CIS region for the three and six months ended June 30, 2012. The region has been impacted by continued economic softness in Southern Europe and increased competition in Russia.

For the three and six months ended June 30, 2012, the North America region, which represented 21% of our total consolidated revenue for both periods, experienced flat revenue and revenue growth of 2%, respectively, on transaction growth of 2% and 4%, respectively, partially offset by geographic and product mix. For the three and six months ended June 30, 2012, we experienced revenue growth in our domestic business. Additionally, our United States outbound business experienced transaction and revenue growth in the three and six months ended June 30, 2012 ; however, transaction and revenue growth moderated in the three months ended June 30, 2012 compared to the first quarter of 2012 in both our domestic and United States outbound businesses. Our Mexico business declined for the three and six months ended June 30, 2012, partially due to changes to our compliance related practices and business model.

For the three and six months ended June 30, 2012, revenue in our Middle East and Africa, APAC, and LACA regions, which represented 15%, 12%, and 9% of our total consolidated revenue for both the three and six months ended June 30, 2012, respectively, increased compared to the corresponding periods in the prior year due to transaction growth, partially offset by the strengthening of the United States dollar compared to most other foreign currencies, which negatively impacted revenue. The Gulf States, primarily Saudi Arabia, certain regions of Africa, and India all displayed revenue growth, but China revenue declined. However, the China revenue decline moderated in the three months ended June 30, 2012 compared to the first quarter of 2012. Revenue generated from transactions initiated at westernunion.com, which represented 2% of our total consolidated revenue for both periods, increased for the three and six months ended June 30, 2012, compared to the same periods in 2011 due to strong transaction growth.

Foreign exchange revenues for both the three and six months ended June 30, 2012 grew compared to the same periods in 2011, driven primarily by revenue from our international business.

Fluctuations in the exchange rate between the United States dollar and currencies other than the United States dollar have resulted in a reduction to transaction fees and foreign exchange revenues for the three and six months ended June 30, 2012 of approximately \$30.1 million and \$35.3 million, respectively, over the same periods in the previous year, net of foreign currency hedges, that would not have occurred had there been constant currency rates.

We have historically implemented and will likely implement future strategic fee reductions and actions to adjust foreign exchange spreads, where appropriate, taking into account a variety of factors. Fee and foreign exchange reductions generally reduce revenues in the near term, but are done in anticipation that they will result in increased transaction volumes and increased revenues over time. In certain corridors, we may also implement fee or foreign exchange spread increases. We anticipate that fee decreases and foreign exchange actions will be approximately 1% to 2% of total Western Union revenue for the full year 2012.

The majority of transaction growth is derived from more mature agent locations; new agent locations typically contribute only marginally to growth in the first few years of their operation. Increased productivity, measured by transactions per location, is often experienced as locations mature. We believe that new agent locations will help our growth by increasing the number of locations available to send and receive money. We generally refer to locations with more than 50% of transactions being initiated (versus paid) as “send locations” and to the balance of locations as “receive locations.” Send locations are the engine that drives Consumer-to-Consumer revenue. They contribute more transactions per location than receive locations. However, a wide network of receive locations is necessary to build each corridor and to help ensure global distribution and convenience for consumers. The number of send and receive transactions at an agent location can vary significantly due to such factors as customer demographics around the location, migration patterns, the location's class of trade, hours of operation, length of time the location has been offering our services, regulatory limitations and competition. Each of the approximately 510,000 agent locations in our agent network is capable of providing one or more of our services; however, not every location completes a transaction in a given period. For example, as of June 30, 2012, approximately 85% of agent locations in the United States, Canada and Western Europe (representing at least one of our three money transfer brands: Western Union[®], Orlandi Valuta^(SM) and Vigo[®]) experienced money transfer activity in the previous 12 months. In the developing regions of Asia and other areas where there are primarily receive locations, approximately 65% of locations experienced money transfer activity in the previous 12 months. We periodically review locations to determine whether they remain enabled to perform money transfer transactions.

Operating income

Consumer-to-Consumer operating income was flat during both the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011 due to spending on strategic initiatives, including westernunion.com, incremental costs associated with the Finint and Costa acquisitions, and increased costs associated with our compliance programs, offset by the effect of foreign currency hedges, and restructuring savings. For the three months ended June 30, 2012, operating income was also impacted by commissions savings and lower marketing expense. For the six months ended June 30, 2012, operating income was also impacted by revenue growth.

The changes in operating income margins in the segment are due to the same factors mentioned above.

Consumer-to-Business Segment

The following table sets forth our Consumer-to-Business segment results of operations for the three and six months ended June 30, 2012 and 2011.

(dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
Revenues:						
Transaction fees	\$ 142.1	\$ 144.1	(1)%	\$ 289.8	\$ 288.8	0 %
Foreign exchange revenues	0.9	2.3	(61)%	1.7	3.2	(47)%
Other revenues	6.4	7.1	(10)%	13.0	14.7	(12)%
Total revenues	\$ 149.4	\$ 153.5	(3)%	\$ 304.5	\$ 306.7	(1)%
Operating income	\$ 33.5	\$ 37.7	(11)%	\$ 74.6	\$ 72.3	3 %
Operating income margin	22%	25%		24%	24%	

Revenues

For the three and six months ended June 30, 2012 compared to the corresponding periods in the prior year, Consumer-to-Business revenue, which represented 11% of our total consolidated revenue for both periods, decreased 3% and 1%, respectively, due to a decline in our United States bill payments businesses, including the passing through of some of the debit card fee savings related to the Durbin legislation, and the strengthening of the United States dollar compared to most other foreign currencies, partially offset by growth in our international bill payments, primarily in South America. The strengthening of the United States dollar compared to most other foreign currencies negatively impacted our revenue growth by approximately 3% and 2% for the three and six months ended June 30, 2012 , respectively.

Operating income

For the three months ended June 30, 2012, operating income decreased compared to the same period in the prior year primarily due to a revenue decline in our United States cash-based bill payments business, which has higher margins than other bill payment services in the segment, partially offset by a net decrease in debit card and other bank fees, due to the Durbin legislation. During the six months ended June 30, 2012 , operating income increased compared to the same period in the prior year primarily due to a net decrease in debit card and other bank fees, due to the Durbin legislation, partially offset by slight revenue declines.

The changes in operating income margins in the segment are due to the same factors mentioned above.

Business Solutions Segment

The following table sets forth our Business Solutions segment results of operations for the three and six months ended June 30, 2012 and 2011.

<u>(dollars in millions)</u>	<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Revenues:						
Transaction fees	\$ 10.0	\$ 1.1	*	\$ 16.5	\$ 2.0	*
Foreign exchange revenues	82.5	30.1	*	162.6	56.9	*
Other revenues	—	0.2	*	0.3	0.4	*
Total revenues	<u>\$ 92.5</u>	<u>\$ 31.4</u>	<u>*</u>	<u>\$ 179.4</u>	<u>\$ 59.3</u>	<u>*</u>
Operating loss	\$ (14.5)	\$ (1.8)	*	\$ (29.3)	\$ (6.1)	*
Operating loss margin	(16)%	(6)%		(16)%	(10)%	

* Calculation not meaningful

Revenues

For the three and six months ended June 30, 2012 compared to the corresponding periods in the prior year, Business Solutions revenue, which represented 6% of our total consolidated revenue for both periods, grew primarily due to our acquisition of TGBP and revenue growth in our existing business.

Operating income

For the three and six months ended June 30, 2012, operating loss increased compared to the same periods in the prior year primarily due to increased expenses resulting from the acquisition of TGBP, including incremental depreciation and amortization expenses and integration expenses. We expect to incur integration expenses resulting from the acquisition of TGBP throughout the remainder of 2012 and in 2013.

The changes in operating income margins in the segment are due to the same factors mentioned above.

Other

The following table sets forth Other results for the three and six months ended June 30, 2012 and 2011.

<u>(dollars in millions)</u>	<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Revenues	\$ 28.2	\$ 26.3	7%	\$ 55.0	\$ 50.1	10%
Operating loss	\$ (2.0)	\$ (6.1)	*	\$ (7.1)	\$ (8.1)	*

* Calculation not meaningful

Revenues

Other revenue, which represented 2% of our total consolidated revenue for both the three and six months ended June 30, 2012, grew compared to the same periods in the prior year primarily due to an increase in our prepaid business.

Operating loss

During the three months ended June 30, 2012 compared to the corresponding period in the prior year, operating loss decreased due to costs associated with acquisition activity that were recognized in the prior year. During the six months ended June 30, 2012 compared to the corresponding period in the prior year, operating loss decreased due to costs associated with acquisition activity that were recognized in the prior year and the increase in revenues, partially offset by investments in our prepaid business.

Capital Resources and Liquidity

Our primary source of liquidity has been cash generated from our operating activities, primarily from net income and fluctuations in working capital. Our working capital is affected by the timing of interest payments on our outstanding borrowings, timing of income tax payments, and collections on receivables, among other items. The majority of our interest payments are due in the second and fourth quarters which results in a decrease in the amount of cash provided by operating activities in those quarters and a corresponding increase to the first and third quarters.

Our future cash flows could be impacted by a variety of factors, some of which are out of our control, including changes in economic conditions, especially those impacting the migrant population and changes in income tax laws or the status of income tax audits, including the resolution of outstanding tax matters.

A significant portion of our cash flows from operating activities has been generated from subsidiaries, some of which are regulated entities. These subsidiaries may transfer all excess cash to the parent company for general corporate use except for assets subject to legal or regulatory restrictions. Assets subject to legal or regulatory restrictions, totaling approximately \$ 285 million as of June 30, 2012 , include assets outside of the United States subject to restrictions from being transferred outside of the countries where they are located. We are also required to maintain cash and investment balances in our regulated subsidiaries related to certain of our money transfer and other payment obligations. Significant changes in the regulatory environment for money transmitters could impact our primary source of liquidity.

We believe we have adequate liquidity to meet our business needs through our existing cash balances and our ability to generate cash flows through operations. These business needs include approximately \$90 million of remaining tax payments we expect to make as a result of the IRS Agreement, the majority of which we expect to pay in 2013, in addition to dividends and share repurchases. In addition, we have capacity to borrow up to \$1.65 billion in the aggregate under our revolving credit facility (“Revolving Credit Facility”), which supports borrowings under our \$1.5 billion commercial paper program. As of June 30, 2012 , we had no outstanding borrowings under our Revolving Credit Facility and had \$ 390.0 million of commercial paper borrowings outstanding, which left \$ 1,260.0 million remaining that was available to borrow on the Revolving Credit Facility.

Cash and Investment Securities

As of June 30, 2012 , we had cash and cash equivalents of \$1.4 billion , of which approximately \$710 million was held by our foreign entities. Our ongoing cash management strategies to fund our business needs could cause United States and foreign cash balances to fluctuate.

Repatriating foreign funds to the United States would, in many cases, result in significant tax obligations because most of these funds have been taxed at relatively low foreign tax rates compared to our combined federal and state tax rate in the United States. We expect to use foreign funds to expand and fund our international operations and to acquire businesses internationally.

In many cases, we receive funds from money transfers and certain other payment services before we settle the payment of those transactions. These funds, referred to as “Settlement assets” on our Condensed Consolidated Balance Sheets, are not used to support our operations. However, we earn income from investing these funds. We maintain a portion of these settlement assets in highly liquid investments, classified as “Cash and cash equivalents” within “Settlement assets,” to fund settlement obligations.

Investment securities, classified within “Settlement assets,” were \$1.9 billion as of June 30, 2012 . Substantially all of these investments are highly-rated state and municipal debt securities. Most state regulators in the United States require us to maintain specific highly-rated, investment grade securities and such investments are intended to secure relevant outstanding settlement obligations in accordance with applicable regulations.

Investment securities are exposed to market risk due to changes in interest rates and credit risk. We regularly monitor credit risk and attempt to mitigate our exposure by investing in highly-rated securities and diversifying our investment portfolio. As of June 30, 2012, the majority of our investment securities had credit ratings of “AA-” or better from a major credit rating agency. Our investment securities are also actively managed with respect to concentration. As of June 30, 2012, all investments with a single issuer and each individual security was less than 10% of our investment securities portfolio.

Cash Flows from Operating Activities

Cash provided by operating activities decreased to \$445.7 million during the six months ended June 30, 2012, from \$506.3 million in the comparable period in the prior year, primarily due to tax payments of approximately \$100 million made as a result of the IRS Agreement.

Financing Resources

As of June 30, 2012, we have outstanding borrowings at par value of \$3,670.7 million. The substantial majority of these outstanding borrowings consists of unsecured fixed-rate notes and associated swaps with maturities ranging from 2014 to 2040, and our borrowings also include our 2013 Notes issued for general corporate purposes. Our Revolving Credit Facility expires in January 2017 and provides for unsecured financing facilities in an aggregate amount of \$1.65 billion, including a \$250.0 million letter of credit sub-facility and a \$150.0 million swing line sub-facility. The purpose of our Revolving Credit Facility, which is diversified through a group of 17 participating institutions, is to provide general liquidity and to support our commercial paper program, which we believe enhances our short term credit rating. The largest commitment from any single financial institution within the total committed balance of \$1.65 billion is approximately 12%. As of and during the six months ended June 30, 2012, we had no outstanding borrowings under our \$1.65 billion revolving credit facility. As of June 30, 2012, we had \$390.0 million of commercial paper borrowings outstanding, which left \$1,260.0 million remaining that was available to borrow on the Revolving Credit Facility. If the amount available to borrow under the Revolving Credit Facility decreased, or if the Revolving Credit Facility were eliminated, the cost and availability of borrowing under the commercial paper program may be impacted.

Pursuant to our commercial paper program, we 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 our Revolving Credit Facility. Our commercial paper borrowings may have maturities of up to 397 days from date of issuance. Interest rates for borrowings are based on market rates at the time of issuance. Our commercial paper borrowings as of June 30, 2012 had a weighted-average annual interest rate of approximately 0.4% and a weighted-average term of 5 days. During the three and six months ended June 30, 2012, the average commercial paper balance outstanding was \$306.9 million and \$224.3 million, respectively. For both the three and six months ended June 30, 2012, the maximum balance outstanding was \$422.8 million. Proceeds from our commercial paper borrowings were used for general corporate purposes. We had \$390.0 million of commercial paper borrowings outstanding as of June 30, 2012.

Cash Priorities

Liquidity

Our objective is to maintain strong liquidity and a capital structure consistent with our current credit ratings. We have existing cash balances, cash flows from operating activities, access to the commercial paper markets and our Revolving Credit Facility available to support the needs of our business.

Capital Expenditures

The total aggregate amount paid for contract costs, purchases of property and equipment, and purchased and developed software was \$121.3 million and \$75.4 million for the six months ended June 30, 2012 and 2011, respectively. Amounts paid for new and renewed agent contracts vary depending on the terms of existing contracts as well as the timing of new and renewed contract signings. Other capital expenditures during these periods included investments in our information technology infrastructure and purchased and developed software.

Acquisition of Businesses

On November 7, 2011, we acquired TGBP from Travelex Holdings Limited for cash consideration of £603 million (\$967.8 million), which included acquired cash of \$25.3 million. In connection with the July 5, 2011 purchase agreement, on May 4, 2012, we acquired the French assets of TGBP for cash consideration of £3 million (\$4.8 million), after receiving regulatory approval. The final consideration is subject to a working capital adjustment.

On October 31, 2011, we acquired the remaining 70% interest in Finint, one of our largest money transfer agents in Europe, for cash consideration of €99.6 million (\$139.4 million). We previously held a 30% equity interest in Finint.

On April 20, 2011, we acquired the remaining 70% interest in Costa, one of our largest money transfer agents in Europe, for cash consideration of €95 million (\$135.7 million). The final consideration is subject to the resolution of a working capital adjustment. We previously held a 30% equity interest in Costa.

Share Repurchases and Dividends

During the six months ended June 30, 2012 and 2011, 17.9 million and 31.7 million, respectively, of shares were repurchased for \$309.2 million and \$659.7 million, respectively, excluding commissions, at an average cost of \$17.25 and \$20.83 per share, respectively. As of June 30, 2012, \$306.3 million remains available under share repurchase authorizations approved by our Board of Directors through December 31, 2012.

Our 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.

Debt Service Requirements

Our 2012 debt service requirements will include payments on existing and future borrowings under our commercial paper program and interest payments on all outstanding indebtedness. In March 2013, our floating rate notes of \$300.0 million will mature. We intend to refinance all or a portion of the 2013 Notes with new financing sources, as market conditions allow. We have the ability to use existing financing sources, including our Revolving Credit Facility or commercial paper program, and cash generated from operations to meet our debt obligations as they come due.

Our ability to continue to grow the business, make acquisitions, return capital to shareholders, including share repurchases and dividends, and service our debt will depend on our ability to continue to generate excess operating cash through our operating subsidiaries and to continue to receive dividends from those operating subsidiaries, our ability to obtain adequate financing and our ability to identify acquisitions that align with our long-term strategy.

Off-Balance Sheet Arrangements

Other than facility and equipment leasing arrangements, we have no material off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Pension Plan

We have a frozen defined benefit pension plan for which we have a recorded unfunded pension obligation of \$93.9 million as of June 30, 2012. We are required to fund \$20 million to the plan in 2012. Through June 2012, we have made contributions of approximately \$16 million to the plan, including a discretionary contribution of approximately \$5 million.

Other Commercial Commitments

We had approximately \$95 million in outstanding letters of credit and bank guarantees as of June 30, 2012 with expiration dates through 2015, 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. We expect to renew the letters of credit and bank guarantees prior to expiration in most circumstances.

As of June 30, 2012, our total amount of unrecognized income tax benefits was \$123.1 million, including associated interest and penalties. The timing of related cash payments for substantially all of these liabilities is inherently uncertain because the ultimate amount and timing of such liabilities is affected by factors which are variable and outside our control.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates. Our Critical Accounting Policies and Estimates disclosed in “Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” in our 2011 Annual Report on Form 10-K, for which there were no material changes, included:

- Income taxes
- Derivative financial instruments
- Other intangible assets
- Goodwill impairment testing
- Acquisitions — purchase price allocation
- Restructuring and related expenses

Risk Management

We are exposed to market risks arising from changes in market rates and prices, including changes in foreign currency exchange rates and interest rates and credit risk related to our agents and customers. A risk management program is in place to manage these risks.

Foreign Currency Exchange Rates

We provide Consumer-to-Consumer money transfer services in more than 200 countries and territories. We manage foreign exchange risk through the structure of the business and an active risk management process. We settle with the vast majority of our agents in United States dollars or euros. However, in certain circumstances, we settle in other currencies. We typically require the agent to obtain local currency to pay recipients; thus, we generally are not reliant on international currency markets to obtain and pay illiquid currencies. The foreign currency exposure that does exist is limited by the fact that the majority of transactions are paid within 24 hours after they are initiated. To mitigate this risk further, we enter into short-term foreign currency forward contracts, generally with maturities from a few days up to one month, to offset foreign exchange rate fluctuations between transaction initiation and settlement. We also utilize foreign currency forward contracts, typically with terms of less than one year at inception, to offset foreign exchange rate fluctuations on certain foreign currency denominated cash positions and intercompany loans. In certain consumer money transfer and Business Solutions transactions involving different send and receive currencies, we generate revenue based on the difference between the exchange rate set by us to the customer and the rate at which we or our agents are able to acquire currency, helping to provide protection against currency fluctuations. We promptly buy and sell foreign currencies as necessary to cover our net payables and receivables which are denominated in foreign currencies.

We use longer-term foreign currency forward contracts to mitigate risks associated with changes in foreign currency exchange rates on Consumer-to-Consumer revenues denominated primarily in the euro, and to a lesser degree the Canadian dollar, British pound, Australian dollar, and other currencies. We use contracts with maturities of up to 36 months at inception to mitigate some of the impact that changes in foreign currency exchange rates could have on forecasted revenues, with a targeted weighted-average maturity of approximately one year. We believe the use of longer-term foreign currency forward contracts provides predictability of future cash flows from our international Consumer-to-Consumer operations.

We have additional foreign exchange risk and associated foreign exchange risk management due to the nature of our Business Solutions business. The majority of this business' revenue is from exchanges of currency at the spot rate enabling customers to make cross-currency payments. In certain countries, this business also writes foreign currency forward and option contracts for our customers to facilitate future payments. The duration of these derivatives contracts is generally nine months or less. Business Solutions aggregates its foreign exchange 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. The foreign exchange risk is actively managed.

As of December 31, 2011, a hypothetical uniform 10% strengthening or weakening in the value of the United States dollar relative to all other currencies in which our profits are generated would have resulted in a decrease/increase to pre-tax annual income of approximately \$33 million based on our 2012 forecast of Consumer-to-Consumer unhedged exposure to foreign currency. The exposure as of June 30, 2012 is not materially different based on our forecast of unhedged exposure to foreign currency through June 30, 2012. There are inherent limitations in this sensitivity analysis, primarily due to the assumption that foreign exchange rate movements are linear and instantaneous, that the unhedged exposure is static, and that we would not hedge any additional exposure. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, which may positively or negatively affect income.

Interest Rates

We invest in several types of interest bearing assets, with a total value as of June 30, 2012 of \$3.0 billion. Approximately \$2.1 billion of these assets bear interest at floating rates and are therefore sensitive to changes in interest rates. These assets primarily include money market funds and state and municipal variable rate securities and are included in our Condensed Consolidated Balance Sheets within "Cash and cash equivalents" and "Settlement assets." To the extent these assets are held in connection with money transfers and other related payment services awaiting redemption, they are classified as "Settlement assets." Earnings on these investments will increase and decrease with changes in the underlying short-term interest rates.

Substantially all of the remainder of our interest bearing assets consist of highly-rated state and municipal debt securities, the majority of which are fixed-rate instruments. These investments may include investments made from cash received from our money transfer business and other related payment services awaiting redemption classified within "Settlement assets" in the Condensed Consolidated Balance Sheets. As interest rates rise, the fair value of these fixed-rate interest-bearing securities will decrease; conversely, a decrease to interest rates would result in an increase to the fair values of the securities. We have classified these investments as available-for-sale within "Settlement assets" in the Condensed Consolidated Balance Sheets, and accordingly, recorded these instruments at their fair value with the net unrealized gains and losses, net of the applicable deferred income tax effect, being added to or deducted from our "Total stockholders' equity" on our Condensed Consolidated Balance Sheets.

As of June 30, 2012, we had \$300.0 million of floating notes, which had an effective interest rate of 1.0% or 58 basis points above three-month LIBOR. Additionally, \$ 500.0 million of our fixed-rate borrowings at par value are effectively floating rate debt through interest rate swap agreements, changing this fixed-rate debt to LIBOR-based floating rate debt, with weighted-average spreads of approximately 600 basis points above LIBOR. Borrowings under our commercial paper program mature in such a short period that the financing is effectively floating rate. Commercial paper borrowings of \$390.0 million were outstanding as of June 30, 2012. Our commercial paper borrowings as of June 30, 2012 had a weighted-average annual interest rate of approximately 0.4% and a weighted-average term of 5 days. During the three and six months ended June 30, 2012, the average commercial paper balance outstanding was \$306.9 million and \$224.3 million , respectively. The maximum balance outstanding for both the three and six months ended June 30, 2012 was \$422.8 million .

We review our overall exposure to floating and fixed rates by evaluating our net asset or liability position in each, also considering the duration of the individual positions. We manage this mix of fixed versus floating exposure in an attempt to minimize risk, reduce costs and improve returns. Our exposure to interest rates can be modified by changing the mix of our interest-bearing assets as well as adjusting the mix of fixed versus floating rate debt. The latter is accomplished primarily through the use of interest rate swaps and the decision regarding terms of any new debt issuances (i.e., fixed versus floating). We use interest rate swaps designated as hedges to increase the percentage of floating rate debt, subject to market conditions. As of June 30, 2012, our weighted-average effective rate was approximately 4.7% .

A hypothetical 100 basis point increase/decrease in interest rates would result in a decrease/increase to pre-tax income of approximately \$12 million annually based on borrowings on June 30, 2012 that are sensitive to interest rate fluctuations. The same 100 basis point increase/decrease in interest rates, if applied to our cash and investment balances on June 30, 2012 that are sensitive to interest rate fluctuations, would result in an offsetting benefit/reduction to pre-tax income of approximately \$21 million annually. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that interest rate changes would be instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market changes, including changes in credit risk regarding our investments, which may positively or negatively affect income. In addition, the current mix of fixed versus floating rate debt and investments and the level of assets and liabilities will change over time. We will also be further impacted by changes to future interest rates as we refinance our debt or by reinvesting proceeds from the sale or maturity of our investments.

Credit Risk

Our interest earning assets include investment securities, substantially all of which are highly-rated state and municipal debt securities, which are classified in "Settlement assets" and accounted for as available-for-sale securities, and money market fund investments, which are classified in "Cash and cash equivalents." The majority of our investment securities had credit ratings of "AA-" or better from a major credit rating agency.

To manage our exposures to credit risk with respect to investment securities, money market investments, derivatives and other credit risk exposures resulting from our relationships with banks and financial institutions, we regularly review investment concentrations, trading levels, credit spreads and credit ratings, and we attempt to diversify our investments among global financial institutions. We also limit our investment level in any individual money market fund to no more than \$100 million.

We are also exposed to credit risk related to receivable balances from agents in the money transfer, walk-in bill payment and money order settlement process. In addition, we are exposed to credit risk directly from consumer transactions particularly through our Internet services and electronic channels, where transactions are originated through means other than cash, and therefore are subject to "chargebacks," insufficient funds or other collection impediments, such as fraud. We perform a credit review before each agent signing and conduct periodic analyses.

We are exposed to credit risk in our Business Solutions business relating to: (a) derivatives written by us to our customers and (b) receivables from certain customers for which beneficiaries are paid prior to receiving cleared funds from the customer (known as "early release"). For the derivatives, the duration of these contracts is generally nine months or less. The credit risk associated with our derivative contracts increases when foreign currency exchange rates move against our customers, possibly impacting their ability to honor their obligations to deliver currency to us or to maintain appropriate collateral with us. For early release customers, collection ordinarily occurs within a few days. To mitigate risk, we perform credit reviews of the customer on an ongoing basis, and, for our derivatives, we may require certain customers to post collateral or increase collateral based on the fair value of the customer's contract and their risk profile.

Our losses associated with bad debts have been less than 1% of our revenues in all periods presented.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information under the caption “Risk Management” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report is incorporated herein by reference.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of the Principal Executive Officer and Principal Financial Officer, have evaluated the effectiveness of our controls and procedures related to our reporting and disclosure obligations as of June 30, 2012, which is the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that, as of June 30, 2012, the disclosure controls and procedures were effective to ensure that information required to be disclosed by us, including our consolidated subsidiaries, in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission, and are designed to ensure that information required to be disclosed by us in the reports that we file or submit are accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of The Western Union Company

We have reviewed the condensed consolidated balance sheet of The Western Union Company (the Company) as of June 30, 2012, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2012 and 2011, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2012 and 2011. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Western Union Company as of December 31, 2011, and the related consolidated statements of income, cash flows, and stockholders' equity/(deficiency) for the year then ended (not presented herein) and in our report dated February 24, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Denver, Colorado

August 2, 2012

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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. The Company received a second subpoena from the USAO on May 18, 2012 seeking additional documents relating to US Shen Zhou and materials relating to another former agent. 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 the fourth quarter of 2011, Western Union received Civil Investigative Demands from certain state attorneys general who have initiated an investigation into whether the Company took adequate steps to help prevent consumer fraud from 2010 to 2011. The Civil Investigative Demands seek information and documents relating to consumer fraud complaints that the Company has received and the Company's procedures to help identify and prevent fraudulent transfers. Due to the stage of the investigation, the Company is unable to predict the outcome of the investigation, or the possible loss or range of loss, if any, which could be associated with any possible civil claims that might be brought by one or more of the states. Should such claims be brought, the Company could face significant fines, damage awards, or regulatory consequences, or compulsory changes in our business practices, that could have a material adverse effect on our business, financial condition, and results of operations.

On July 26, 2010, U.F.C.W. Local 1776 & Participating Employers Pension Fund filed a Verified Shareholder Double Derivative Complaint and Jury Demand in United States District Court for the District of Colorado, alleging that the Company's Board of Directors failed to appropriately oversee the Company's compliance program, particularly in regard to the alleged deficiencies which resulted in the Company's agreement and settlement with the State of Arizona and other states in early 2010. In addition to naming the Company's Board members as individual defendants, the complaint names the Company and its subsidiary Western Union Financial Services, Inc. as nominal defendants. The complaint seeks damages from the individual defendants for breach of fiduciary duty and waste of corporate assets and an order requiring various corrective measures. On September 10, 2010, the United States District Court for the District of Colorado dismissed the complaint for lack of subject matter jurisdiction. On September 23, 2010, the plaintiff re-filed the complaint in Maricopa County Superior Court in Arizona. The complaint was removed to the United States District Court for the District of Arizona. On September 29, 2011, the Court denied Defendants' motion to dismiss on jurisdictional grounds. On December 15, 2011, the Company and Western Union Financial Services, Inc. filed a Notice of Settlement. The terms of the settlement are set forth in a Memorandum of Understanding attached to the Notice of Settlement and include corporate governance changes that the Company and Western Union Financial Services, Inc. have agreed to make relating to anti-money laundering monitoring. The Memorandum of Understanding also indicates that the individual defendants deny any wrongdoing or liability with respect to the plaintiff's claims and that the settlement does not constitute an admission of liability of wrongdoing by any party. None of the defendants will be required to pay monetary damages. On June 14, 2012, the Court entered an order approving the settlement and requiring Western Union to pay plaintiff approximately \$413,000 in costs and attorney's fees.

In the second quarter of 2009, the Antitrust Division of the United States Department of Justice ("DOJ") served one of the Company's subsidiaries with a grand jury subpoena requesting documents in connection with an investigation into money transfers, including related foreign exchange rates, from the United States to the Dominican Republic from 2004 through the date of subpoena. The Company is cooperating fully with the DOJ investigation. Due to the stage of the investigation, the Company is unable to predict the outcome of the 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.

The Company is a party to a variety of legal proceedings that arise in the normal course of our business. While the results of these legal proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on the Company's results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our 2011 Annual Report on Form 10-K, except as described below.

Western Union is the subject of governmental investigations and consent agreements with or enforcement actions by regulators.

In the second quarter of 2009, the Antitrust Division of the United States Department of Justice ("DOJ") served one of our subsidiaries with a grand jury subpoena requesting documents in connection with an investigation into money transfers, including related foreign exchange rates, from the United States to the Dominican Republic from 2004 through the date of subpoena. The Company is cooperating fully with the DOJ investigation. Due to the stage of the investigation, we are unable to predict the outcome of the 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 us. Should such charges or claims be brought, we could face significant fines, damage awards or regulatory consequences which could have a material adverse effect on our business, financial condition and results of operations.

On February 11, 2010, we signed an agreement and settlement, which resolved all outstanding legal issues and claims with the State of Arizona and required us 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. The agreement and settlement also required us to make payments to the State of Arizona for its costs associated with this matter. In addition, as part of the agreement and settlement, we have made and expect to make certain investments in and changes to our compliance programs along the United States and Mexico border and a monitor has been engaged for those programs. The costs of the investments in our programs and for the monitor are expected to be \$23 million over the period from signing to 2013, pursuant to the terms of the agreement and settlement; however, actual costs incurred for these programs will likely exceed this amount. The monitor has made a number of recommendations related to our compliance programs.

We are in the process of making certain changes to our compliance program for transactions from the United States to Mexico, including:

- revisions to agent agreements to increase our ability to oversee the compliance of our agents and subagents;
- reduced thresholds at which our consumers are required to provide identification for transactions from certain states along the United States southwest border; and
- enhancement of our information systems including migrating customer information for our Western Union, Orlandi Valuta and Vigo brands onto a common database and migrating to a standard point of sale system.

Such changes will likely have an adverse effect on our United States to Mexico business. Any additional changes that we elect or are required to make in the United States to Mexico corridor, or similar changes that we may elect or be required to make in other corridors, could have a material adverse effect on our business, financial condition or results of operations.

Over the past several years, we have entered into consent agreements with federal and state authorities, including FinCEN, the New York Department of Financial Services, the California Department of Financial Institutions and the Arizona Department of Financial Institutions, relating to the Bank Secrecy Act ("BSA") and anti-money laundering requirements and related consumer identification matters. These agreements required us to pay civil penalties and to take certain measures to enhance our compliance with recordkeeping, reporting, training and agent oversight requirements under applicable state and federal law. The consent agreements with the New York Department of Financial Services and the California Department of Financial Institutions were lifted during 2008. However, the financial services industry and businesses like ours continue to be under significant federal and state regulatory scrutiny with respect to the BSA and anti-money laundering compliance matters. It is possible that as a result of periodic examinations or otherwise, we could be subject to deficiency findings, fines, criminal penalties, asset seizures or enforcement actions that could adversely affect our business, financial condition and results of operations.

In the fourth quarter of 2011, Western Union received Civil Investigative Demands from certain state attorneys general who have initiated an investigation into whether the Company took adequate steps to help prevent consumer fraud from 2010 to 2011. The Civil Investigative Demands seek information and documents relating to consumer fraud complaints that the Company has received and the Company's procedures to help identify and prevent fraudulent transfers. Due to the stage of the investigation, the Company is unable to predict the outcome of the investigation, or the possible loss or range of loss, if any, which could be associated with any possible civil claims that might be brought by one or more of the states. Should such claims be brought, the Company could face significant fines, damage awards, or regulatory consequences, or compulsory changes in our business practices that could have a material adverse effect on our business, financial condition, and 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. The Company received a second subpoena from the USAO on May 18, 2012 seeking additional documents relating to US Shen Zhou and materials relating to another former agent. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about the Company's repurchases of shares of the Company's common stock during the second quarter of 2012:

	Total Number of Shares Repurchased*	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs**	Remaining Dollar Value of Shares that May Yet Be Repurchased Under the Plans or Programs (in millions)
April 1 - 30	1,135,507	\$ 18.08	1,132,944	\$ 448.3
May 1 - 31	4,276,897	\$ 17.15	4,276,897	\$ 375.0
June 1 - 30	4,222,630	\$ 16.28	4,221,159	\$ 306.3
Total	9,635,034	\$ 16.87	9,631,000	

* These amounts represent both shares authorized by the Board of Directors for repurchase under a publicly announced plan, as described below, as well as shares withheld from employees to cover tax withholding obligations on restricted stock units that have vested.

** On February 1, 2011, the Board of Directors authorized \$1 billion of common stock repurchases through December 31, 2012, of which \$306.3 million remains available as of June 30, 2012. Management has historically and may continue to establish prearranged written plans pursuant to Rule 10b5-1. A Rule 10b5-1 plan permits the Company to repurchase shares at times when the Company may otherwise be prevented from doing so, provided the plan is adopted when the Company is not aware of material non-public information.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See “Exhibit Index” for documents filed herewith and incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of The Western Union Company, as filed with the Secretary of State of the State of Delaware on May 23, 2012 (filed as exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 25, 2012 and incorporated herein by reference thereto).
3.2	Amended and Restated Bylaws of The Western Union Company, as amended as of May 23, 2012 (filed as exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 25, 2012 and incorporated herein by reference thereto).
10.1	The Western Union Company 2006 Long-Term Incentive Plan, as amended and restated on February 23, 2012 and ratified by the Company's stockholders on May 23, 2012 and as further amended and restated on July 19, 2012.*
12	Computation of Ratio of Earnings to Fixed Charges
15	Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information
31.1	Certification of Principal Executive Officer of The Western Union Company Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Principal Financial Officer of The Western Union Company Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 6 of this report.

THE WESTERN UNION COMPANY
2006 LONG-TERM INCENTIVE PLAN
(As Amended and Restated on July 19, 2012) ¹

I. INTRODUCTION

1.1 **Purposes** . The purposes of The Western Union Company 2006 Long-Term Incentive Plan, as amended and restated on July 19, 2012, (the “Plan”) are (i) to advance the interests of The Western Union Company (the “Company”) by attracting and retaining high caliber employees, and other key individuals who perform services for the Company, a Subsidiary or an Affiliate, (ii) to align the interests of the Company's stockholders and recipients of awards under this Plan by increasing the proprietary interest of such recipients in the Company's growth and success and (iii) to motivate award recipients to act in the long-term best interests of the Company and its stockholders.

1.2 **Definitions** .

“**2006 LTIP**” shall mean The Western Union Company 2006 Long-Term Incentive Plan as adopted on September 28, 2006 by First Data in its capacity as the sole stockholder of the Company.

“**Affiliate**” shall mean any entity of which the Company owns or controls, directly or indirectly, less than 50% but at least 20% of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power).

“**Agreement**” shall mean the written agreement evidencing an award hereunder between the Company and the recipient of such award and shall include any terms and conditions that may apply to such award.

“**Board**” shall mean the Board of Directors of the Company.

“**Bonus Stock**” shall mean shares of Common Stock that are not subject to a Restriction Period or Performance Measures.

“**Bonus Stock Award**” shall mean an award of Bonus Stock.

“**Bonus Stock Unit**” shall mean the right to receive one share of Common Stock that is not subject to a Restriction Period or Performance Measures.

“**Bonus Stock Unit Award**” shall mean an award of Bonus Stock Units under this Plan.

“**Cause**” shall mean the willful and continued failure to substantially perform the duties assigned by the Company, a Subsidiary or an Affiliate (other than a failure resulting from the award recipient's Disability), the willful engaging in conduct which is demonstrably injurious to the Company, a Subsidiary or an Affiliate (monetarily or otherwise), any act of dishonesty, the commission of a felony, the continued failure to meet performance standards, excessive absenteeism, or a significant violation of any statutory or common law duty of loyalty to the Company, a Subsidiary or an Affiliate.

“**Change in Control**” shall mean:

i. the acquisition by any individual, entity or group (a “**Person**”), including any “person” within the meaning of Section 13(d) (3) or 14(d)(2) of the Exchange Act, of beneficial ownership within the meaning of Rule 13d-3 promulgated under the Exchange Act, of 35% or more of either (i) the then outstanding shares of common stock of the Company (the “**Outstanding Common Stock**”) or (ii) the combined voting power of the then outstanding securities of the Company entitled to vote generally in the election of directors (the “**Outstanding Voting Securities**”); excluding, however, the following: (A) any acquisition directly from the Company (excluding any acquisition resulting from the exercise of an exercise, conversion or exchange privilege unless the security being so exercised, converted or exchanged was acquired directly from the Company), (B) any acquisition by the Company, (C) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any

¹ The Western Union Company 2006 Long-Term Incentive Plan was amended and restated February 23, 2012 and ratified by the Company's stockholders on May 23, 2012 and further amended and restated on July 19, 2012.

corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii), and (iii) of subsection (c) of this definition; provided further, that for purposes of clause (B), if any Person (other than the Company or any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company) shall become the beneficial owner of 35% or more of the Outstanding Common Stock or 35% or more of the Outstanding Voting Securities by reason of an acquisition by the Company, and such Person shall, after such acquisition by the Company, become the beneficial owner of any additional shares of the Outstanding Common Stock or any additional Outstanding Voting Securities and such beneficial ownership is publicly announced, such additional beneficial ownership shall constitute a Change in Control;

ii. The cessation of individuals, who constitute the Board (the “Incumbent Board”) as of the date this Plan is adopted by the Board, to constitute at least a majority of such Incumbent Board; provided that any individual who becomes a director of the Company subsequent to the date this Plan is approved by the Board whose election, or nomination for election by the Company's stockholders, was approved by the vote of at least a majority of the directors then comprising the Incumbent Board shall be deemed a member of the Incumbent Board; and provided further, that any individual who was initially elected as a director of the Company as a result of an actual or threatened solicitation by a Person other than the Board for the purpose of opposing a solicitation by any other Person with respect to the election or removal of directors, or any other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board shall not be deemed a member of the Incumbent Board;

iii. the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”); excluding, however, a Corporate Transaction pursuant to which (i) all or substantially all of the individuals or entities who are the beneficial owners, respectively, of the Outstanding Common Stock and the Outstanding Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 50% of, respectively, the outstanding shares of common stock, and the combined voting power of the outstanding securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or indirectly) in substantially the same proportions relative to each other as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Common Stock and the Outstanding Voting Securities, as the case may be, (ii) no Person (other than: the Company; any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; the corporation resulting from such Corporate Transaction; and any Person which beneficially owned, immediately prior to such Corporate Transaction, directly or indirectly, 35% or more of the Outstanding Common Stock or the Outstanding Voting Securities, as the case may be) will beneficially own, directly or indirectly, 35% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding securities of such corporation entitled to vote generally in the election of directors and (iii) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

iv. the consummation of a plan of complete liquidation or dissolution of the Company.

“Code” shall mean the United States Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

“Committee” shall mean the Compensation and Benefits Committee of the Board or its delegate, or any other committee comprised entirely of “non-employee” directors within the meaning of Section 16 of the Exchange Act that the Board may designate to administer this Plan.

“Common Stock” shall mean the common stock of the Company.

“Company” has the meaning specified in Section 1.1.

“Corporate Transaction” shall have the meaning set forth in the definition of “Change in Control” in this Section 1.2.

“Disability” shall mean the inability of the holder of an award to perform substantially such holder's duties and responsibilities due to a physical or mental condition (i) that would entitle such holder to benefits under the Company's Long-Term Disability Plan (or similar disability plan of the Company, a Subsidiary or an Affiliate in which such holder is a participant) or if the Committee deems it relevant, any disability rights provided as a matter of local law or (ii) if such holder is not eligible for long-term disability benefits under any plan sponsored by the Company, a Subsidiary, or an Affiliate, that would, as determined by the Committee, entitle such holder to benefits under the Company's Long-Term Disability Plan if such holder were eligible therefor. In the case of Incentive Stock Options, the term “Disability” shall have the same meaning as “Permanent and Total Disability” as such term is defined in this Section 1.2.

“**Employee Matters Agreement**” shall mean the agreement entered into by the Company and First Data as of September 29, 2006.

“**Exchange Act**” shall mean the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“**Fair Market Value**” shall mean the closing price of a share of Common Stock as reported on the New York Stock Exchange trading on a “when issued” basis or in the New York Stock Exchange Composite Transactions, as the case may be, on the date as of which such value is being determined; provided, however, that if there shall be no reported transactions for such date, Fair Market Value shall be based on the appropriate closing price on the next preceding date for which transactions were reported; and provided further that if Fair Market Value for any date cannot be so determined, Fair Market Value shall be determined by the Committee by whatever means or method as the Committee, in the good faith exercise of its discretion, shall at such time deem appropriate. Notwithstanding the preceding sentence, solely for purposes of determining an award holder's tax payment obligations under Section 5.5, in lieu of the definition of Fair Market Value in the preceding sentence, the Committee may determine that Fair Market Value shall mean the average of the high and low transaction prices of a share of Common Stock as reported in the New York Stock Exchange Composite Transactions on the date as of which such value is being determined or, if there shall be no reported transactions for such date, on the next preceding date for which transactions were reported.

“**Family Entity**” shall mean a trust in which one or more Family Members have more than fifty percent of the beneficial interest, a foundation in which the award holder and/or one or more Family Members control the management of assets and any other entity in which the award holder and/or one or more Family Members own more than fifty percent of the voting interests.

“**Family Member**” shall mean an award holder's spouse, parent, child, stepchild, grandchild, sibling, mother or father-in-law, son or daughter-in-law, stepparent, grandparent, former spouse, niece, nephew or brother or sister-in-law, including adoptive relationships, or any person sharing the award holder's household (other than a tenant or employee).

“**First Data**” shall mean First Data Corporation, including any subsidiary or affiliate thereof. A subsidiary of First Data Corporation shall mean any entity of which First Data Corporation owns or controls, directly or indirectly, 50% or more of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power). An affiliate of First Data Corporation shall mean any entity of which First Data Corporation owns or controls, directly or indirectly, less than 50% of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power).

“**Incentive Stock Option**” shall mean an option to purchase shares of Common Stock that meets the requirements of Section 422 of the Code, or any successor provision, which is intended by the Committee to constitute an Incentive Stock Option.

“**Incumbent Board**” shall have the meaning set forth in the definition of “Change in Control” in this Section 1.2.

“**Mature Shares**” shall mean previously-acquired shares of Common Stock for which the holder thereof has good title, free and clear of all liens and encumbrances and which such holder either (i) has held for at least six months or (ii) has purchased on the open market.

“**Non-Employee Director**” shall mean a member of the Board who is not an employee of the Company or any Subsidiary or Affiliate.

“**Nonqualified Stock Option**” shall mean an option (including a Purchased Stock Option) to purchase shares of Common Stock which is not an Incentive Stock Option.

“**Outstanding Common Stock**” shall have the meaning set forth in the definition of “Change in Control” in this Section 1.2.

“**Outstanding Voting Securities**” shall have the meaning set forth in the definition of “Change in Control” in this Section 1.2.

“**Performance Grant**” shall mean an award conferring a right, contingent upon the attainment of specified Performance Measures within a specified Performance Period, to receive shares of Common Stock, Restricted Stock, Restricted Stock Units, cash, or any combination thereof, as determined by the Committee or as evidenced in the Agreement relating to such Performance Grant.

“**Performance Measures**” shall mean the criteria and objectives that may be established by the Committee, which must be satisfied or met (i) as a condition to the exercisability of all or a portion of a Stock Option or SAR, (ii) as a condition to the grant of a Stock Award or (iii) during the applicable Restriction Period or Performance Period as a condition to the holder's receipt, in the case of a Stock Award, of the shares of Common Stock subject to such award and/or of payment with respect to such award, or, in the case of a Performance Grant, of the shares of Common Stock, Restricted Stock or Restricted Stock Units subject to such award and/or of payment with respect to such award. Such criteria and objectives may include one or more of the following: the attainment by a share of Common Stock of a specified value within or for a specified period of time, earnings per share, earnings before interest expense and taxes, earnings before interest, taxes, depreciation, and amortization (“EBITDA”), growth in EBITDA, return to stockholders (including dividends), total shareholder return, return on equity, earnings, revenues, growth in revenues, cash flow or cost reduction goals, operating income, pretax return on total capital, economic value added, or any combination of the foregoing. Such criteria and objectives may relate to results obtained by the individual, the Company, a Subsidiary, an Affiliate, or any business unit or division thereof, or may apply to results obtained relative to a specific industry or a specific index. If the Committee desires that compensation payable pursuant to any award subject to Performance Measures be “qualified performance-based compensation” within the meaning of Section 162(m) of the Code, the Performance Measures (i) shall be established by the Committee no later than the end of the first quarter of the Performance Period or Restriction Period, as applicable (or such other time designated by the United States Internal Revenue Service) and (ii) shall satisfy all other applicable requirements imposed under United States Treasury Regulations promulgated under Section 162(m) of the Code, including the requirement that such Performance Measures be stated in terms of an objective formula or standard.

“**Performance Period**” shall mean any period designated by the Committee or specified in an Agreement during which the Performance Measures applicable to a Performance Grant shall be measured.

“**Permanent and Total Disability**” shall have the meaning set forth in Section 22(e)(3) of the Code or any successor thereto.

“**Person**” shall have the meaning set forth in the definition of “Change in Control” set forth in this Section 1.2.

“**Plan**” shall have the meaning set forth in Section 1.1.

“**Plan Share Limit**” shall have the meaning set forth in Section 1.5.

“**Post-Termination Exercise Period**” shall mean the period specified in or pursuant to Section 2.3(a), Section 2.3(b), Section 2.3(d) or Section 2.3(e) following termination of employment with or service to the Company during which a Stock Option or SAR may be exercised.

“**Purchased Stock Option**” shall mean a Nonqualified Stock Option that is sold to eligible individuals at a price determined by the Committee, has an exercise price equal to the Fair Market Value of the Common Stock subject to such Stock Option on the date such Stock Option is sold to the eligible individual, and contains such additional terms and conditions as the Committee deems appropriate.

“**Related Employment**” shall mean the employment or performance of services by an individual for an employer that is neither the Company nor a Subsidiary nor an Affiliate, provided that (i) such employment or performance of services is undertaken by the individual at the request of the Company, a Subsidiary or an Affiliate, (ii) immediately prior to undertaking such employment or performance of services, the individual was employed by or performing service for the Company, a Subsidiary, or an Affiliate or was engaged in Related Employment and (iii) such employment or performance of services is in the best interests of the Company as determined by the Committee and is recognized by the Committee, in its discretion, as Related Employment. The death or Disability of an individual or his or her involuntary termination of employment during a period of Related Employment shall be treated, for purposes of this Plan, as if the death, Disability or involuntary termination had occurred while the individual was employed by or performing services for the Company, a Subsidiary or an Affiliate.

“**Replacement and Substitute Award**” shall mean a Stock Option, Restricted Stock Award, or Restricted Stock Unit Award granted in connection with the spin-off of the Company to certain current and former employees and directors of First Data pursuant to the terms of the Employee Matters Agreement.

“**Restricted Stock**” shall mean shares of Common Stock which are subject to a Restriction Period.

“**Restricted Stock Award**” shall mean an award of Restricted Stock under this Plan.

“ **Restricted Stock Unit** ” shall mean the right to receive one share of Common Stock or the Fair Market Value thereof in cash, which shall be contingent upon the expiration of a specified Restriction Period and subject to such additional restrictions as may be contained in the Agreement relating thereto. The Committee shall specify in the Agreement whether a Restricted Stock Unit Award shall be payable in Common Stock, cash, or any combination thereof.

“ **Restricted Stock Unit Award** ” shall mean an award of Restricted Stock Units under this Plan.

“ **Restriction Period** ” shall mean any period designated by the Committee during which (i) the Common Stock subject to a Restricted Stock Award may not be sold, transferred, assigned, pledged, hypothecated or otherwise encumbered or disposed of, except as provided in this Plan or the Agreement relating to such award or (ii) the vesting conditions applicable to a Restricted Stock Unit Award shall remain in effect.

“ **Retirement** ” shall mean an employee's termination of employment with or service to the Company (other than a termination by reason of death or Disability or for Cause) on or after (i) age 65, or (ii) age 55, provided the employee has completed at least 10 Years of Service.

“ **SAR** ” shall mean the right to receive, upon exercise, shares of Common Stock (which may be Restricted Stock), cash or a combination thereof with an aggregate value equal to the excess of the Fair Market Value of one share of Common Stock on the date of exercise over the base price of such SAR, multiplied by the number of such SARs which are exercised.

“ **Stock Award** ” shall mean a Restricted Stock Award, a Restricted Stock Unit Award, a Bonus Stock Award or a Bonus Stock Unit Award.

“ **Stock Option** ” shall mean a Nonqualified Stock Option or an Incentive Stock Option.

“ **Subsidiary** ” shall mean any entity of which the Company owns or controls, directly or indirectly, 50% or more of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power).

“ **Tax Date** ” shall have the meaning set forth in Section 5.5.

“ **Ten Percent Holder** ” shall have the meaning set forth in Section 2.1(a).

“ **Years of Service** ” shall mean (i) the number of years of service credited to an individual under the Company's Incentive Savings Plan ("ISP") or (ii) if the individual is not eligible to participate in the ISP, the number of such individual's years of service, computed as if the individual had been eligible to participate in the ISP while employed by the Company or a Subsidiary, provided, however, that unless otherwise provided in the Agreement, the computed number of years of service shall not include any period of an individual's employment with an Affiliate.

1.3. **Administration** . This Plan shall be administered by the Committee. The Committee may grant any one or a combination of the following awards under this Plan to eligible persons: (i) Stock Options (in the form of Nonqualified Stock Options or Incentive Stock Options), (ii) SARs, (iii) Restricted Stock Awards, (iv) Restricted Stock Unit Awards, (v) Bonus Stock Awards, (vi) Bonus Stock Unit Awards and (vii) Performance Grants.

The Committee shall, subject to the terms of this Plan, select eligible persons for participation in this Plan and determine the form, amount and timing of each award to such persons, the exercise price or base price associated with the award, the time and conditions of exercise or settlement of the award and all other terms and conditions of the award, including, without limitation, the form of the Agreement evidencing the award.

The Committee shall, subject to the terms of this Plan, interpret this Plan and the application thereof, establish, amend and revoke rules and regulations it deems necessary or desirable for the administration of this Plan, adopt sub-plans applicable to specific Subsidiaries, Affiliates or locations and may impose, incidental to the grant of an award, conditions with respect to the award, such as limiting competitive employment or other activities to the extent permitted under local law. The Committee may require, as a condition to the issuance, exercise, settlement or acceptance of an award under this Plan, that the award recipient agree to mandatory arbitration to settle any disputes relating to such award. All such interpretations, rules, regulations and conditions shall be final, binding and conclusive.

In exercising its power and authority hereunder with respect to Replacement and Substitute Awards held by current and former employees (other than Business Employees, as such term is defined in the Employee Matters Agreement) and directors of

First Data (and their respective transferees), the Company shall (i) act in good faith and (ii) cooperate with and give due regard to any information provided by First Data. In addition, with respect to such Replacement and Substitute Awards, the Company shall not, without the prior written consent of the First Data Compensation Committee, take any discretionary action to accelerate vesting of any such awards.

To the extent permitted by applicable law, the Committee may delegate some or all of its power and authority hereunder to another entity or committee, a member of the Board, or one or more officers of the Company as the Committee deems appropriate; provided, however, that the Committee may not delegate its power and authority to another entity or committee, a member of the Board, or one or more officers of the Company with regard to (i) the grant of an award to any person who is a “covered employee” within the meaning of Section 162(m) of the Code or who, in the Committee's judgment, is likely to be a covered employee at any time during the period an award hereunder to such employee would be outstanding, (ii) the selection for participation in this Plan of an officer or other person subject to Section 16 of the Exchange Act or decisions concerning the timing, pricing or amount of an award to such an officer or other person, and (iii) any decision regarding the impact of a Change in Control on awards issued under the Plan.

No member of the Committee, and no entity, committee, member of the Board or officer to whom the Committee delegates any of its power and authority hereunder, shall be liable for any act, omission, interpretation, construction or determination made in connection with this Plan in good faith, and the members of the Committee and such entities, committees, members of the Board or officers shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the full extent permitted by law.

A majority of the Committee shall constitute a quorum. The acts of the Committee shall be either (i) acts of a majority of the members of the Committee present at any meeting at which a quorum is present or (ii) acts approved in writing by all of the members of the Committee without a meeting.

1.4. **Eligibility**. All employees of the Company, Subsidiaries and Affiliates and other individuals who perform services for the Company, a Subsidiary or an Affiliate are eligible to receive awards under this Plan, as the Committee in its sole discretion may select from time to time. In connection with the spin-off of the Company, certain current and former employees and directors of First Data will receive Replacement and Substitute Awards. The Committee's selection of a person to participate in this Plan at any time shall not require the Committee to select such person to participate in this Plan at any other time.

1.5. **Shares Available**.

(a) **Plan Share Limit**. Subject to adjustment as provided in Section 5.7, 120,000,000 shares of Common Stock shall be available under this Plan (the “Plan Share Limit”).

(b) **Deductions**. Shares of Common Stock subject to Stock Options and SARs shall apply against and reduce the Plan Share Limit as one share for every one share subject thereto. Shares of Common Stock subject to Stock Awards and Performance Grants shall apply against and reduce the Plan Share Limit as one share for every one share subject thereto or payable pursuant thereto; provided, however, that if and during any period when more than 30,000,000 of the shares of Common Stock available under the Plan Share Limit are subject to Stock Awards and Performance Grants, the remaining shares of Common Stock available under the Plan Share Limit shall be reduced by three shares for every one share awarded pursuant to Stock Awards and Performance Grants in excess of 30,000,000 of the Plan Share Limit. Dividend equivalents paid in cash with respect to awards shall not apply against or reduce the Plan Share Limit.

(c) **Increases**. The Plan Share Limit, as reduced pursuant to Section 1.5(b), shall be increased (but not above the number of shares set forth in Section 1.5(a)) by shares of Common Stock subject to an outstanding award that are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award. The Plan Share Limit shall not be increased by (i) shares of Common Stock delivered or withheld to pay all or a portion of the exercise price of an award, (ii) shares of Common Stock delivered or withheld to satisfy all or a portion of the tax withholding obligations relating to an award, (iii) shares subject to a SAR that is exercised, whether or not shares of Common Stock are issued to the Participant upon exercise of the SAR, or (iv) shares of Common Stock that are repurchased by the Company with the proceeds from the exercise of an award. Increases in the Plan Share Limit pursuant to this Section 1.5(c) shall be made in a manner consistent with the Plan Share Limit deductions in effect at the time such increase occurs under Section 1.5(b).

(d) **Performance-based Compensation**. To the extent necessary for an award to be qualified performance-based compensation under Section 162(m) of the Code, the maximum aggregate number of shares of Common Stock with respect to which Stock Options, SARs, Stock Awards or Performance Grants may be issued to any individual during a calendar year shall be one-half of one percent of the total number of outstanding shares of Common Stock of the Company as of the preceding

December 31st. The maximum amount of cash payable during a calendar year to any person in connection with a Performance Grant shall be \$8,000,000.

(e) Source of Shares. Shares of Common Stock shall be made available from authorized but unissued shares, treasury shares, reacquired shares, or any combination thereof.

1.6. **Employment**. Unless otherwise expressly provided herein, references to "employment" with the Company or "employment with or service to the Company" shall mean the employment with or service to the Company, a Subsidiary or an Affiliate, including transfers of employment between the Company, a Subsidiary and an Affiliate, approved leaves of absence, and Related Employment.

II. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

2.1. **Stock Options**. The Committee may, in its discretion, grant Stock Options to such eligible persons as may be selected by the Committee. An Incentive Stock Option may not be granted to any person who is not an employee of the Company or any parent or subsidiary (as defined in Section 424 of the Code). Each Incentive Stock Option shall be granted within ten years of the date this Plan is adopted by the Board. To the extent the aggregate Fair Market Value (determined as of the date of grant) of shares of Common Stock with respect to which options designated as Incentive Stock Options are exercisable for the first time by a participant during any calendar year (under this Plan or any other plan of the Company, or any parent or subsidiary as defined in Section 424 of the Code) exceeds the amount (currently \$100,000) established by the Code, such options shall constitute Nonqualified Stock Options.

Stock Options shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable:

(a) Number of Shares and Purchase Price. The number of shares of Common Stock subject to a Stock Option shall be determined by the Committee. The purchase price per share of Common Stock purchasable upon exercise of a Stock Option shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant of such Stock Option; provided, however, that if an Incentive Stock Option shall be granted to any person who, at the time such Incentive Stock Option is granted, owns capital stock possessing more than ten percent of the total combined voting power of all classes of capital stock of the Company (or of any parent or subsidiary as defined in Section 424 of the Code) (a "Ten Percent Holder"), the purchase price per share of Common Stock shall be the price (currently 110% of Fair Market Value) required by the Code in order to constitute an Incentive Stock Option.

(b) Option Period and Exercisability. The period during which a Stock Option may be exercised shall be determined by the Committee; provided, however, that no Stock Option shall be exercised later than ten years after its date of grant; provided further, that if an Incentive Stock Option shall be granted to a Ten Percent Holder, such Incentive Stock Option shall not be exercised later than five years after its date of grant. The Committee may, in its discretion, establish Performance Measures which shall be satisfied or met as a condition to the grant of a Stock Option or to the exercisability of all or a portion of a Stock Option. The Committee shall determine whether a Stock Option shall become exercisable in cumulative or non-cumulative installments and in part or in full at any time. An exercisable Stock Option, or portion thereof, may be exercised only with respect to whole shares of Common Stock.

(c) Method of Exercise. A Stock Option may be exercised (i) by giving written notice to the Company specifying the number of whole shares of Common Stock to be purchased and accompanied by payment therefor in full (or arrangement made for such payment to the Company's satisfaction) either (A) in cash, (B) by delivery (either actual delivery or by attestation procedures established by the Company) of Mature Shares having an aggregate Fair Market Value, determined as of the date of exercise, equal to the aggregate purchase price payable by reason of such exercise, (C) except as may be prohibited by applicable law, in cash by a broker-dealer acceptable to the Company to whom the optionee has submitted an irrevocable notice of exercise, or (D) by a combination of (A) and (B), in each case to the extent set forth in the Agreement relating to the Stock Option, and (ii) by executing such documents as the Company may reasonably request. Any fraction of a share of Common Stock which would be required to pay such purchase price shall be disregarded and the remaining amount due shall be paid in cash by the optionee. No certificate or other indicia of ownership representing Common Stock shall be delivered until the full purchase price therefor, and any withholding taxes thereon, as described in Section 5.5, have been paid (or arrangement made for such payment to the Company's satisfaction).

(d) Minimum Vesting Period. Except as provided in this subsection or as otherwise provided under the Plan, no Stock Option award may become exercisable in full until three years from the date such Stock Option was granted and no portion of a Stock Option award may become exercisable until one year from the date such Stock Option was granted. The limitations of

the preceding sentence shall not apply in the case of a Stock Option that becomes exercisable as a result of the attainment of a specified Performance Measure or in the case of a Stock Option granted as an employee recognition award, a retention award, or to a Non-Employee Director or a newly hired employee; provided that except for a Stock Option granted to a Non-Employee Director or as otherwise provided for under the Plan no portion of any such Stock Option may become exercisable until six months from the date the Stock Option was granted. The exceptions in the preceding sentence to the general minimum vesting provisions of this subsection, other than the exceptions applying to a Stock Option granted to a Non-Employee Director or that becomes exercisable as a result of the attainment of a specified Performance Measure, are intended to be applied only in special circumstances as determined by the Committee (or its delegate).

(e) Repricing and Discounting. Subject to Section 5.7, the repricing or discounting of Stock Options is expressly disallowed under this Plan.

2.2. **Stock Appreciation Rights**. The Committee may, in its discretion, grant SARs to such eligible persons as may be selected by the Committee.

SARs shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable:

(a) Number of SARs and Base Price. The number of SARs subject to an award shall be determined by the Committee. The base price of an SAR shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date such SAR is granted.

(b) Exercise Period and Exercisability. The Agreement relating to an award of SARs shall specify whether such award may be settled in shares of Common Stock (including shares of Restricted Stock) or cash or a combination thereof. The period for the exercise of an SAR shall be determined by the Committee; provided, however, that no SAR shall be exercised later than ten years after its date of grant. The Committee may, in its discretion, establish Performance Measures which shall be satisfied or met as a condition to the grant of an SAR or to the exercisability of all or a portion of an SAR. The Committee shall determine whether an SAR may be exercised in cumulative or non-cumulative installments and in part or in full at any time. An exercisable SAR, or portion thereof, may be exercised only with respect to a whole number of SARs. If an SAR is exercised for shares of Restricted Stock, a certificate or certificates or other indicia of ownership representing such Restricted Stock shall be issued in accordance with Section 3.2(c) and the holder of such Restricted Stock shall have such rights of a stockholder of the Company as determined pursuant to Section 3.2(d). Prior to the exercise of an SAR for shares of Common Stock, including Restricted Stock, the holder of such SAR shall have no rights as a stockholder of the Company with respect to the shares of Common Stock subject to such SAR and shall have rights as a stockholder of the Company in accordance with Section 5.10.

(c) Method of Exercise. An SAR may be exercised (i) by giving written notice to the Company specifying the whole number of SARs which are being exercised and (ii) by executing such documents as the Company may reasonably request.

(d) Minimum Vesting Period. Except as provided in this subsection or as otherwise provided under the Plan, no SAR award may become exercisable in full until three years from the date such SAR was granted and no portion of a SAR award may become exercisable until one year from the date such SAR was granted. The limitations of the preceding sentence shall not apply in the case of a SAR that becomes exercisable as a result of the attainment of a specified Performance Measure or in the case of a SAR granted as an employee recognition award, a retention award, or to a Non-Employee Director or a newly hired employee; provided that except for a SAR granted to a Non-Employee Director or as otherwise provided for under the Plan no portion of any such SAR may become exercisable until six months from the date the SAR was granted. The exceptions in the preceding sentence to the general minimum vesting provisions of this subsection, other than the exceptions applying to a SAR granted to a Non-Employee Director or that becomes exercisable as a result of the attainment of a specified Performance Measure, are intended to be applied only in special circumstances as determined by the Committee (or its delegate).

(e) Repricing and Discounting. Subject to Section 5.7, the repricing or discounting of SARs is expressly disallowed under this Plan.

2.3. **Termination of Employment or Service**.

(a) Disability. Unless otherwise specified in the Agreement, if the employment with or service to the Company of the holder of a Stock Option or SAR terminates by reason of Disability, each Stock Option and SAR held by such holder shall become fully vested and exercisable and may thereafter be exercised by such holder (or such holder's legal representative or similar person) until the date which is one year after the effective date of such holder's termination of employment or service, or if earlier, the expiration date of the term of such Stock Option or SAR.

(b) Retirement.

(i) Stock Options and SARs Granted on and after January 31, 2011. Effective for Stock Options and SARs granted under the Plan on and after January 31, 2011, unless otherwise specified in the Agreement, if the employment with or service to the Company of the holder of a Stock Option or SAR terminates by reason of Retirement, each Stock Option and SAR held by such holder, to the extent not already vested, shall vest on a prorated basis on the effective date of the holder's termination of employment or service. Such prorated vesting shall be calculated on a grant-by-grant basis by multiplying the unvested portion of each such Stock Option and SAR award by a fraction, the numerator of which is the number of days that have elapsed between the grant date and the effective date of the holder's termination of employment or service and the denominator of which is the number of days between the grant date and the date the Stock Option or SAR award would have become fully vested and exercisable had the holder not terminated his or her employment or service. Unless otherwise specified in the Agreement, a vested Stock Option and SAR held by such holder may be exercised by the holder (or such holder's legal representative or similar person) until the date which is two years after the effective date of such holder's termination of employment or service, or if earlier, the expiration date of the term of such Stock Option or SAR.

(ii) Stock Options and SARs Granted Prior to January 31, 2011. Effective for Stock Options and SARs granted under the Plan prior to January 31, 2011, unless otherwise specified in the Agreement, if the employment with or service to the Company of the holder of a Stock Option or SAR terminates by reason of Retirement, each Stock Option and SAR held by such holder shall continue to vest in accordance with its terms, and to the extent vested, may thereafter be exercised by such holder (or such holder's legal representative or similar person) until the date which is four years after the effective date of such holder's termination of employment or service, or if earlier, the expiration date of the term of such Stock Option or SAR.

(c) Death. Unless otherwise specified in the Agreement, if the employment with or service to the Company of the holder of a Stock Option or SAR terminates by reason of death, each Stock Option and SAR held by such holder shall become fully vested and exercisable and may thereafter be exercised by such holder's executor, administrator, legal representative, beneficiary or similar person until the date which is one year after the date of death, or if earlier, the expiration date of the term of such Stock Option or SAR.

(d) Involuntary Termination Without Cause. Unless otherwise specified in the Agreement, and except as provided in Section 5.8, if the employment with or service to the Company of the holder of a Stock Option or SAR is terminated by the Company, a Subsidiary or an Affiliate without Cause, each Stock Option and SAR held by such holder shall cease to vest, and to the extent already vested, may thereafter be exercised by such holder (or such holder's legal representative or similar person) until the date which is three months after such involuntary termination, or if earlier, the expiration date of the term of such Stock Option or SAR.

(e) Termination for Cause. If the employment with or service to the Company of the holder of a Stock Option or SAR is terminated for Cause, each Stock Option and SAR held by such holder shall cease to vest, and to the extent already vested, may thereafter be exercised by such holder (or such holder's legal representative or similar person) until the close of the New York Stock Exchange (if open) on the date of such holder's termination of employment or service. If the New York Stock Exchange is closed at the time of such holder's termination of employment, then such Stock Option or SAR shall be forfeited at the time such holder's employment is terminated and shall be canceled by the Company.

(f) Other Termination. Unless otherwise specified in the Agreement, if the employment with or service to the Company of the holder of a Stock Option or SAR terminates for any reason other than Disability, Retirement, death, involuntary termination without Cause, or termination for Cause, each Stock Option and SAR held by such holder shall cease to vest, and to the extent already vested, may thereafter be exercised by such holder (or such holder's legal representative or similar person) until the close of the New York Stock Exchange (if open) on the date which is the thirtieth (30th) day following such holder's termination of employment or service. If the New York Stock Exchange is closed on such date, then such Stock Option or SAR shall be forfeited and shall be canceled by the Company effective with the close of the New York Stock Exchange on the next following day in which the New York Stock Exchange is open.

(g) Death Following Termination of Employment or Service. Unless otherwise specified in the Agreement, if the holder of a Stock Option or SAR dies during the applicable Post-Termination Exercise Period, each Stock Option and SAR held by such holder shall be exercisable only to the extent that such Stock Option or SAR is exercisable on the date of such holder's death and may thereafter be exercised by the holder's executor, administrator, legal representative, beneficiary or similar person until the date which is one year after the date of death, or if earlier, the expiration date of the term of such Stock Option or SAR.

III. STOCK AWARDS

3.1. **Stock Awards**. The Committee may, in its discretion, grant Stock Awards to such eligible persons as may be selected by the Committee. The Agreement relating to the Stock Award shall specify whether the Stock Award is a Restricted Stock Award, a Restricted Stock Unit Award, a Bonus Stock Award or a Bonus Stock Unit Award.

3.2. **Terms of Stock Awards**. Stock Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable.

(a) **Number of Shares and Other Terms**. The number of shares of Common Stock subject to a Stock Award and the Performance Measures (if any) and the Restriction Period applicable to a Restricted Stock Award or a Restricted Stock Unit Award shall be determined by the Committee.

(b) **Vesting and Forfeiture**. The Agreement relating to a Restricted Stock Award or Restricted Stock Unit Award shall provide, in the manner determined by the Committee, in its discretion, and subject to the provisions of this Plan, for the vesting of the shares of Common Stock subject to such award, in the case of a Restricted Stock Award, or for the vesting of the Restricted Stock Unit Award itself, in the case of Restricted Stock Unit Award, (i) if specified Performance Measures are satisfied or met during the specified Restriction Period or (ii) if the holder of such award remains continuously in the employment of or service to the Company during the specified Restriction Period, and for the forfeiture of all or a portion of the shares of Common Stock subject to such award in the case of a Restricted Stock Award, or for the forfeiture of the Restricted Stock Unit Award itself, in the case of a Restricted Stock Unit Award, (x) if specified Performance Measures are not satisfied or met during the specified Restriction Period or (y) if the holder of such award does not remain continuously in the employment of or service to the Company during the specified Restriction Period.

Bonus Stock Awards and Bonus Stock Unit Awards shall not be subject to any Performance Measures or Restriction Periods.

(c) **Share Certificates/Indicia of Ownership**. During the Restriction Period, a certificate or certificates or other indicia of ownership representing a Restricted Stock Award may be registered in the holder's name or a nominee name at the discretion of the Company and may bear a legend, in addition to any legend which may be required pursuant to Section 5.6, indicating that the ownership of the shares of Common Stock represented thereby is subject to the restrictions, terms and conditions of this Plan and the Agreement relating to the Restricted Stock Award. As determined by the Committee, all certificates or other indicia of ownership registered in the holder's name shall be deposited with the Company, together with stock powers or other instruments of assignment (including a power of attorney), each endorsed in blank with a guarantee of signature if deemed necessary or appropriate by the Company, which would permit transfer to the Company of all or a portion of the shares of Common Stock subject to the Restricted Stock Award in the event such award is forfeited in whole or in part. Upon termination of any applicable Restriction Period (and the satisfaction or attainment of any applicable Performance Measures), upon the grant of a Bonus Stock Award, or upon the settlement of a Bonus Stock Unit Award, in each case subject to the Company's right to require payment of any taxes in accordance with Section 5.5, a certificate or certificates evidencing ownership, or such other indicia of ownership as determined by the Committee, of the requisite number of shares of Common Stock shall be delivered to the holder of such award.

(d) **Rights with Respect to Restricted Stock Awards**. Unless otherwise set forth in the Agreement relating to a Restricted Stock Award, and subject to the Committee's right to cause such Award to be cancelled pursuant to an adjustment under Section 5.7, the holder of such award shall have all rights as a stockholder of the Company, including voting rights, the right to receive dividends and the right to participate in any capital adjustment applicable to all holders of Common Stock; provided, however, that unless the Committee determines otherwise, a distribution with respect to shares of Common Stock, including a regular cash dividend, shall be deposited with the Company and replaced with additional Restricted Stock Awards with a Fair Market Value equal to such distribution and otherwise subject to the same restrictions as the shares of Common Stock with respect to which such distribution was made.

(e) **Rights and Provisions Applicable to Restricted Stock Unit Awards**. The Agreement relating to a Restricted Stock Unit Award shall specify whether the holder thereof shall be entitled to receive, on a current or deferred basis, dividend equivalents, or the deemed reinvestment of any deferred dividend equivalents, with respect to the number of shares of Common Stock subject to such award. Prior to the settlement of a Restricted Stock Unit Award, the holder thereof shall not have any rights as a stockholder of the Company with respect to the shares of Common Stock subject to such award, except to the extent that the Committee, in its sole discretion, may grant dividend equivalents on Restricted Stock Unit Awards which are settled in shares of Common Stock. No shares of Common Stock and no certificates or other indicia of ownership representing shares of Common Stock that are subject to a Restricted Stock Unit Award shall be issued upon the grant of a Restricted Stock Unit Award. Instead, shares of Common

Stock subject to Restricted Stock Unit Awards and the certificates or other indicia of ownership representing such shares of Common Stock shall only be distributed at the time of settlement of such Restricted Stock Unit Awards in accordance with the terms and conditions of this Plan and the Agreement relating to such Restricted Stock Unit Award.

(f) Minimum Restriction Period . Except as provided in this subsection or as otherwise provided under the Plan, the Restriction Period applicable to a Restricted Stock Award or Restricted Stock Unit Award may not lapse in full until three years from the date such award was granted and no portion of the Restriction Period applicable to a Restricted Stock Award or Restricted Stock Unit Award may lapse until one year from the date such award was granted. The limitations of the preceding sentence shall not apply in the case of a Restricted Stock Award or Restricted Stock Unit Award that vests as a result of the attainment of a specified Performance Measure or in the case of a Restricted Stock Award or Restricted Stock Unit Award granted as a founder's grant, an employee recognition award, a retention award, or to a newly hired employee; provided that except as provided for under the Plan the minimum Restriction Period applicable to such award shall be six months. The exceptions in the preceding sentence to the general minimum vesting provisions of this subsection, other than the exception applying to a Restricted Stock Award or Restricted Stock Unit Award that vests as a result of the attainment of a specified Performance Measure, are intended to be applied only in special circumstances as determined by the Committee (or its delegate).

(g) Rights and Provisions Applicable to Bonus Stock Unit Awards . The Agreement relating to a Bonus Stock Unit Award shall specify whether the holder thereof shall be entitled to receive, on a current or deferred basis, dividend equivalents, or the deemed reinvestment of any deferred dividend equivalents, with respect to the number of shares of Common Stock subject to such award. Prior to the settlement of a Bonus Stock Unit Award, the holder thereof shall not have any rights as a stockholder of the Company with respect to the shares of Common Stock subject to such award, except to the extent that the Committee, in its sole discretion, may grant dividend equivalents on Bonus Stock Unit Awards. No shares of Common Stock and no certificates or other indicia of ownership representing shares of Common Stock that are subject to a Bonus Stock Unit Award shall be issued upon the grant of a Bonus Stock Unit Award. Instead, shares of Common Stock subject to Bonus Stock Unit Awards and the certificates or other indicia of ownership representing such shares of Common Stock shall only be distributed at the time of settlement of such Bonus Stock Unit Awards in accordance with the terms and conditions of this Plan and the Agreement relating to such Bonus Stock Unit Award.

3.3. Termination of Employment or Service .

(a) Disability and Death . Unless otherwise set forth in the Agreement relating to a Stock Award, if the employment with or service to the Company of the holder of such award terminates by reason of Disability or death, the Restriction Period shall terminate as of the effective date of such holder's termination of employment or service and all Performance Measures applicable to such award shall be deemed to have been satisfied at the maximum level.

(b) Retirement .

(i) In the case of Restricted Stock Unit Awards granted under the Plan on and after January 31, 2011 which are not subject to Performance Measures, unless otherwise set forth in the Agreement, if the employment with or service to the Company of the holder of such award terminates by reason of Retirement, a prorated portion of such Restricted Stock Unit Award shall vest and be settled on the date on which the holder's employment with or service to the Company terminates, and the remaining portion of such award shall be forfeited by such holder and canceled by the Company. Such proration shall be calculated on a grant-by-grant basis by multiplying the number of Restricted Stock Units by a fraction, the numerator of which is the number of days that have elapsed between the grant date and the effective date of the holder's termination of employment or service and the denominator of which is the number of days between the grant date and the date the Restriction Period applicable to the Restricted Stock Unit Award would have lapsed in full.

(ii) In the case of Restricted Stock Unit Awards granted under the Plan on and after January 31, 2011 which are subject to Performance Measures, unless otherwise set forth in the Agreement, if the employment with or service to the Company of the holder of such award terminates by reason of Retirement, a prorated portion of the amount of such Restricted Stock Unit Award which is actually earned, based upon satisfaction of the Performance Measures during the applicable performance period, shall vest and be settled on the later of (i) date on which the holder's employment with or service to the Company terminates or (ii) as soon as practicable following the end of the applicable performance period, and in no event later than March 15 of the calendar year following the calendar year in which the applicable performance period ends, and the remaining portion of such award shall be forfeited by such holder and canceled by the Company. Such proration shall be calculated on a grant-by-grant basis by multiplying the number of Restricted Stock Units by a fraction, the numerator of which is the number of days that have elapsed between the grant date and the effective date of the holder's termination of employment or service and the denominator of which is the number of days between the grant date and the date the Restriction Period applicable to the Restricted Stock Unit Award would have lapsed in full.

(c) Other Termination . Unless otherwise set forth in the Agreement relating to a Stock Award, and except as provided in Section 3.3(b) and Section 5.8, if the employment with or service to the Company of the holder of a Stock Award terminates for any reason other than Disability or death, the portion of such award which is subject to a Restriction Period on the effective date of such holder's termination of employment or service shall be immediately forfeited by such holder and canceled by the Company.

IV. PERFORMANCE GRANTS

4.1. Performance Grants . The Committee may, in its discretion, make Performance Grants to such eligible persons as may be selected by the Committee.

4.2. Terms of Performance Grants . Performance Grants shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable.

(a) Amount of Performance Grant and Performance Measures . The Agreement shall set forth the amount of the Performance Grant and a description of the Performance Measures and the Performance Period applicable to such Performance Grant, as determined by the Committee in its discretion.

(b) Vesting and Forfeiture . The Agreement shall provide, in the manner determined by the Committee in its discretion, for the vesting of a Performance Grant, if specified Performance Measures are satisfied during the specified Performance Period, and for the forfeiture of all or a portion of such award, if specified Performance Measures are not satisfied during the specified Performance Period.

(c) Settlement of Vested Performance Grants . The Agreement (i) shall specify whether a Performance Grant may be settled in shares of Common Stock, Restricted Stock, Restricted Stock Units, cash or a combination thereof and (ii) may specify whether the holder thereof shall be entitled to receive, on a current or deferred basis, dividend equivalents, and, if determined by the Committee, interest on or the deemed reinvestment of any deferred dividend equivalents, with respect to the number of shares of Common Stock subject to such award, if any. If a Performance Grant is settled in shares of Restricted Stock, a certificate or certificates or other indicia of ownership representing such Restricted Stock shall be issued in accordance with Section 3.2(c) and the holder of such Restricted Stock shall have such rights of a stockholder of the Company as determined pursuant to Section 3.2(d). Prior to the settlement of a Performance Grant in shares of Common Stock or Restricted Stock the holder of such award shall have no rights as a stockholder of the Company with respect to any shares of Common Stock subject to such award and shall have rights as a stockholder of the Company in accordance with Section 5.10.

(d) Minimum Performance Period . The minimum Performance Period for any Performance Grant is one year from the date such grant is made.

4.3. Termination of Employment or Service .

(a) Disability, Retirement and Death . Unless otherwise set forth in the Agreement, if the employment with or service to the Company of the holder of a Performance Grant terminates during the Performance Period by reason of Disability, Retirement or death, the Performance Period shall continue and the holder, or the holder's executor, administrator, legal representative, beneficiary or similar person, as applicable, shall be entitled to a prorated award. Such prorated award shall be equal to the value of the award at the end of the Performance Period multiplied by a fraction, the numerator of which shall equal the number of days such holder was employed with or performing services for the Company during the Performance Period and the denominator of which shall equal the number of days in the Performance Period; provided, however, that such holder, or such holder's executor, administrator, legal representative, beneficiary or similar person, as applicable, shall not be entitled to payment or distribution of such Performance Grant earlier than the date set forth in the Agreement.

(b) Other Termination . Unless otherwise set forth in the Agreement, if the employment with or service to the Company of the holder of a Performance Grant terminates during the Performance Period for any reason other than Disability, Retirement or death, each Performance Grant that is not vested shall be immediately forfeited.

V. GENERAL

5.1. Effective Date and Term of Plan . This Plan shall be submitted to the stockholders of the Company for approval and, if approved, shall become effective as of September 28, 2006, the date on which the 2006 LTIP was approved by First Data in its capacity as sole stockholder of the Company. This Plan shall terminate on the tenth anniversary of the date of approval of the

Plan by the Board or Committee, or if earlier when shares of Common Stock are no longer available for the grant, exercise or settlement of awards, unless terminated earlier by the Board or the Committee. Termination of this Plan shall not affect the terms or conditions of any award granted prior to termination. If this Plan is not approved by the stockholders of the Company, this Plan shall be null and void and the 2006 LTIP shall remain in full force and effect.

5.2. **Amendments** . The Board or the Committee may amend or terminate this Plan, and except as provided in Sections 2.1(e) and 2.2 (e), the Committee may amend outstanding awards under this Plan in any manner as it shall deem advisable in its sole discretion, subject to any requirement of stockholder approval required by applicable law, rule or regulation, including Section 162(m) and Section 422 of the Code and the rules of the New York Stock Exchange; provided, however, that no amendment of the Plan shall be made without stockholder approval if such amendment would increase the maximum number of shares of Common Stock available under this Plan (subject to Section 5.7). No amendment of the Plan or an outstanding award may impair the rights of a holder (the determination of which shall be made by the Committee in its sole discretion) of an outstanding award without the consent of such holder.

5.3. **Agreement** . The Company may condition an award holder's right (a) to exercise, vest or settle the award and (b) to receive delivery of shares, on the execution and delivery to the Company of the Agreement and the completion of other requirements, including, but not limited to, the execution of a nonsolicitation agreement by the recipient and delivery thereof to the Company. Notwithstanding anything contained herein to the contrary, the Committee may approve an Agreement that, upon the termination of an award holder's employment or service, provides that, or may, in its sole discretion based on a review of all relevant facts and circumstances, otherwise take action regarding an Agreement such that (i) any or all outstanding Stock Options and SARs shall become exercisable in part or in full, (ii) all or a portion of the Restriction Period applicable to any outstanding Stock Award shall lapse, (iii) all or a portion of the Performance Period applicable to any outstanding Performance Grant shall lapse and (iv) the Performance Measures applicable to any outstanding award (if any) shall be deemed to be satisfied at the maximum or any other level.

5.4. **Transferability of Stock Options** . Stock Options may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by the holder thereof, except by will or the laws of descent and distribution; provided, however, that unless otherwise specified in the Agreement, as long as the holder continues employment with or service to the Company, such holder may transfer Stock Options to a Family Member or Family Entity without consideration; provided, however, in the case of a transfer of Stock Options to a limited liability company or a partnership which is a Family Entity, such transfer may be for consideration consisting solely of an equity interest in the limited liability company or partnership to which the transfer is made. Any transfer of Stock Options shall be in a form acceptable to the Committee, shall be signed by the holder and shall be effective only upon written acknowledgement by the Committee of its receipt and acceptance of such notice. If a Stock Option is transferred to a Family Member or to a Family Entity, such Stock Option may not thereafter be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by such Family Member or Family Entity except by will or the laws of descent and distribution.

5.5. **Tax Withholding** . The Company shall have the right to require, as of the grant, vesting, or exercise of an award, the sale of any shares of Common Stock, the receipt of any dividends or the payment of any cash pursuant to an award made hereunder, payment by the holder of such award of any federal, state, local or other income, social insurance, payroll or other tax-related items which may be required to be withheld or paid in connection with such award. An Agreement may provide that (i) the Company shall withhold whole shares of Common Stock which would otherwise be delivered to a holder having an aggregate Fair Market Value determined as of the date the obligation to withhold or pay taxes arises in connection with an award (the "Tax Date") in the amount necessary to satisfy any such obligation, or withhold an amount of cash which would otherwise be payable to a holder, including withholding from wages or other cash compensation otherwise due to the holder, in the amount necessary to satisfy any such obligation or (ii) the holder may satisfy any such obligation by any of the following means: (A) a cash payment to the Company, (B) delivery (either actual delivery or by attestation procedures established by the Company) to the Company of Common Stock having an aggregate Fair Market Value, determined as of the Tax Date, equal to the amount necessary to satisfy any such obligation, (C) authorizing the Company to withhold whole shares of Common Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the Tax Date, or withhold an amount of cash which would otherwise be payable to a holder, equal to the amount necessary to satisfy any such obligation, (D) a cash payment to the Company by a broker-dealer acceptable to the Company to whom the holder has submitted an irrevocable notice of exercise (in the case of a Stock Option) or an irrevocable notice of sale (in the case of a Stock Award) , in each case to the extent set forth in the Agreement relating to an award, or (E) any combination of (A) and (B). Shares of Common Stock to be delivered or withheld may not have an aggregate Fair Market Value in excess of the amount determined by applying the minimum statutory withholding rate, provided that any fraction of a share of Common Stock which would be required to satisfy such an obligation may be rounded up to the nearest whole share.

5.6. **Restrictions on Shares** . Each award made hereunder shall be subject to the requirement that if at any time the Company determines that the listing, registration or qualification of the shares of Common Stock subject to such award upon any securities

exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action is necessary or desirable as a condition of, or in connection with, the vesting, exercise or settlement of such award or the delivery of shares thereunder, such award shall not vest, be exercised or settled and such shares shall not be delivered unless such listing, registration, qualification, consent, approval or other action shall have been effected or obtained, free of any conditions not acceptable to the Company. In addition, the Committee may condition the grant of an award on compliance with certain listing, registration or other qualifications applicable to the award under any law or any obligation to obtain the consent or approval of a governmental body. The Company may require that certificates or other indicia of ownership evidencing shares of Common Stock delivered pursuant to any award made hereunder bear a legend indicating that the sale, transfer or other disposition thereof by the holder is prohibited except in compliance with the Securities Act of 1933, as amended, and the rules and regulations thereunder.

5.7. **Adjustment**. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a regular cash dividend, the number, class and kind of securities (including, for this purpose, securities of any other entity that is a party to any such transaction) available under this Plan, the maximum number of securities available for Stock Awards and Performance Grants, the number, class and kind of securities (including, for this purpose, securities of any other entity that is a party to any such transaction) subject to each outstanding Stock Option and the purchase price per security, the terms of each outstanding Stock Option, the maximum number of securities with respect to which Stock Options or SARs (or a combination thereof), or Stock Awards or Performance Grants may be made or granted during any calendar year to any person, the number, class and kind of securities (including, for this purpose, securities of any other entity that is a party to any such transaction) subject to each outstanding SAR and the base price per SAR, the terms of each outstanding SAR, the number, class and kind of securities (including, for this purpose, securities of any other entity that is a party to any such transaction) subject to each outstanding Stock Award or Performance Grant, and the terms of each outstanding Stock Award or Performance Grant shall be appropriately adjusted by the Committee, such adjustments to be made in the case of outstanding Stock Options and SARs without an increase in the aggregate purchase price or base price. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive. If any such adjustment would result in a fractional security being (a) available under this Plan, such fractional security shall be disregarded, or (b) subject to an award under this Plan, the Company shall pay the holder of such award, in connection with the adjustment or first vesting, exercise or settlement of such award in whole or in part occurring after such adjustment, as the Committee may determine, an amount in cash determined by multiplying (i) the fraction of such security (rounded to the nearest hundredth) by (ii) the excess, if any, of (A) the Fair Market Value on the vesting, exercise or settlement date over (B) the exercise or base price, if any, of such award.

5.8. **Change in Control**.

(a) **Awards Granted On and After February 17, 2009**. Effective for awards granted under the Plan on and after February 17, 2009, if an award holder's employment is terminated by the Company, a Subsidiary or an Affiliate without Cause (or otherwise terminates for an eligible reason according to the terms of the Company severance policy applicable to the holder as of the effective date of a Change in Control) during the period commencing on and ending twenty-four months after the effective date of the Change in Control, then effective on the holder's date of termination of employment (i) each outstanding Stock Option and SAR held by such holder shall become fully vested and exercisable, and (ii) the Restriction Period applicable to each outstanding Stock Award held by such holder shall lapse; provided, however, that awards that will vest or become exercisable or payable only if specified Performance Measures are attained and awards that provide for a deferral of compensation within the meaning of Code § 409A shall vest or be exercisable or payable in accordance with the applicable Agreements, subject to the terms of the Plan. All other awards granted under the Plan to such holder, including Performance Grants, shall vest or be exercisable or payable, if at all, in accordance with the applicable Agreements, subject to the terms of the Plan. Notwithstanding any provision of this Plan to the contrary, each Stock Option or SAR granted to such holder shall remain exercisable by the holder (or his or her legal representative or similar person) until the earlier of (y) the end of the severance period applicable to the holder under the Company severance policy (if any) applicable to the holder as of the effective date of a Change in Control or, if later, the end of the otherwise applicable Post-Termination Exercise Period, or (z) the expiration date of the term of the Stock Option or SAR.

(b) **Awards Granted Prior to February 17, 2009**. Effective for awards granted under the Plan prior to February 17, 2009, as of the effective date of a Change in Control (i) each outstanding Stock Option and SAR shall become fully vested and exercisable, (ii) the Restriction Period applicable to each outstanding Stock Award shall lapse, (iii) the Performance Period applicable to any outstanding Performance Grant shall lapse, and (iv) the Performance Measures applicable to any outstanding award shall be deemed to be satisfied at the target level (or if greater, at the performance level actually attained). Notwithstanding any provision of this Plan to the contrary, each Stock Option or SAR granted to a holder whose employment is terminated for an eligible reason according to the terms of the Company severance policy applicable to the holder as of the effective date of a Change in Control during the period commencing on and ending twenty-four months after the effective date of the Change in Control shall remain exercisable by such holder (or his or her legal representative or similar person) until the earlier of (y) the end of the severance period applicable to the holder under such severance policy or, if later, the end of the otherwise applicable Post-Termination

Exercise Period, or (z) the expiration date of the term of the Stock Option or SAR.

5.9. **No Right of Participation or Employment** . No person shall have any right to participate in this Plan. Neither this Plan nor any award made hereunder shall confer upon any person any right to continued employment by the Company, any Subsidiary or any Affiliate of the Company or affect in any manner the right of the Company, any Subsidiary or any Affiliate of the Company to terminate the employment of any person at any time without liability hereunder.

5.10. **Rights as Stockholder** . No person shall have any right as a stockholder of the Company with respect to any shares of Common Stock or other equity security of the Company which is subject to an award hereunder unless and until such person becomes a stockholder of record with respect to such shares of Common Stock or equity security.

5.11. **Designation of Beneficiary** . If permitted by the Committee, the holder of an award may file with the Committee a written designation of one or more persons as such holder's beneficiary or beneficiaries (both primary and contingent) in the event of the holder's death. To the extent an outstanding Stock Option or SAR granted hereunder is exercisable, such beneficiary or beneficiaries shall be entitled to exercise such Stock Option or SAR to the extent permitted under local law.

Each beneficiary designation shall become effective only when filed in writing with the Committee during the holder's lifetime on a form prescribed by the Committee. The spouse of a married holder domiciled in a community property jurisdiction shall join in any designation of a beneficiary other than such spouse. The filing with the Committee of a new beneficiary designation shall cancel all previously filed beneficiary designations.

If a holder fails to designate a beneficiary, or if all designated beneficiaries of a holder predecease the holder, then each outstanding Stock Option and SAR hereunder held by such holder, to the extent exercisable, may be exercised by such holder's executor, administrator, legal representative or similar person.

5.12. **Governing Law** . This Plan, each award hereunder and the related Agreement, and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Delaware and construed in accordance therewith without giving effect to principles of conflicts of laws.

5.13. **Replacement and Substitute Awards** . Notwithstanding anything in this Plan to the contrary, any Stock Option or Stock Award that is intended to be a Replacement or Substitute Award granted in connection with the spin-off of the Company shall be subject to the same terms and conditions as the original First Data award to which it relates; provided, however that such awards shall be administered by the Committee.

5.14. **Foreign Employees** . The Committee may adopt, amend or rescind rules, procedures or sub-plans relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures and to foster and promote achievement of the purposes of this Plan. Without limiting the generality of the foregoing, the Committee is specifically authorized to adopt rules, procedures and sub-plans with provisions that limit or modify rights on death, Disability or Retirement or on termination of employment; available methods of exercise or settlement of an award; payment of income, social insurance contributions and payroll taxes; the withholding procedures and handling of any stock certificates or other indicia of ownership which vary with local requirements. The Committee may also adopt rules, procedures or sub-plans applicable to particular Subsidiaries, Affiliates or locations. The rules of such sub-plans may take precedence over other provisions of this Plan, with the exception of Sections 1.5 and 5.2, but unless otherwise superseded by the terms of such sub-plan, the provisions of this Plan shall govern the operation of such sub-plan.

5.15. **Termination of Employment or Service** . Unless otherwise determined by the Committee, an award holder employed by or providing service to an entity that is a Subsidiary or an Affiliate under this Plan shall be deemed to have terminated employment with or service to the Company for purposes of this Plan on the date that such entity ceases to be a Subsidiary or an Affiliate hereunder.

5.16. **Code Section 409A** . Notwithstanding anything in this Plan to the contrary (for purposes of this Section 5.16, "Plan" shall include all Agreements under the Plan), the Plan will be construed, administered or deemed amended as necessary to comply with the requirements of Section 409A of the Code to avoid taxation under Section 409A(a)(1) of the Code to the extent subject to Section 409A of the Code. The Committee, in its sole discretion, shall determine the requirements of Section 409A of the Code applicable to the Plan and shall interpret the terms of the Plan consistently therewith. Under no circumstances, however, shall the Company or any Subsidiary or Affiliate or any of its or their employees, officers, directors, service providers or agents have any liability to any person for any taxes, penalties or interest due on amounts paid or payable under the Plan, including any taxes, penalties or interest imposed under Section 409A of the Code. Any payments to award holders pursuant to this Plan are also intended to be exempt from Section 409A of the Code to the maximum extent possible, first, to the extent such payments are

scheduled to be paid and are in fact paid during the short-term deferral period, as short-term deferrals pursuant to Treasury regulation §1.409A-1(b)(4), and then, if applicable, under the separation pay exemption pursuant to Treasury regulation §1.409A-1(b)(9)(iii), and for this purpose each payment shall be considered a separate payment such that the determination of whether a payment qualifies as a short-term deferral shall be made without regard to whether other payments so qualify and the determination of whether a payment qualifies under the separation pay exemption shall be made without regard to any payments which qualify as short-term deferrals. To the extent any amounts under this Plan are payable by reference to an award holder's "termination of employment," such term shall be deemed to refer to the award holder's "separation from service," within the meaning of Section 409A of the Code. Notwithstanding any other provision in this Plan, if an award holder is a "specified employee," as defined in Section 409A of the Code, as of the date of the award holder's separation from service, then to the extent any amount payable under this Plan (i) constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, (ii) is payable upon the award holder's separation from service and (iii) under the terms of this Plan would be payable prior to the six-month anniversary of the award holder's separation from service, such payment shall be delayed until the earlier to occur of (a) the six-month anniversary of the separation from service or (b) the date of the award holder's death.

THE WESTERN UNION COMPANY
COMPUTATION OF
RATIO OF EARNINGS TO FIXED CHARGES
(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Earnings:				
Income before income taxes	\$ 310.1	\$ 333.4	\$ 600.2	\$ 608.1
Fixed charges	42.6	48.2	82.9	94.7
Other adjustments	3.7	(0.1)	7.8	(4.1)
Total earnings (a)	<u>\$ 356.4</u>	<u>\$ 381.5</u>	<u>\$ 690.9</u>	<u>\$ 698.7</u>
Fixed charges:				
Interest expense	\$ 45.1	\$ 44.2	\$ 89.5	\$ 87.6
Other adjustments	(2.5)	4.0	(6.6)	7.1
Total fixed charges (b)	<u>\$ 42.6</u>	<u>\$ 48.2</u>	<u>\$ 82.9</u>	<u>\$ 94.7</u>
Ratio of earnings to fixed charges (a/b)	8.4	7.9	8.3	7.4

For purposes of calculating the ratio of earnings to fixed charges, earnings have been calculated by adding income before income taxes, fixed charges included in the determination of income before income taxes and distributions from equity method investments, and then subtracting income from equity method investments. Fixed charges consist of interest expense, and an estimated interest portion of rental expenses and income tax contingencies, which are included as a component of income tax expense.

Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information

The Board of Directors and Stockholders of The Western Union Company

We are aware of the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Form S-3 Nos. 333-170967 and 333-170410) of The Western Union Company, and
- (2) Registration Statement (Form S-8 No. 333-137665) pertaining to The Western Union Company 2006 Long-Term Incentive Plan, The Western Union Company 2006 Non-Employee Director Equity Compensation Plan, and The Western Union Company Supplemental Incentive Savings Plan;

of our reports dated May 1, 2012 and August 2, 2012 relating to the unaudited condensed consolidated interim financial statements of The Western Union Company that are included in its Forms 10-Q for the quarters ended March 31, 2012 and June 30, 2012.

/s/ Ernst & Young LLP

Denver, Colorado
August 2, 2012

CERTIFICATIONS

I, Hikmet Ersek, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Western Union Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2012

/ s / H I K M E T E R S E K

Hikmet Ersek
President and Chief Executive Officer

CERTIFICATIONS

I, Scott T. Scheirman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Western Union Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2012

/ s/ S COTT T. S CHEIRMAN

Scott T. Scheirman
Executive Vice President, Chief Financial Officer and Global Operations

CERTIFICATIONS

The certification set forth below is being submitted in connection with the Quarterly Report of The Western Union Company on Form 10-Q for the period ended June 30, 2012 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Hikmet Ersek and Scott T. Scheirman certify that, to the best of each of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of The Western Union Company.

Date: August 2, 2012

/ s / H I K M E T E R S E K

Hikmet Ersek
President and Chief Executive Officer

Date: August 2, 2012

/ s / S C O T T T. S C H E I R M A N

Scott T. Scheirman
Executive Vice President, Chief Financial Officer and Global Operations