Western Union CO
Form 10-K
February 26, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2007

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	**20-4531180**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

THE WESTERN UNION COMPANY

12500 East Belford Avenue

Englewood, Colorado 80112

Telephone: (866) 405-5012

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

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

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

None

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

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

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 x No ¨

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x 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 Act). Yes ¨ No x

As of June 29, 2007, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $15.9 billion based on the closing sale price of $20.83 of the common stock as reported on the New York Stock Exchange.

As of February 15, 2008, 749,644,229 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s proxy statement for the 2008 annual meeting of stockholders are incorporated

into Part III.

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THE WESTERN UNION COMPANY

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PART I

FORWARD-LOOKING STATEMENTS

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

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

- changes in general economic conditions and economic conditions in the geographic regions and industries in which we operate;
- changes in immigration laws, patterns and other factors related to immigrants;
- technological changes, particularly with respect to e-commerce;
- our ability to attract and retain qualified key employees and to successfully manage our workforce;
- changes in foreign exchange rates, including the impact of the regulation of foreign exchange spreads on money transfers;
- adverse movements and volatility in debt and equity capital markets;
- political conditions and related actions by the United States and abroad which may adversely affect our businesses and economic conditions as a whole;
- continued growth in the money transfer market and other markets in which we operate at rates approximating recent levels;
- implementation of agent contracts according to schedule;
- our ability to maintain our agent network and biller relationships under terms consistent with those currently in place;
- interruptions of United States government relations with countries in which we have or are implementing material agent contracts;

deterioration in consumers and clients confidence in our business, or in money transfer providers generally;

successfully managing credit and fraud risks presented by our agents and consumers;

liabilities and unanticipated developments resulting from litigation and regulatory investigations and similar matters, including costs, expenses, settlements and judgments;

changes in United States or foreign laws, rules and regulations including the Internal Revenue Code, and governmental or judicial interpretations thereof;

Our ability to favorably resolve tax matters with the Internal Revenue Service and other tax jurisdictions;

changes in industry standards affecting our business;

changes in accounting standards, rules and interpretations;

competing effectively in the money transfer industry with respect to global and niche or corridor money transfer providers, banks and other nonbank money transfer services providers, including telecommunications providers, card associations and card-based payments providers;

our ability to grow our core businesses;

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

our ability to protect our brands and our other intellectual property rights;

successfully managing the potential both for patent protection and patent liability in the context of a rapidly developing legal framework for intellectual property protection;

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

mergers, acquisitions and integration of acquired businesses and technologies into our company and the realization of anticipated synergies from these acquisitions;

adverse consequences from our spin-off from First Data Corporation, including resolution of certain ongoing matters;

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

catastrophic events; and

management s ability to identify and manage these and other risks.

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ITEM 1. BUSINESS

Overview

The Western Union Company (Western Union or the Company) is a leader in global money transfer, providing people with fast, reliable and convenient ways to send money around the world, pay bills and purchase money orders. The Western Union® brand is globally recognized. Our services are available through a network of over 335,000 agent locations in more than 200 countries and territories. Each location in our agent network is capable of providing one or more of our services. As of December 31, 2007, approximately 75% of our locations had experienced money transfer activity in the prior 12 months. Our consumer-to-consumer money transfer service enables people to send money around the world in minutes. Our consumer-to-business service provides consumers with flexible and convenient options for making one-time or recurring payments.

In 2007, we generated $4.9 billion in total consolidated revenues and $857.3 million in consolidated net income. Total revenue generated during 2007 consisted of $3,989.8 million of transaction fees, $771.3 million related to foreign exchange revenue derived from the difference between the exchange rate set by Western Union to the consumer and the rate at which we or our agents are able to acquire currency, and $139.1 million related to commission and other revenues. We handled 167.7 million consumer-to-consumer money transfers in 2007, an increase of 14% over 2006. Our 404.5 million consumer-to-business transactions in 2007, including those from our acquired business in Argentina, Servicio Electrónico de Pago S.A. and related entities (SEPSA or Pago Fácil), represented a 62% increase over 2006.

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

History and Development

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

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

Over the past decade, we have become a leader in the development of a global remittance market. Today, we offer money transfer services under the Western Union®, Orlandi Valuta®, and Vigo℠ brands in over 200 countries and territories, and various bill payment services primarily in the United States under several brands like Speedpay®, Equity Accelerator®, Just in Time EFT®, Western Union Quick Collect, Western Union Convenience Pay®, and in Argentina under our Pago Fácil℠ brand.

The Western Union Business

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

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

In our consumer-to-business segment we process electronic and cash payments to a variety of organizations that receive consumer payments, including utilities, auto finance companies, mortgage servicers, financial service providers and governmental agencies, which we sometimes refer to as billers. We process electronic payments using the consumer s credit card, debit card or bank account. We process cash payments much as we process consumer-to-consumer transactions. Our consumers use our Quick Collect service to send guaranteed funds, from over 50,000 Western Union agent locations primarily across the United States, using cash and, in certain locations, a debit card. We believe our billers benefit from their relationship with Western Union as their relationship with us provides them with real time or near real time posting of their customer payments, reduced expenses that the biller would have otherwise incurred for cash and check handling, and in certain circumstances another source of income.

Geographic Presence

Over 80% of our agent locations are outside the United States. Our consumer-to-consumer services are available in almost every country or territory. We have offices in more than 45 countries. In the United States, Costa Rica, Russia, Mexico, Argentina and Philippines, our offices include customer service centers, where our employees answer operational questions from agents and consumers. Our office in Englewood, Colorado serves as our corporate headquarters, and our office in Dublin, Ireland serves as our international headquarters. Other offices, including regional management offices in Miami, Vienna, Buenos Aires and Hong Kong, provide sales, marketing, data processing and other services. Our employees and members of senior management reflect the global nature of our business; natives of many different countries, they speak many languages.

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

Financial information relating to the Company s international and domestic revenues and long-lived assets is set forth in Note 15 to the Company s Consolidated Financial Statements in Item 8.

Our Strengths

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

Strong relationships with high quality agents and businesses. We interact with millions of consumers around the world, primarily through our global agent network. Our agents facilitate the global distribution and convenience associated with our Western Union brand, which in turn helps create demand for our services and helps us to recruit and retain agents. Our agents tend to be established organizations that provide other consumer products and services. Many are open outside of traditional banking hours, for example on nights and weekends, making it easier for consumers to use our services. Although our agent contracts are generally for 5 year terms, our top 40 agents globally have been with us an average of approximately 13 years, and in 2007, these agents were involved in transactions that generated more than 50% of our consumer-to-consumer revenue. We occasionally acquire equity interests in, and enter into alliances with, certain of our agents to better align our long-term interests. For example, in October 2007, we completed an agreement to acquire a 25% ownership interest in GraceKennedy Money Services Caribbean SRL (GraceKennedy), an agent in Jamaica. Additionally, we entered into another agreement to convert our non-participating interest in a joint venture with our Singapore agent, Hersing Corporation Ltd., into a fully participating 49% interest. We also hold a majority interest in an alliance with our agent in France, and we hold minority interests in agents that have a presence in Ireland, the United Kingdom, Spain, Greece, and Italy, among others.

We have relationships with more than 6,000 businesses and other billers, approximately 1,800 of which relate to Pago Fácil, which was acquired in December 2006. These relationships are a core component of our consumer-to-business payment services. In 2007, our top 20 billers represented approximately 40% of our consumer-to-business revenue. On average, we have provided our bill payment services to our top 20 billers for more than 10 years.

Global distribution network. The Western Union, Orlandi Valuta and Vigo agent networks are the foundation of our international presence. We have more than 335,000 agent locations worldwide offering at least one of our consumer-to-consumer money transfer services, with the vast majority offering Western Union branded service. Our global footprint results from more than a decade of building relationships with agents worldwide.

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

To complement the convenience offered by our network s global physical locations, in certain countries we have made our services available through other channels, such as our internet service, westernunion.com (which allows consumers to send funds through our website), our telephone money transfer service, and our direct-to-bank money transfer service (which allows consumers to send money directly to a bank account). These services represent approximately 3% of our consolidated revenues. For financial information regarding our foreign and United States operations, see Item 7 of Part II and our historical financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K.

Established brands. Our Western Union brand is built on a foundation of more than 150 years of history and consumer-focused service. The Western Union brand represents speed, reliability, trust, value and convenience. The international expansion of our agent network over the past decade has taken the Western Union brand nearly everywhere consumers send and receive money. As people move and travel around the world, they are able to find a well recognized service to send funds to others.

We also offer money transfer services under the Orlandi Valuta and Vigo brands. Over the past three years, Western Union branded transactions have grown the fastest of the three consumer money transfer brands.

Through our Western Union Quick Collect, Western Union Convenience Pay, Pago Fácil, Speedpay, Just in Time EFT and Equity Accelerator brands, we offer cash-based and electronic consumer-to-business payment services.

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Our operating results over the past several years have allowed us to invest significantly each year to support our brands. In 2007, we invested approximately $295 million to market, advertise and promote our services, and many of our agents have contributed significant financial resources to assist with marketing the business.

Consumer relationships. One of our strengths has been our focus on our consumers and offering them fast, reliable money transfer and payment services. Our global loyalty card program is available in a growing number of countries. We launched our Western Union Gold Card, the principal vehicle of the program, in the United States in 2002. As of December 31, 2007, the loyalty program was available in 65 countries and had approximately 9.5 million active cards. The Gold Card offers consumers faster service at the point-of-sale, service fee reductions on future Western Union branded transactions and other benefits such as a rechargeable prepaid phone card embedded within the loyalty card. On average, a Gold Card consumer initiates more transactions and has a higher rate of retention than a non-carded consumer. In the United States, approximately 50% of Western Union branded consumer-to-consumer transactions are initiated using a Gold Card. We have also seen increases in usage in Europe and Asia where we began offering the Gold Card in 2004. The global loyalty program is one component of our consumer relationship management, or CRM, program designed to support and enhance long-term relationships with our consumers. Consumer databases supplement these efforts by providing insight on consumer preferences so that we can selectively target consumer communications and marketing.

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

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

Global compliance programs. We have developed and continue to enhance global compliance programs to monitor and address various aspects of the legal and regulatory requirements of our business, including the monitoring of money laundering and terrorist financing risks. At present, we have approximately 300 employees in a number of our offices around the world fully dedicated to these efforts and we spent over $40 million on these efforts during 2007.

Attractive financial profile. Our revenue and net cash flow have provided us with opportunities to invest in our core business growth, new services and new markets. In 2007, we generated $4.9 billion in revenues, had an operating profit margin of 27% and generated over $1.1 billion in net cash provided by operating activities.

Experienced management team. Our management has significant experience in money transfers and payment services. During 2007, we further strengthened the team with the addition of two executives. Many of our business leaders at the senior management level and below were involved in Western Union s global expansion and creating and implementing our long-term strategy. Collectively, members of our executive team have an average of eight years with us or First Data.

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Our Strategy

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

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

- Expanding our network in key receive markets, such as China and India. Combined, China and India represented about 5% of our total revenue in 2007, up from 4% in 2006.

- Adding or enhancing services allowing consumers in many countries to send and receive money transfers within the same country. In 2007, we grew our non-domestic intra-country money transfer transactions by over 30%, which generated in excess of $80 million in revenues.

- Launching our internet service internationally. As of December 31, 2007, we were providing service in 11 countries outside of the United States.

We intend to continue to identify and create opportunities to generate new revenue from our existing distribution channels. For example, during 2008 we plan to expand our service offerings under our Vigo brand to new countries in Europe.

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

We offer bill payment services primarily in the United States. We intend to pursue continued global expansion of consumer-to-business payments services through our existing agent network and through acquisitions and alliances. Examples of this strategy include our recent initiative to provide certain advertising payments on behalf of Google through our Quick Cash® service, and our acquisition in December 2006 of the remaining 75% interest in Pago Fácil, an Argentina-based provider of consumer-to-business payments and prepaid mobile phone top-up services to a variety of organizations including utilities and government agencies.

Build our brands and enhance the consumer experience. We remain focused on our brands and make sizable investments to build our brands and enhance our consumers experience. In the years ended December 31, 2007, 2006 and 2005, we spent approximately 6.0%, 6.5% and 6.9%, respectively, of our revenue on marketing, including advertising, events, loyalty programs, and employees dedicated to marketing activities. Building our brands and enhancing the consumer experience are strategies that are grounded in our global CRM programs, which emphasize building a lifetime relationship with our consumers and their families. The Western Union Gold Card is a key part of this strategy. The Gold Card program helps build loyalty by offering consumer recognition, added convenience at the point-of-sale and rewards for transactions. As we continue to introduce the Gold Card in additional countries, we expect to combine the benefits of increased usage with enhanced consumer relationships.

In each of the past three years, we have reduced consumer fees and foreign exchange spreads in selected corridors or markets in response to consumer demand and in order to maximize market opportunities and strengthen our overall competitive position. Pricing decreases and foreign exchange actions generally reduce margins, but are done in anticipation that they will result in increased transaction volumes. In most instances the impact of each pricing decrease and any offsetting increase in volume is shared with our agents through commissions.

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

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

Westernunion.com our internet service;

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

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

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

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

Cash to Card a service that provides consumers an option to direct funds to a stored-value card; and

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

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

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

Developing new technologies through innovation is a key focus area. We have, or will have, a number of pilots in the market and although they are not contributing meaningfully to revenue currently, we will continue to learn from and evaluate the viability of each pilot test to ensure we are investing appropriately to drive future growth, including attracting new customers to Western Union. Our current pilot programs and new service offerings we are exploring include:

Mobile Money Transfer will allow the consumer to send cash using a mobile phone, which we intend to pilot during 2008. This long-term opportunity will provide consumers with the ability to transfer money via mobile phones and will allow the consumer to send or pay out funds at select Western Union agent locations.

Western Union Global Business Payments a web-based service that will provide small-to-medium sized businesses a variety of different payment options. The pilot service is a fast and reliable way to make foreign currency payments from the United States to over 100 countries.

Micro-lending this involves advancing small value unsecured loans to consumers. The market for loans of this size is often consumers with no formal credit history who may be underserved by most financial institutions. These consumers are often regular users of our remittance services. We have partnered with PrimeCredit Limited, a wholly owned subsidiary of Standard Chartered Bank PLC, to begin offering micro loans on a test basis in Hong Kong. Western Union will not underwrite the loans, and accordingly, will not take any credit risk on the loans.

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Enhanced online bill payments we have entered into a partnership with a provider of online banking and bill payment solutions to financial institutions. This partnership gives participating banks online customers the option to make bill payments which post to their account within the same day.

Our Segments

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

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

Consumer-to-business the processing of payments from consumers to billers through our networks of third-party agents and various electronic channels. The segment s revenue was primarily generated in the United States for all periods presented.

Our other businesses not included in these segments include Western Union branded money orders available through a network of third-party agents primarily in the United States and Canada, and prepaid services. Prepaid services include a Western Union branded prepaid MasterCard® card sold through select agents in the United States and the internet, a Western Union branded prepaid Visa® card sold on the internet, and top-up services for third parties that allow consumers to pay in advance for mobile phone and other services.

Also included in other are recruiting and relocation expenses associated with hiring senior management positions new to our company, and consulting costs used to develop ongoing processes in connection with completing the spin-off; and expenses incurred in connection with the development of certain new service offerings, including costs to develop mobile money transfer and micro-lending services.

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The table below presents the components of our consolidated revenue:

	Years Ended December 31,		
	2007	2006	2005
International (a)	65%	62%	59%
Domestic (b)	11%	14%	16%
Mexico (c)	7%	8%	7%
Total consumer-to-consumer	83%	84%	82%
Consumer-to-business	15%	14%	15%
Other	2%	2%	3%
	100%	100%	100%

(a) Represents transactions between and within foreign countries (excluding Canada and Mexico), transactions originated in the United States or Canada and paid elsewhere, and transactions originated outside the Untied States or Canada and paid in the United States or Canada. Excludes all transactions between or within the United States and Canada and all transactions to and from Mexico as reflected in (b) and (c) below.

(b) Represents all transactions between and within the United States and Canada.

(c) Represents all transactions to and from Mexico.

Consumer-to-Consumer Segment

Individual money transfers from one consumer to another are the core of our business, representing 83% of our total consolidated revenues for 2007. We offer consumers a variety of ways to send money. Although most remittances are sent in cash at one of our more than 335,000 agent locations worldwide, in some countries we offer the ability to send money over the internet or the telephone, using a credit or debit card. Some agent locations accept debit cards to initiate a transaction. We also offer consumers several options to receive a money transfer. While the vast majority of transfers are paid in cash at agent locations, in some places we offer payments directly to the receiver s bank account or on a stored-value card.

Operations

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

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

Over 85% of our consumer-to-consumer transactions involve at least one non-United States location. No individual country outside the United States accounted for more than 10% of the segment s revenue for the years ended December 31, 2007, 2006 and 2005. Certain of our agents facilitate a large number of transactions; however, no individual agent accounted for greater than 10% of the segment s revenue during these periods.

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Seasonality

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

Services

We offer money transfer services worldwide. In 2007, over 90% of our consumer-to-consumer transactions were traditional cash money transfers involving our walk-in agent locations around the world. In order to enhance the convenience of our services, we offer a number of options for sending and receiving funds; however, historically, demand for in-person, cash money transfers has been the strongest. The different ways consumers can send or receive money include the following:

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

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

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

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

Online money transfer service. Our internet website, westernunion.com, allows consumers to send funds on-line, using a credit or debit card, for pay-out at most Western Union-branded agent locations around the world. Transaction capability at westernunion.com was launched in the United States in 2000. As of December 31, 2007, we are now providing service in 11 countries outside the United States.

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

Cash to card. Our service that provides consumers an option to direct funds to a stored-value card in certain locations.

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Home delivery. Our home delivery service, available in certain locations, allows funds to be delivered to the recipient rather than picked up at an agent location.

Distribution and Marketing Channels

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

Some of our Western Union agents outside the United States manage subagents, which we refer to as superagents. We have approximately 700 superagents located throughout the world. Although our subagents are under contract with these superagents (and not with Western Union directly), the subagent locations have access to the same technology and services that our other agent locations do.

Our international agents are able to customize services as appropriate for their geographic markets. In some markets, individual agents are independently offering specific services such as stored-value payout options and Direct to Bank service. Our marketing relies on feedback from our agents and consumers, and in many of our markets, our agents invest in their own marketing activities.

In February 2005, Western Union International Bank began operations. We chartered the bank in order to adapt to the challenges presented by the growing trend among the member states of the European Union to regulate the money transfer business, and to give us a regulatory platform for new products and services. Western Union International Bank holds a full credit institution license, allowing it to offer a range of financial services throughout the 27 member states of the European Union and the three additional states of the European Economic Area. Today, the bank offers retail service in approximately 35 locations in three countries.

Industry Trends

We participate in a large and growing market for money transfer. Growth in the money transfer business tends to correlate to immigration and related employment rates worldwide. Therefore, an indicator for future growth is the size of the international migrant population, which to a certain extent follows economic opportunity worldwide. According to The World Bank, the number of worldwide immigrants is nearly 200 million or approximately 3% of the world s population. The top three remittance markets in the world, the countries of India, China and Mexico, each receive $25 billion or more annually according to The World Bank. We anticipate that demand for money transfer services will continue to grow as people continue to migrate from their country of origin.

In 2007, consumers transferred $64 billion in consumer-to-consumer transactions through our company in both cross-border and intra-country transactions, of which $57 billion related to cross-border transactions. Funds transferred through our agent network have increased at a compound annual growth rate of 23% from 2005 to 2007, with cross-border money transfers increasing at a compound annual growth rate of 27% during the same period.

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

Competition

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

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

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

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

Informal networks Informal networks enable people to transfer funds without formal mechanisms, such as receipts, and, often, without compliance with government reporting requirements. However, we believe that such networks comprise a significant share of the market.

Electronic commerce Online money transfer services allowing consumers the ability to send and receive money electronically using the internet.

Alternative channels Alternative channels, including mail and commercial courier services, money transfers using mobile phones, and card-based options, such as ATM cards and stored-value cards, allow consumers to send or receive money.

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

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

Consumer-to-Business Segment

We provide a portfolio of electronic and cash payment options that provide consumers with fast and convenient ways to make one-time or recurring payments to billers. Revenues from this segment represented 15% of our revenue in 2007.

Operations

Our revenue in this segment is derived primarily from transaction fees paid by the consumer or the biller. These fees are typically less than the fees charged in our consumer-to-consumer segment. In order to make an electronic payment, the consumer or biller initiates a transaction over the telephone or the internet which we process using the consumer s credit card, debit card or ACH. In order to make a cash payment, the consumer goes to an agent location and makes the payment to the agent.

In addition, we generate revenue from upfront enrollment fees received for our Equity Accelerator service, and we earn investment income on funds received from services sold in advance of settlement with payment recipients. The segment s revenue was primarily generated in the United States for all periods presented. No individual biller accounted for greater than 10% of this segment s revenue during all periods presented.

Services

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

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

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Our Equity Accelerator service is provided in the mortgage service industry, enabling consumers to make mortgage payments by ACH. It is marketed as a convenient way for homeowners to schedule additional recurring principal payments on their mortgages. Consumers who enroll in this service make mortgage payments based on a customized payment program, which results in interest savings and a lower mortgage balance.

Cash payments. Consumers use our Quick Collect service to send guaranteed funds to businesses and government agencies from over 50,000 Western Union agent locations primarily across the United States and Canada, using cash and, in certain locations, a debit card. This service is also offered in other select international locations, and is referred to as Quick Pay[SM] in those locations. We also offer Quick Cash, a cash disbursement service used by businesses and government agencies to send money to employees or individuals with whom they have accounts or other business relationships.

Consumers use our Convenience Pay service to send payments by cash or check from a smaller number of Convenience Pay agent locations primarily to utilities and telecommunication providers.

In addition, Pago Fácil provides a walk-in bill payment service in Argentina under the Pago Fácil brand.

Distribution and Marketing Channels

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

Industry Trends

The consumer-to-business payment industry has evolved with technological innovations that created new methods of processing payments from individuals to businesses. We believe that the United States is in the midst of a trend away from paper checks toward electronic payment methods accessible through multiple technologies.

Historically, the majority of bills in the United States were paid through checks in the mail. In 1989, Western Union began offering an agent-based cash bill payment solution which provided consumers with a convenient, walk-in, cash-based way to pay their bills. Further innovation in the industry led to the creation of electronic options for consumer payments including telephone and online services.

The consumer-to-business payment industry outside the United States is at varying stages of development. In some countries, walk-in cash payments at a biller s office or through a third party network are widely used, while in other countries electronic payment options, particularly through direct debit, are widely accepted payment options.

Competition

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

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

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

Other

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

We market Western Union branded money orders, issued by a third-party, to consumers at non-bank retail locations primarily in the United States and Canada. Money order revenue is generated through a combination of commissions collected from our third-party issuer and per item fees for money orders sold. In a money order transaction, a consumer purchases a money order from an agent. The agent selling the money order generally remits the funds collected from the consumer to our third party issuer promptly following the sale date. The third-party issuer holds those funds to meet regulatory requirements and to pay money orders presented for payments. We do not hold the settlement assets related to our money order business. Agents generally receive no commissions from us on money order sales, but rather earn revenue by charging a fee to the consumer for the purchase of the money order.

We also offer prepaid services consisting of:

- a Western Union branded prepaid MasterCard card and Visa card; and
- third-party top-up services in the United States and Argentina.

The Western Union branded prepaid MasterCard is sold through select agents in the United States and on the internet, and our Western Union branded prepaid Visa card is also sold on the internet. Our top-up services allow consumers to pre-pay for mobile phone or other services, and otherwise store value with service providers that can be accessed by the consumer in the future.

Also included in other are recruiting and relocation expenses associated with hiring senior management positions new to our company, and consulting costs used to develop ongoing processes in connection with completing the spin-off; and expenses incurred in connection with the development of certain new service offerings, including costs to develop mobile money transfer and micro-lending services.

Intellectual Property

The Western Union brand, consisting of trademark registrations in many countries, is material to our company. The loss of the Western Union trademark or a diminution in the perceived quality associated with the name would harm our growth. The Vigo, Orlandi Valuta, Speedpay, Paymap®, Equity Accelerator, Just in Time EFT, Western Union Quick Collect, Quick Pay, Quick Cash, Convenience Pay and Pago Fácil (registered in Argentina) trademarks and service marks are also important to our company.

We also own patents and patent applications covering aspects of our processes and services. We have been, are and in the future may be, subject to claims and suits alleging that our technology or business methods infringe patents owned by others, both in and out of the United States. Unfavorable resolution of these claims could require us to change how we deliver services, result in significant financial consequences, or both, which could adversely affect our business, financial position and results of operations.

Risk Management

Our company has a substantial credit risk management department that evaluates and monitors our credit and fraud risks. We are exposed to credit risk related to receivable balances from agents in the money transfer, walk-in bill payment and money order settlement process. We also are exposed to credit risk directly from

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consumer transactions particularly through our online services and electronic consumer-to-business 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. Our credit risk management team performs a credit investigation before each agent signing and conducts periodic analyses. As a result, our company s losses associated with bad debts have been less than 1% of our annual revenue in each of the last three fiscal years.

A key component of the Western Union business model is our ability to manage risk associated with conducting financial transactions worldwide. We settle accounts with the majority of our agents in United States dollars or euros. We utilize currency exchange contracts, primarily forward contracts, to mitigate the risks associated with currency fluctuations. Limited foreign currency risk arises with respect to the agent settlement process. The foreign currency exchange risk is limited because the majority of money transfer transactions are paid within 24 hours after they are initiated and agent settlements occur in a few days in most instances.

International Investment

We have accumulated approximately $1.2 billion of foreign earnings at December 31, 2007, for which no provision has been made for United States federal and state income taxes, as we expect to reinvest these earnings outside the United States indefinitely. We believe the investment of these earnings over a number of years will assist us in executing our international strategies, including expanding and diversifying global distribution and exploring new service offerings, as follows:

- providing us with the ability to acquire companies outside the United States that complement our existing businesses worldwide;
- providing us with the ability to strategically invest in joint ventures and increase our ownership interest in certain of our agents, such as the conversion of our non-participating interest in a joint venture with our Singapore agent, Hersing Corporation Ltd., into a fully participating 49% interest and our recent 25% equity investment in GraceKennedy;
- providing the necessary capital to support our international bank, which has the ability to establish branches and offer money transfer and other financial services directly to consumers in each of the 27 member states of the European Union and the three additional states of the European Economic Area;
- developing new or enhancing existing software to support the expansion of our international agent network;
- expanding our international operating sites; and
- funding our operating cash requirements outside the United States.

The timing of these investments will be based on specific opportunities.

Regulation

Our business is subject to a wide range of laws and regulations enacted by the United States federal government, each of the states, many localities and other countries. These include financial services regulations, consumer disclosure and consumer protection laws, currency control regulations, money transfer licensing regulations, escheat laws and laws covering consumer privacy, data protection and information security. Our services also are subject to an increasingly strict set of legal and regulatory requirements intended to help detect and prevent money laundering, terrorist financing and other illicit activity. Failure to comply with any of these requirements by either Western Union or its agents (who are third parties, over whom Western Union has limited legal and practical control) could result in the suspension or revocation of a license or registration required to provide money transfer services, the limitation, suspension or termination of services, and/or the imposition of civil and criminal penalties, including fines. We continue to implement policies and programs and adapt our business practices and strategies to help us comply with current and evolving legal standards and

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industry practices. These programs include dedicated compliance personnel, training and monitoring programs, suspicious activity reporting, and support and guidance to our agent network on regulatory compliance.

Money Transfer and Payment Instrument Licensing and Regulation

In the United States, most states license money transfer services providers. Many states exercise authority over the operations of our money transfer services and, as part of this authority, regularly examine us. Many states require us to invest the proceeds of money transfers in high-quality, investment grade securities, and our use of such investments is restricted to satisfy outstanding settlement obligations. We regularly monitor credit risk and attempt to mitigate its exposure by making high-quality investments in compliance with these regulations. Substantially all of our investment securities, most of which relate to state licensing requirements in the United States, have credit ratings of AA- or better from a major credit rating agency as of December 31, 2007.

These licensing laws also cover matters such as government approval of controlling shareholders and senior management of our licensed entities, regulatory approval of agent locations, consumer disclosures and the filing of periodic reports by the licensee, and require the licensee to demonstrate and maintain certain net worth levels. Many states also require money transmitters and their agents to comply with federal and/or state anti-money laundering laws and regulations.

Our money transfer and money order services are subject to anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (collectively, the BSA) and similar state laws and regulations. The BSA, among other things, requires money transfer companies and the issuers and sellers of money orders, to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity, and in some cases, to collect and maintain information about consumers who use their services and maintain other transaction records. Many states impose similar and, in some cases more stringent, requirements. These requirements also apply to our agents. In addition, the United States Department of the Treasury has interpreted the BSA to require money transfer companies to conduct due diligence into and risk-based monitoring of their agents inside and outside the United States.

The third-party issuer of the Western Union branded money orders is subject to similar licensing and regulatory requirements. Western Union provides services in support of that third-party s compliance efforts.

Economic and trade sanctions programs administered by the United States Department of the Treasury Office of Foreign Assets Control (OFAC) prohibit or restrict transactions to or from (or dealings with) certain countries, their governments, and in certain circumstances, their nationals, as well as with specifically-designated individuals and entities such as narcotics traffickers, terrorists and terrorist organizations. We provide very limited consumer-to-consumer services to individuals in Cuba, Syria and Sudan pursuant to and as authorized by advisory opinions of, or licenses granted by, OFAC.

Outside of the United States, our money transfer business is subject to some form of regulation in all of the countries and territories in which we offer those services. These laws and regulations may include limitations on what types of entities may offer money transfer services, limitations on the amount of principal that can be sent into or out of a country, limitations on the number of money transfers that may be sent or received by a consumer, and agreements on the rates of exchange between currencies. They may also include laws and regulations intended to help detect and prevent money laundering or terrorist financing. In most countries, our agents are required to obtain licenses or permits to offer money transfer services.

We have developed and continue to enhance global compliance programs to monitor and address various aspects of these legal and regulatory requirements. Our money transfer network operates through third-party agents in most countries, and our legal and practical ability to control those agents compliance activities is limited. To assist in managing and monitoring money laundering and terrorist financing risks, we have developed and continue to enhance an anti-money laundering compliance program comprised of policies, procedures, systems and internal controls. At present, we have approximately 300 employees in a number of our offices around the world fully dedicated to these efforts and we spent over $40 million on these efforts during 2007.

Government agencies both inside and outside the United States may impose new or additional rules on money transfers affecting us or our agents, including regulations that:

- prohibit transactions in, to or from certain countries, governments and individuals and entities;
- impose additional identification, reporting or recordkeeping requirements;
- limit the entities capable of providing money transfer services or imposing additional licensing or registration requirements;
- impose minimum capital or other financial requirements;
- limit or restrict the revenue which may be generated from money transfers, including transaction fees and revenue derived from foreign exchange;
- require additional disclosures to consumers; or
- limit the number or principal amount of money transfers which may be sent to or from the jurisdiction.

One example of such new rules is the Payment Services Directive (PSD) which was adopted in the European Union (EU) in November 2007. We expect that the PSD will influence changes in the cross border payment services market in the EU. Under the PSD, the licensing and other legal requirements for offering these services within EU countries will be harmonized. Currently, the laws regarding licensing and the provision of these services differ significantly among these countries. The PSD will also impose new rules on payment service providers like Western Union and certain of its EU-based agents and on banks and non-bank payments services providers which may offer these services. The PSD will be effective on November 1, 2009. The potential impact of the PSD on our business and the competitive and regulatory environment in which we operate is difficult to predict.

Escheat Regulations

Our company is subject to unclaimed or abandoned property (escheat) laws in the United States and abroad. These laws require us to turn over to certain government authorities the property of others held by our company that has been unclaimed for a specified period of time, such as unredeemed money transfers. We hold property subject to escheat laws and we have an ongoing program to comply with the laws. We are subject to audits with regard to our escheatment practices.

Privacy and Information Security Regulations

The collection, transfer, use and storage of personal information is required to provide our services. These activities are subject to data privacy laws and regulations in the United States, and foreign countries. In the United States, data privacy laws such as the federal Gramm-Leach-Bliley Act, California SB1/ SB1386 and various state laws apply directly to a broad range of financial institutions including money transmitters like Western Union, and indirectly to companies that provide services to those institutions. The state laws require us to provide notification to affected individuals, state officers and consumer reporting agencies in the event of a security breach of computer databases or physical documents that contain non public personal information. These regulations and laws also impose requirements for safeguarding personal information through the issuance of internal data security standards, controls or guidelines.

The collection, transfer, use and storage of personal information required to provide our services is subject to data privacy laws outside of the United States, such as the European Union s 95/46 EC Directive of the European Parliament (the Data Protection Directive), Canada s Personal Information Protection and Electronic

Documents Act, Japan s Personal Information Protection Act, individual European national laws and data privacy laws of other providence s or countries. In some cases, the laws of a country may be more restrictive than the Gramm-Leach-Bliley Act or the Data Protection Directive and may impose additional duties on companies. Each of these laws may restrict the collection, transfer, processing, storage, use and disclosure of sensitive personal information, may require notice to individuals of privacy practices and may give individuals certain rights to prevent the use or disclosure of sensitive personal information. These regulations and laws also impose requirements for safeguarding personal information through the issuance of internal data security standards, controls or guidelines.

In connection with regulatory requirements to assist in the prevention of money laundering and terrorist financing and pursuant to legal obligations and authorizations, Western Union makes information available to United States federal and state, as well as certain foreign government agencies, when required by law. In recent years, these agencies have increased their requests for such information from Western Union and other companies (both financial service providers and others), particularly in connection with efforts to prevent terrorist financing. During the same period, there has also been increased public attention regarding the corporate use of personal information, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer privacy. These regulatory goals the prevention of money laundering and terrorist financing and the protection of consumer privacy may conflict, and the law in these areas is not consistent or settled. While we believe that Western Union is compliant with its regulatory responsibilities, the legal, political and business environments in these areas are rapidly changing, and subsequent legislation, regulation, litigation, court rulings or other events could expose Western Union to increased program costs, liability and reputational damage.

Banking Regulation

Western Union International Bank operates under a banking license granted by the Austrian Financial Market Authority (FMA), allowing the bank to offer a range of financial services in the 27 member states of the European Union and the three additional states of the European Economic Area. The banking license subjects our bank to the Austrian Banking Act and the Austrian Financial Market Authority Act as well as regulation by the FMA and the Austrian National Bank. The bank also is subject to regulation, examination and supervision by the New York State Banking Department (the Banking Department), which has regulatory authority over our subsidiary that holds all interest in the bank, a limited liability investment company organized under Article XII of the New York Banking Law. An Agreement of Supervision with the Banking Department imposes various regulatory requirements including operational limitations, capital requirements, affiliate transaction limitations, and notice and reporting requirements. Banking Department approval is required under the New York Banking Law and the Agreement of Supervision prior to any change in control of the Article XII investment company.

Since Western Union International Bank does not operate any banking offices in the United States and does not conduct business in the United States except as may be incidental to its activities outside the United States, our company s affiliation with Western Union International Bank does not cause it to be subject to the provisions of the Bank Holding Company Act.

Other

Some of our services are subject to card association rules and regulations. For example, an independent standards-setting organization working with credit card companies has developed regulations concerning payment card account security through the transaction process, called the Payment Card Industry (PCI) Data Security Standard. All merchants and service providers that store, process and transmit payment card data are required to comply with the regulations as a condition to accepting credit cards. We are subject to annual audits to ensure compliance with PCI regulations worldwide and are subject to fines if we are found to be non-compliant.

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Stored-value services offered by Western Union prepaid services are subject to federal and state laws and regulations related to consumer protection, licensing, escheat and money laundering. These laws are evolving, unclear and sometimes inconsistent, and the extent to which these laws apply to Western Union or its consumers is in a state of change. We are unable to determine the impact that the clarification of these laws and their future interpretations may have on these services.

The Separation of Western Union from First Data

Until September 29, 2006, the Company was a wholly owned subsidiary of First Data. The spin-off by First Data of its money transfer and consumer payments businesses became effective on September 29, 2006 through a distribution of 100% of the common stock of The Western Union Company to the holders of record of First Data s common stock (the Distribution). We have received a private letter ruling from the Internal Revenue Service and an opinion from tax counsel indicating that the spin-off was tax free to the First Data stockholders, First Data and Western Union. Refer to Item 1A of Part I for additional details on tax risks associated with the spin-off from First Data.

The financial information in this Annual Report on Form 10-K for the periods ending on or after the Distribution are presented on a consolidated basis and include the accounts of the Company and our majority-owned subsidiaries. The financial information for the periods presented prior to the Distribution is presented on a combined basis and represent those entities that were ultimately transferred to the Company as part of the Spin-off. The assets and liabilities presented have been reflected on a historical basis, as prior to the Distribution such assets and liabilities presented were 100% owned by First Data. However, the financial statements for the periods presented prior to the Distribution do not include all of the actual expenses that would have been incurred had Western Union been a stand-alone entity during the periods presented and do not reflect Western Union s combined results of operations, financial position and cash flows had Western Union been a stand-alone company during the periods presented. The results of operations and cash flows for the years ended December 31, 2006 and 2005 are not necessarily indicative of the results that may be expected for any other future period as a result of the circumstances described above.

We entered into various agreements with First Data prior to the spin-off which will have potential impacts on our business in future periods, including:

Separation and Distribution Agreement This agreement defines our ongoing relationship with First Data following the spin-off, and provides for cross-indemnities, principally designed to place financial responsibility for the obligations and liabilities of our business with us and financial responsibility for the obligations and liabilities of First Data s retained businesses with First Data.

Tax Allocation Agreement We entered into a tax allocation agreement with First Data setting forth the rights and obligations of First Data and us with respect to: (i) taxes imposed on our respective businesses both prior to and after the spin-off, (ii) taxes and other liabilities that could be imposed as a result of a final determination that is inconsistent with the anticipated tax consequences, as set forth in the private letter ruling, in connection with the spin-off (and certain related transactions) and if such transactions do not qualify for tax-free treatment under the Internal Revenue Code. For a more complete discussion on the Tax Allocation Agreement refer to Note 8 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10K.

Money Order Agreement Integrated Payment Systems Inc., or IPS, a subsidiary of First Data, has agreed to issue Western Union® branded money orders for us. We do not believe First Data s announcement of its plan to exit its official check and money order business will have a significant impact on us, as First Data has a money order processing contract with us through 2011. We believe we have adequate time to replace the services currently provided by First Data.

Employees and Labor

As of December 31, 2007, our businesses employed approximately 6,100 employees. Western Union has two four-year labor contracts (both expiring August 6, 2008) with the Communications Workers of America, AFL-CIO representing approximately 845 employees located primarily in Texas and Missouri. Our United States based employees are not otherwise represented by any labor organization.

Available Information

The Western Union Company is a Delaware corporation and its principal executive offices are located at 12500 East Belford Avenue, Englewood, CO, 80112, telephone (866) 405-5012. The Company s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the Financial Information portion of the Company s web site, www.westernunion.com, as soon as reasonably practical after they are filed with the Securities and Exchange Commission or the SEC. The SEC maintains a web site, www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically with the SEC by the Company.

Executive Officers of the Registrant

As of February 26, 2008 our executives are listed below:

Name	Age	Position
Christina A. Gold	60	President, Chief Executive Officer and Director
Liz Alicea-Velez	51	Executive Vice President, Latin America/Caribbean
David Barnes	46	Executive Vice President, United States/Canada and Strategic Development
Guy A. Battista	59	Executive Vice President and President of Western Union Financial Services, Inc.
Royal Cole	46	Executive Vice President and General Manager, Western Union Payment Services
Hikmet Ersek	47	Executive Vice President and Managing Director, Europe/Middle East/Africa/South Asia
Gail Galuppo	44	Executive Vice President and Chief Marketing Officer
Robin Heller	42	Executive Vice President, Operations and IT
Ian Marsh	54	Executive Vice President and Managing Director, Asia Pacific
Anne McCarthy	48	Executive Vice President of Corporate Affairs
Scott Scheirman	45	Executive Vice President and Chief Financial Officer
David Schlapbach	49	Executive Vice President, General Counsel and Secretary
Grover Wray	47	Executive Vice President of Human Resources

Christina A. Gold is our President, Chief Executive Officer and one of our directors. Prior to taking these positions in September 2006, she was a Senior Executive Vice President of First Data and President of Western Union since May 2002. From October 1999 to May 2002, she was Chairman, President and Chief Executive Officer of Excel Communications, Inc. Ms. Gold served as President and Chief Executive Officer of The Beaconsfield Group from March 1998 to October 1999. In 1970, she joined Avon Products, Inc., serving as President of Avon Canada from 1989 to 1993, President of Avon North America from 1993 to 1997 and Executive Vice President of Global Development from 1997 to 1998. Ms. Gold is a Director of ITT Corporation and New York Life Insurance Company.

Liz Alicea-Velez is our Executive Vice President, Latin America/Caribbean. Prior to taking this position in February 2007, she served as Senior Vice President and General Manager of Western Union s Latin America/Caribbean region, President of Orlandi Valuta and President of Vigo Remittance Corporation from February 2006 to February 2007. From September 2002 to February 2006, Ms. Alicea-Velez served as Senior Vice President and General Manager of Western Union s Domestic Money Transfer and Retail Money Order businesses, and as President of Orlandi Valuta. Prior to that time, she served as Area Vice President of Western Union s Latin America/Caribbean region from January 1999 to September 2002. Ms. Alicea-Velez joined First Data in 1992.

David Barnes is our Executive Vice President, United States/Canada and Strategic Development. Mr. Barnes was co-Principal Financial Officer of our company from August 2006 to February 2007. Prior to joining Western Union in 2006, Mr. Barnes was Chief Financial Officer of Radio Shack Corporation starting in April 2005. From 2002 to 2005, he was Chief Financial Officer of Coors U.S. In March 1999, Mr. Barnes joined Adolph Coors Company as Vice President and Treasurer of Adolph Coors and Vice President of Finance and Treasurer of Coors Brewing Company.

Guy A. Battista is our Executive Vice President and President of Western Union Financial Services, Inc. Prior to taking this position in September 2006, he was an Executive Vice President and Chief Information Officer of First Data since March 2001. Mr. Battista joined First Data in 1990.

Royal Cole is our Executive Vice President and General Manager, Western Union Payment Services, and leads our United States Agent Network Management group. Prior to taking this position in September 2006, Mr. Cole had responsibility for Western Union s Payment Services including Retail Money Orders and Prepaid Services since December 2005. From December 2001 to December 2005, he was Senior Vice President and General Manager of Agent Network Management for Western Union. Prior to that time, Mr. Cole was Senior Vice President and General Manager of ValueLink from November 1999 to November 2001. Prior to joining Western Union in 1991, Mr. Cole held sales and sales management positions with the Pepsi-Cola Company.

Hikmet Ersek is our Executive Vice President and Managing Director, Europe/Middle East/Africa/South Asia. Prior to taking this position in September 2006, Mr. Ersek held various positions with Western Union. From March 2004 to September 2006, he was Senior Vice President, Europe/Middle East/Africa/South Asia and from October 2002 to March 2004 he was Senior Vice President, Europe/Middle East/Africa. Prior to that time, Mr. Ersek was Regional Vice President, Central and Eastern Europe from July 2001 to October 2002. Prior to joining Western Union in September 1999, Mr. Ersek was with GE Capital specializing in European payment systems and consumer finance.

Gail Galuppo is our Executive Vice President and Chief Marketing Officer. Prior to joining Western Union in September 2007, Ms. Galuppo was the Chief Marketing and Customer Officer of Standard Chartered Bank from August 2006, and the Global Head of Credit Cards of Standard Chartered Bank from September 2005 to August 2006. From April 2001 to August 2005, Ms. Galuppo led brand management, promotional retail marketing and product category strategy for Sears, Roebuck and Company, most recently serving as its Vice President, Brand and Category Strategy.

Robin Heller is our Executive Vice President, Operations and IT. Prior to taking this position in September 2006, she was Senior Vice President, Global Operations for First Data since November 2004. From July 2003 to November 2004, Ms. Heller served in a similar capacity with Western Union. Prior to that time, she was Senior Vice President, Sales, Marketing and Operations for Western Union Commercial Services from July 2002 until June 2003 and Senior Vice President, Operations and Client Management for IPS, a First Data subsidiary, from July 2000 until June 2002. Ms. Heller joined First Data in 1988.

Ian Marsh is our Executive Vice President and Managing Director, Asia Pacific. Prior to taking this position in September 2006, he served in a similar capacity in Western Union since March 2004. Prior to joining Western Union in 2004, Mr. Marsh was President, Reader s Digest Europe from May 2001 to February 2003 and had a 30-year career with American Express, most recently serving as President and Chief Executive Officer, Japan. Mr. Marsh is a director of Hypercom Corporation.

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Anne McCarthy is our Executive Vice President of Corporate Affairs. Prior to joining Western Union in March 2007, Ms. McCarthy was the Senior Vice President of Global Communications of SAP A.G. starting in August 2003. She served as Vice President of Communications for the DuPont Company from April 2002 until July 2003.

Scott Scheirman is our Executive Vice President and Chief Financial Officer of our company. Prior to taking this position in September 2006, Mr. Scheirman held a variety of positions with First Data, most recently serving as the Senior Vice President and Chief Financial Officer for Western Union since 1999. Prior to joining First Data, Mr. Scheirman was with Ernst & Young LLP. Mr. Scheirman serves as the Chairman of the Western Union Foundation. Mr. Scheirman joined First Data in 1992.

David Schlapbach is our Executive Vice President, General Counsel and Secretary. Prior to taking these positions in September 2006, Mr. Schlapbach held a variety of positions at First Data since joining it in 1996, including Deputy General Counsel International, with responsibility for First Data s legal matters outside the United States. In this capacity, he worked in First Data s Paris office for four years, returning in 2004 to become General Counsel for Western Union. Prior to joining First Data, Mr. Schlapbach was an attorney at the law firm of Blackwell Sanders Peper Martin LLP in St. Louis, Missouri.

Grover Wray is our Executive Vice President of Human Resources. Prior to taking this position in September 2006, he joined Western Union as Senior Vice President, Human Resources in October 2005. Prior to joining Western Union, from January 2004 to September 2005, Mr. Wray was Vice President, Leadership and Professional Development and Staffing, for Janus Capital Group. Previously, Mr. Wray served as Chief Human Resource Officer, North America for Heidrick & Struggles from 2003 to 2004. From 1988 to 2003, he held increasingly responsible senior management roles at Arthur Andersen LLP, culminating in the role of Managing Partner of Human Resources in North America.

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ITEM 1A. RISK FACTORS

There are many factors that affect our business, financial position and results of operations, some of which are beyond our control. The following is a description of some important factors that may cause the actual results of operations in future periods to differ materially from those currently expected or desired. The risks identified below are not all-encompassing but should be considered in establishing an opinion of the Company s future operations.

Risks Relating to Our Business and Industry

If we are unable to maintain our agent or biller networks under terms consistent with those currently in place, or if our agents or subagents fail to comply with Western Union business and technology standards and contract requirements or applicable laws and regulations, our business, financial position and results of operations would be adversely affected.

Most of our consumer-to-consumer revenue is derived through our agent network. In addition, our international agents may have subagent relationships for which we have no direct relationship. Transaction volumes at existing agent and subagent locations often increase over time and new agents and subagents provide us with additional revenue. If agents decide to leave our network, if we are unable to sign new agents or maintain our agent network under terms consistent with those currently in place, or if our agents are unable to maintain relationships with or sign new subagents, our revenue and profit growth rates may be adversely affected. Agent attrition might occur for a number of reasons, including a competitor engaging an agent or an agent s dissatisfaction with its relationship with us or the revenue derived from that relationship. In addition, agents may generate fewer transactions or less revenue for various reasons, including increased competition. Because an agent is a third party that engages in a variety of activities in addition to providing our services, it may encounter business difficulties unrelated to its provision of our services, which could cause the agent to reduce its number of locations, hours of operation, or cease doing business altogether.

In some cases, we rely on our agents information systems and processes to obtain transaction data. If an agent or sub-agent loses information, if there is a significant disruption to the information systems of an agent or sub-agent, or if an agent or sub-agent does not maintain the appropriate controls over their systems, we may experience reputational harm which could result in losses to the Company.

The types of enterprises that are legally authorized to act as our agents vary significantly from one country to another. Changes in the laws affecting the kinds of entities that are permitted to act as money transfer agents (such as changes in requirements for capitalization or ownership) could adversely affect our ability to distribute our services and the cost of providing such services, both by us and our agents. For example, a requirement that a money transfer provider be a bank or other highly regulated financial entity could increase significantly the cost of providing our services in many countries where that requirement does not exist today or could prevent us from offering our services in an affected country. Further, any changes in law that would require us to provide directly the money transfer services to consumers as opposed to through an agent network effectively changing our business model could significantly adversely impact our ability to provide our services, and/or the cost of our services, in the relevant jurisdiction.

Our agents are subject to a variety of regulatory requirements, which differ from jurisdiction to jurisdiction and are subject to change. A material change in the regulatory requirements necessary to offer money transfer services in a jurisdiction important to our business could mean increased costs and/or operational demands on our agents, which could result in the attrition of agents and subagents, a decrease in the number of locations at which money transfer services are offered and other negative consequences. The regulatory status of our agents could affect their ability to offer our services. For example, our agents in the United States are considered Money Service Businesses, or MSBs, under the Bank Secrecy Act. An increasing number of financial institutions view MSBs, as a class, as higher risk customers for purposes of their anti-money laundering programs. As a result, several financial institutions have terminated their banking relationships with some of our agents and with us. If a significant number of agents are unable to maintain existing or establish new banking relationships, they may not be able to continue to offer our services.

Although most of our Orlandi Valuta and Vigo agents are not exclusive, nearly all of the Western Union branded agents offer our services on an exclusive basis that is, they have agreed by contract not to provide any non-Western Union branded money transfer services. While we believe that these agreements generally are valid and enforceable, changes in laws regulating competition or in the interpretation of those laws could undermine our ability to enforce them in the future. For example, Russia and Ukraine have each enacted laws that effectively prohibit payment service providers, such as money transfer companies, from agreeing to exclusive arrangements with banks in those countries. The inability to enforce our exclusivity rights under our contracts could adversely affect our operations and revenue by, for example, allowing competitors to benefit from the goodwill associated with the Western Union brand at our agent locations.

We have relationships with more than 6,000 businesses and other billers, including approximately 1,800 biller relationships relating to Pago Fácil, which was acquired in December 2006. These relationships are a core component of our consumer-to-business payment services, and we derive a substantial portion of our consumer-to-business revenue through these biller relationships. If we are unable to sign new billers or maintain our biller relationships under terms consistent with those currently in place, our revenue and profit growth rates may be adversely affected.

Our business is subject to a wide range of laws and regulations, especially laws designed to prevent money laundering and terrorist financing. Failure by us, our agents or subagents to comply with those laws and regulations could have an adverse effect on our business, financial position and results of operations.

As described under Item 1 of Part 1, our business is subject to a wide range of laws and regulations. These include financial services regulations, consumer disclosure and consumer protection laws, currency control regulations, money transfer and payment instrument licensing regulations, escheat laws and laws covering consumer privacy, data protection and information security. Our services also are subject to an increasingly strict set of legal and regulatory requirements intended to help detect and prevent money laundering, terrorist financing and other illicit activity. For example, certain economic and trade sanctions programs that are administered by the Treasury Department s Office of Foreign Assets Control prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations. As federal and state legislative and regulatory scrutiny and action in these areas increase, we expect that our costs of complying with these requirements will increase, perhaps substantially. Failure to comply with any of these requirements by either us, our agents or subagents (both of which are third parties, over which we have limited legal and practical control) could result in the suspension or revocation of a license or registration required to provide money transfer services, the limitation, suspension or termination of services and/or the imposition of civil and criminal penalties, including fines. In addition to those direct costs, a failure by us, our agents or subagents to comply with applicable laws and regulations also could seriously damage our reputation and brands, and result in diminished revenue and profit and increased operating costs.

In connection with regulatory requirements to assist in the prevention of money laundering and terrorist financing and pursuant to legal obligations and authorizations, we make information available to United States federal and state, as well as certain foreign, government agencies, when required by law. In recent years, these agencies have increased their requests for such information from us and other companies (both financial service providers and others), particularly in connection with efforts to prevent terrorist financing. During the same period, there has also been increased public attention regarding the corporate use of personal information, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer privacy. These regulatory goals the prevention of money laundering and terrorist financing and the protection of consumer privacy may conflict, and the law in these areas is not consistent or settled. While we believe that we are compliant with our regulatory responsibilities, the legal, political and business environments in these areas are rapidly changing, and subsequent legislation, regulation, litigation, court rulings or other events could expose us to increased program costs, liability and reputational damage.

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Changes in the regulatory environment may also impact the manner in which we may operate our business or may change the competitive landscape. One example of such a change is the Payment Services Directive (PSD) which was adopted in the European Union (EU) in November 2007. We expect that the PSD will influence changes in the cross border payment services market in the EU. Under the PSD, the licensing and other legal requirements for offering these services within EU countries will be harmonized. Currently, the laws regarding licensing and the provision of these services differ significantly among these countries. The PSD will also impose new rules on payment service providers like Western Union and certain of its EU-based agents and on banks and non-bank payments services providers which may offer these services. The PSD will be effective on November 1, 2009. Such changes could result in increased costs to comply with these new rules, or in the event we are unable to comply, could have an adverse impact on our business, financial position and results of operations.

In addition, our fees may be reduced because of regulatory initiatives or proceedings that are either industry wide or specifically targeted at our company. For example, initiatives both in the United States and at G-8 summit meetings have focused on lowering international remittance costs. These initiatives may have an adverse impact on our business, financial position and results of operations.

Interruptions in international migration patterns could adversely affect our business, financial position and results of operations.

The money transfer business relies in part on migration patterns, which bring workers into countries with greater economic opportunities than their native countries. A significant portion of money transfers is initiated by immigrants. Changes in immigration laws, such as those currently being considered in the United States, economic development patterns that discourage international migration and political or other events (such as war, terrorism or health emergencies) that would make it more difficult for workers to migrate or work abroad could adversely affect our remittance volume or growth rate and could each have an adverse effect on our business, financial position and results of operations. For example, for the years ended December 31, 2007 and 2006 the United States to Mexico, United States domestic and the United States outbound businesses were adversely impacted by the immigration debate in the United States. We responded by adding distribution, reducing prices, and executing advertising, promotion and community outreach initiatives, however, we have not seen transaction and revenue growth rates return to levels prior to 2006. In addition, weaknesses in the United States economy, including weaknesses in the construction industry, are also impacting United States based businesses.

A deterioration in economic conditions could adversely affect our results of operations.

As noted above, our money transfer business relies in part on migration patterns. These migration patterns are affected by, among other things, the availability of job opportunities and overall economic conditions. Reduced job opportunities or an overall slowdown in the economy in the United States or other countries could adversely affect our results of operations. For example, for the years ended December 31, 2007 and 2006, our United States to Mexico and United States outbound and domestic businesses were adversely impacted by general market softness, in part due to a slow down in the construction industry in the United States. If general market softness in the United States economy deteriorates further, or if weaknesses in those parts of national economies important to immigrant workers occur in other countries, our results of operations could be adversely impacted.

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If consumers confidence in our business, or in traditional money transfer providers generally deteriorates, our business, revenue and results of operations could be adversely affected.

Our business is built on consumers confidence in our brands and our ability to provide fast, reliable money transfer services. Any erosion in consumers confidence in our business, or in traditional money transfer providers as a means to transfer money, could adversely impact transaction volumes which would in turn adversely impact our business, revenue and results of operations.

A number of factors could adversely affect consumers confidence in our business, or in traditional money transfer providers generally, many of which are beyond our control, and could have an adverse impact on our results of operations. These factors include:

- changes or proposed changes in laws or regulations that have the effect of making it more difficult for consumers to transfer money using traditional money transfer providers;
- actions by federal, state or foreign regulators, including those that threaten the reliability of our money transfer services, such as the attempts by the Arizona Attorney General in 2006 to seize money transfer funds from states other than Arizona to Sonora, Mexico;
- any significant interruption in our systems, including by fire, natural disaster, power loss, telecommunications failure, terrorism, vendor failure, unauthorized entry and computer viruses; and
- any breach of our security policies or applicable legal requirements resulting in a compromise of consumer data.

Many of our consumers are immigrants. Consumer advocacy groups or governmental agencies could consider the immigrants to be disadvantaged and entitled to protection, enhanced consumer disclosure, or other different treatment. If governments implement new laws or regulations that limit our right to set fees, or if consumer advocacy groups are able to generate widespread support for positions that are detrimental to our business, our business, and results of operations could be adversely affected.

Risks associated with operations outside the United States could adversely affect our business, financial position and results of operations.

Because an increasing portion of our revenue is generated in currencies other than the United States dollar, we are subject to risks related to changes in currency rates and foreign exchange regulation (such as the ability to repatriate funds to the United States, and the cost of repatriation). We use foreign currency forward contracts to mitigate the risks associated with changes in foreign currency. However, these derivative contracts do not eliminate all of the risks related to foreign currency translation.

Money transfers to, from or within or between countries may be limited or prohibited by law. At times in the past, we have been required to cease operations in particular countries due to political uncertainties or government restrictions imposed by foreign governments or the United States. Additionally, economic or political instability or natural disasters may make money transfers to, from or within a particular country difficult, such as when banks are closed, when currency devaluation makes exchange rates difficult to manage or when natural disasters or civil unrest makes access to agent locations unsafe. These risks could negatively impact our ability to make payments to or receive payments from international agents or our ability to recoup funds that have been advanced to international agents and could adversely affect our business, financial position and results of operations. In addition, the general state of telecommunications and infrastructure in some lesser developed countries, including countries where we are experiencing high transaction and revenue growth rates, creates operational risks for us and our agents that generally are not present in our operations in the United States and other more developed countries.

As noted above, many of our agents outside the United States are post offices, which are usually owned and operated by national governments. These governments may decide to change the terms under which they allow post offices to offer remittances and other financial services. For example, governments may decide to separate financial service operations from postal operations, or mandate the creation or privatization of a post bank. These changes could have an adverse effect on our ability to distribute, offer or price our services in countries that are material to our business.

We face competition from global and niche or corridor money transfer providers, United States and international banks, card associations, card-based payments providers and a number of other types of service providers. Our continued growth depends on our ability to compete effectively in the industry.

Money transfer and consumer payments are highly competitive industries comprised of players from a variety of financial and non-financial business groups. Our competitors include banks, credit unions, ATM providers and operators, card associations, card-based payments providers such as issuers of e-money, travel cards or stored-value cards, informal remittance systems, web-based services, telephone payment systems (including mobile phone networks), postal organizations, retailers, check cashers, mail and courier services, currency exchanges and traditional money transfer companies. These services are differentiated by features and functionalities such as speed, convenience, network size, hours of operations, loyalty programs, reliability and price. Our continued growth depends on our ability to compete effectively in these industries. We have made periodic pricing decreases in response to competition and to implement our brand investment strategy, which includes better meeting consumer needs, maximizing market opportunities and strengthening our overall competitive positioning. Pricing decreases generally reduce margins, but are done in anticipation that they will result in increased transaction volumes. Such consumer-to-consumer pricing decreases have averaged approximately 3% of our annual revenues over the last three years. In addition, failure to compete on service differentiation could significantly affect our future growth potential and related profitability.

Recently, card associations have become more active in promoting stored-value cards and other services that compete with our money transfer and consumer payments businesses. These associations, as well as debit networks, can be effective competitors because of the ubiquity of their brands, their large number of financial institution issuers and their extensive merchant networks. In addition, we offer consumers the ability to use debit cards in connection with certain of our services. The card associations and debit networks set the interchange fee, that we as a merchant must pay for accepting their cards. Their association and network rules also categorize transactions or cause us to categorize transactions in a manner that can affect the cost of the transaction to us or the consumer. Changes to interchange fees could increase our costs to accept cards in payment for services, while changes in how our services are categorized could make the use of cards to pay for our services less attractive to the consumer.

Many of our agents outside the United States are national post offices. These entities are usually governmental organizations that may enjoy special privileges or protections that could allow them to simultaneously develop their own money transfer businesses. International postal organizations could agree to establish a money transfer network among themselves. Due to the size of these organizations and the number of locations they have, any such network could represent significant competition to us. Because these entities are governmental organizations, they may be able to or be required to offer their money transfer services at, near or below their cost of providing such services.

Unfavorable resolution of tax contingencies could adversely affect our tax expense.

Our tax returns and positions are subject to review and audit by federal, state, local and international taxing authorities. An unfavorable outcome to a tax audit could result in higher tax expense, thereby negatively impacting our results of operations. We have established contingency reserves for material, known tax exposures, including potential tax audit adjustments with respect to our international operations which were restructured in 2003, whereby our income from certain foreign-to-foreign money transfer transactions has been taxed at

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relatively low foreign tax rates compared to our combined federal and state tax rates in the United States. Our reserves reflect our judgment as to the resolution of the issues involved if subject to judicial review. 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, and such resolution could have a material affect on our effective tax rate, financial position, results of operations and cash flows in the current period and/or future periods. 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 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.

Acquisitions and integration of new businesses create risks and may affect operating results.

We occasionally acquire businesses both inside and outside the United States. The acquisition and integration of businesses involve a number of risks. The core risks involve valuation (negotiating a fair price for the business based on inherently limited due diligence) and integration (managing the complex process of integrating the acquired company s people, products and services, technology and other assets in an effort to realize the projected value of the acquired company and the projected synergies of the acquisition). In addition, complying with regulatory requirements, including anti-money laundering requirements, is another risk associated with acquiring companies, especially companies which have not previously been subject to such regulations. International acquisitions often involve additional or increased risks including, for example:

- managing geographically separated organizations, systems and facilities;
- integrating personnel with diverse business backgrounds and organizational cultures;
- integrating systems that may not have been designed or maintained to the same standards as those in the United States;
- complying with foreign and domestic regulatory requirements;
- fluctuations in currency exchange rates;
- enforcement of intellectual property rights in some foreign countries;
- difficulty entering new markets due to, among other things, customer acceptance and business knowledge of these new markets; and
- general economic and political conditions, including legal and other barriers to cross-border investment in general, or by United States companies in particular.

Integrating operations could cause an interruption of, or divert resources from, one or more of our businesses and could result in the loss of key personnel. The diversion of management s attention and any delays or difficulties encountered in connection with an acquisition and the integration of the acquired company s operations could have an adverse effect on our business, financial position and results of operations.

As of December 31, 2007, we had $1,639.5 million of goodwill comprising approximately 28% of our total assets. An impairment review of goodwill is conducted at least once a year and more frequently if events or changes in circumstances indicate that the carrying value of the goodwill may not be recoverable. If we are unsuccessful in integrating the businesses we have acquired or acquire in the future, or if these acquired businesses experience declines in operating income or cash flows, adverse changes in the business climate, or if we are unable to successfully execute our strategy for these businesses, we may be required to write down the goodwill on our balance sheet associated with these acquisitions, which could have a material impact on our financial position and results of operations in future periods.

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Our ability to adopt technology in response to changing industry and consumer needs or trends poses a challenge to our business.

Our ability to compete in the markets we serve may be threatened by change, including changes in technology, changes with respect to consumer needs, competition and industry standards. We actively seek solutions that respond in a timely manner to new technology-based money transfer services such as internet, land and mobile phone based money transfer services and prepaid, stored-value and other card-based money transfer services. Failure to respond well to these challenges could adversely impact our business, financial position and results of operations.

Western Union has been the subject of class-action litigation, and remains the subject of other litigation as well as consent agreements with or enforcement actions by regulators.

Western Union has been the subject of class-action litigation in the United States, alleging that its foreign exchange rate disclosures failed to adequately inform consumers about the revenue that Western Union and its agents derive from international remittances. These suits were all settled in or before 2004, without an admission of liability, and we have made changes in our advertising and consumer forms. It is possible that because of changes in law or future litigation or regulatory action, we could be required to modify our disclosures or our practices further. These modifications could be costly to implement, restrict our ability to advertise or promote our services and/or limit the amount of our foreign exchange income.

In addition, as a company that provides global financial services primarily to consumers, we could be subject to future class-action, other litigation or regulatory action alleging violations of consumer protection or other laws. We also are subject to claims asserted by consumers based on individual transactions.

We are subject to unclaimed or abandoned property (escheat) laws in the United States and abroad which require us to turn over to certain government authorities the property of others held by us that has been unclaimed for a specified period of time, such as unredeemed money transfers. We hold property subject to escheat laws and we have an ongoing program to comply with those laws. In addition, we are subject to audit with regard to our escheatment practices. Any difference between the amounts we have accrued for unclaimed property and amounts that are claimed by a state or foreign jurisdiction could have a significant impact on our results of operations and cash flows. See Escheat Regulations for further discussion.

Our consumer payments business is subject to various United States federal, state and local laws and regulations, as well as laws and regulations outside the United States. Our United States business is subject to reporting, recordkeeping and anti-money laundering provisions of the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, and to regulatory oversight and enforcement by the United States Department of Treasury s Financial Crimes Enforcement Network, or FinCEN. In addition, as a money transmitter, we are subject to licensing, regulation and examination by almost all the states and the District of Columbia.

Over the past several years, we have entered into a number of consent agreements with federal and state authorities, including FinCEN, the New York State Banking Department, the California Department of Financial Institutions and the Arizona Department of Financial Institutions, relating to the Bank Secrecy Act 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 State Banking Department and the California Department of Financial Institutions were lifted during 2007; however, the financial services industry and businesses like ours continue to be under significant federal and state regulatory scrutiny with respect to the Bank Secrecy Act 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, enforcement actions or similar consent agreements in the future that could adversely affect our business, financial position and results of operations.

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Our ability to remain competitive depends in part on our ability to protect our brands and our other intellectual property rights and to defend ourselves against potential patent infringement claims.

The Western Union brand, consisting of trademark registrations in various countries, is material to our company. The loss of the Western Union trademark or a diminution in the perceived quality associated with the name would harm our business. Similar to the Western Union trademark, the Vigo, Orlandi Valuta, Speedpay, Paymap, Equity Accelerator, Just in Time EFT, Pago Fácil (registered in Argentina), Western Union Quick Collect, Quick Pay, Quick Cash, Convenience Pay trademarks and service marks are also important to our company and a loss of the service mark or trademarks or a diminution in the perceived quality associated with these names could harm our business.

The laws of certain foreign countries in which we do business either do not recognize intellectual property rights or do not protect them to the same extent as do the laws of the United States. Adverse determinations in judicial or administrative proceedings in the United States or in foreign countries could impair our ability to sell our services or license or protect our intellectual property, which could adversely affect our business, financial position and results of operations.

We have been, are and in the future may be, subject to claims alleging that our technology or business methods infringe patents owned by others, both in and outside the United States. Unfavorable resolution of these claims could require us to change how we deliver a service, result in significant financial consequences, or both, which could adversely affect our business, financial position and results of operations.

Interruptions in our systems may have a significant effect on our business.

Our ability to provide reliable service largely depends on the efficient and uninterrupted operation of our computer information systems. Any significant interruptions could harm our business and reputation and result in a loss of consumers. Our systems and operations could be exposed to damage or interruption from fire, natural disaster, power loss, telecommunications failure, terrorism, vendor failure, unauthorized entry and computer viruses or other causes, many of which may be beyond our control. Although we have taken steps to prevent a system failure, our measures may not be successful and we may experience problems other than system failures. We also may experience software defects, development delays, installation difficulties and other systems problems, which would harm our business and reputation and expose us to potential liability which may not be fully covered by our business interruption insurance. Our data applications may not be sufficient to address technological advances, changing market conditions or other developments.

Any disruptions caused by our work force could adversely affect our operations and financial performance.

Western Union has two four-year labor contracts (both expiring August 6, 2008) with the Communications Workers of America, AFL-CIO (CWA) representing approximately 845 employees as of December 31, 2007. Approximately 825 of these employees are covered by one of these labor contracts and are located in Texas and Missouri. These employees staff certain of our call center facilities or work in our settlement and operational accounting functions.

On February 25, 2008, the Company decided to pursue decision bargaining negotiations with the CWA regarding the possible closure of the Company s facilities in Bridgeton, Missouri, St. Charles, Missouri and Dallas, Texas. The Company intends to communicate this decision to the CWA as soon as possible in order to commence negotiations. The Company expects to be engaged in decision bargaining with the CWA for the next 60 days. The decision bargaining process could result in a new collective bargaining agreement with the CWA. The decision bargaining process could also result in a decision by the Company to proceed to implement the closure of these facilities. In that event, the Company would proceed to announce the closure and would be available to engage in effects bargaining with the CWA, and we would expect the closure and relocation of operations to be completed in the second half of 2008. An inability to reach a timely agreement with the CWA or a decision to close, and the closure, of any or all of these facilities may result in nonrecurring costs and expenses, disputes with the union, potential disruptions to our operations and negative publicity which could impact our relationship with agents, each of which could adversely affect our financial results.

Breaches of our information security policies or safeguards could adversely affect our ability to operate and could damage our reputation, business, financial position and results of operations.

We collect, transfer and retain consumer data as part of our business. These activities are subject to laws and regulations in the United States and other jurisdictions in which our services are available. These requirements, which often differ materially among the many jurisdictions, are designed to protect the privacy of consumers personal information and to prevent that information from being inappropriately disclosed. We have developed and maintain technical and operational safeguards designed to comply with applicable legal requirements. However, despite those safeguards, it is possible that hackers, employees acting contrary to our policies or others could improperly access our systems or improperly obtain or disclose data about our consumers. Any breach of our security policies or applicable legal requirements resulting in a compromise of consumer data could expose us to regulatory enforcement action, limit our ability to provide services, subject us to litigation and/or damage our reputation.

We face credit and fraud risks from our agents and from consumers that could adversely affect our business, financial position and results of operations.

The vast majority of our global funds transfer business is conducted through third-party agents that provide our services to consumers at their retail locations. These agents sell our services, collect funds from consumers and are required to pay the proceeds from these transactions to us. As a result, we have credit exposure to our agents. In some countries, our agent networks are comprised of agents that establish subagent relationships; these agents must collect funds from their subagents in order to pay us. We are not insured against credit losses, except in certain circumstances related to agent theft or fraud. If an agent becomes insolvent, files for bankruptcy, commits fraud or otherwise fails to pay money order, money transfer or payment services proceeds to us, we must nonetheless pay the money order, complete the money transfer or payment services on behalf of the consumer.

From time to time, we have made, and may in the future make, short term advances and longer term loans to our agents. These advances and loans generally are secured by settlement funds payable by us to these agents. However, the failure of these borrowing agents to repay these advances and loans constitutes a credit risk to us.

We offer consumers the ability to transfer money utilizing their credit or debit card through various distribution channels such as the internet or telephone. Because they are not face-to-face transactions, these transactions involve a greater risk of fraud. We apply verification and other tools to help authenticate transactions and protect against fraud. However, these tools may not always be successful in protecting us against fraud. As the merchant of these transactions, we may bear the financial risk of the full amount sent in some of the fraudulent transactions. Issuers of credit and debit cards may also incur losses due to fraudulent transactions on our distribution channels and may elect to block transactions by their cardholders on those channels with or without notice. For example, during 2007, we received notification from several issuing banks that credit or debit cards issued by them were blocked from transacting on westernunion.com. Although these banks subsequently have allowed our consumers to use their cards again on our website, there is no certainty that these banks will not issue a similar restriction in the future, and as a result, we may continue to be impacted by notifications such as these in the future.

We have substantial debt obligations that could restrict our operations.

As of December 31, 2007, we had approximately $3.3 billion in consolidated indebtedness, and we may also incur additional substantial indebtedness in the future.

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Our indebtedness could have adverse consequences, including:

- limiting our ability to pay dividends to our stockholders;
- increasing our vulnerability to changing economic, regulatory and industry conditions;
- limiting our ability to compete and our flexibility in planning for, or reacting to, changes in our business and the industry;
- limiting our ability to borrow additional funds; and
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for working capital, capital expenditures, acquisitions and other purposes.

There would be adverse tax consequences associated with using certain earnings generated outside the United States to pay the interest and principal on our indebtedness. Accordingly, this portion of our cash flow will be unavailable under normal circumstances to service our debt obligations.

Market disruptions and other factors outside our control may make it more expensive or difficult to refinance our existing indebtedness as it becomes due. Our primary source of liquidity is cash flow from our operations; however, we do finance a portion of our operations through short-term borrowings in the commercial paper markets. Increases in interest rates and the tightening of the credit markets may adversely affect our ability to access the commercial paper markets in the future.

Our business, financial position and results of operations could be harmed by adverse rating actions by credit rating agencies.

Currently, each of the major credit rating agencies has given our outstanding indebtedness an investment grade rating. If our current rating is significantly downgraded, or if ratings agencies indicate that a significant downgrade may occur, our business, financial position and results of operations could be adversely affected and perceptions of our financial strength could be damaged. This could adversely affect our relationships with our agents, particularly those agents that are financial institutions or post offices. In addition, a significant downgrade or an indication that a significant downgrade may occur also could result in regulators imposing additional capital and other requirements on us, including imposing restrictions on the ability of our regulated subsidiaries to pay dividends. Also, a significant downgrade could increase our costs of borrowing money, adversely affecting our business, financial position and results of operations.

Our consolidated balance sheet may not contain sufficient amounts or types of regulatory capital to meet the changing requirements of our various regulators worldwide, which could adversely affect our business, financial position and results of operations.

As noted above, we have substantial indebtedness as of December 31, 2007. Our regulators expect us to possess sufficient financial soundness and strength to adequately support our regulated subsidiaries. In addition, although we are not a bank holding company for purposes of United States law or the law of any other jurisdiction, as a global provider of payments services and in light of the changing regulatory environment in various jurisdictions, we could be subject to new capital requirements introduced or imposed by our regulators that could require us to issue securities that would qualify as Tier 1 regulatory capital under the Basel Committee accords or retain earnings over a period of time. Any of these requirements could adversely affect our business, financial position and results of operations.

Material changes in the market value of the securities we hold may adversely affect our results of operations and financial condition.

As of December 31, 2007, we held $193.8 million in investment securities, substantially all of which are highly rated state and municipal debt instruments. We regularly monitor our credit risk and attempt to mitigate our exposure by making high quality investments. At December 31, 2007, substantially all investment securities had credit ratings of

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AA- or better from a major credit rating agency. Despite those ratings, it is possible that the value of our portfolio may decline in the future due to any number of factors, including general market conditions, credit issues or increases in interest rates. Any such decline in value may adversely affect our results of operations and financial condition.

The master trust which holds the assets of our pension plans has assets totaling approximately $400 million as of September 30, 2007, our most recent measurement date. The fair value of these assets held in the master trust are compared to the plans projected benefit obligation to determine the pension funding liability of $27.6 million recorded within other liabilities in our consolidated balance sheet as of December 31, 2007. We attempt to mitigate risk through diversification, and we regularly monitor investment risk on our portfolio through quarterly investment portfolio reviews and periodic asset and liability studies. Despite these measures, it is possible that the value of our portfolio may decline in the future due to any number of factors, including general market conditions and credit issues. Such declines could have an impact on the funded status of our pension plans and future funding requirements.

We receive services from third-party vendors that would be difficult to replace if those vendors ceased providing such services which could cause temporary disruption to our business.

Some services relating to our business, such as software application support, the development, hosting and maintenance of our operating systems, money order issuance, check clearing, and processing of returned checks are outsourced to third party vendors, who would be difficult to replace quickly. If our third party vendors were unwilling or unable to provide us with these services in the future, our business and operations could be adversely affected.

Risks Relating to the Spin-Off

If the spin-off does not qualify as a tax-free transaction, First Data and its stockholders could be subject to material amounts of taxes and, in certain circumstances, our company could be required to indemnify First Data for material taxes pursuant to indemnification obligations under the tax allocation agreement.

First Data received a private letter ruling from the Internal Revenue Service to the effect that, among other things, the spin-off (including certain related transactions) qualifies as tax-free to First Data, us and First Data stockholders for U.S. federal income tax purposes under sections 355, 368 and related provisions of the Internal Revenue Code, assuming, among other things, the accuracy of the representations made by First Data with respect to certain matters on which the Internal Revenue Service did not rule. If the factual assumptions or representations made in the private letter ruling request, including those described above, were untrue or incomplete, then First Data will not be able to rely on the ruling.

The spin-off was conditioned upon First Data s receipt of an opinion of Sidley Austin LLP, counsel to First Data, to the effect that, with respect to requirements on which the Internal Revenue Service did not rule, those requirements would be satisfied. The opinion was based on, among other things, certain assumptions and representations as to factual matters made by First Data and us which, if untrue or incomplete, would jeopardize the conclusions reached by counsel in its opinion. The opinion is not binding on the Internal Revenue Service or the courts, and the Internal Revenue Service or the courts may not agree with the opinion.

If, notwithstanding receipt of the private letter ruling and opinion of counsel, the spin-off were determined to be a taxable transaction, each holder of First Data common stock who received shares of our common stock in connection with the spin-off would generally be treated as receiving a taxable distribution in an amount equal to the fair market value of our common stock received. First Data would recognize taxable gain equal to the excess of the fair market value of the consideration received by First Data in the contribution over First Data s tax basis in the assets contributed to us in the contribution. If First Data were unable to pay any taxes for which it is responsible under the tax allocation agreement, the IRS might seek to collect such taxes from Western Union.

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, under the terms of the tax allocation agreement we entered into with First Data prior to the spin-off we will be

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liable to First Data for any such taxes or liabilities attributable solely to actions taken by or with respect to us, one of our affiliates, or any person that, after the spin-off, is an affiliate thereof. In addition, we will be liable for 50% of any such taxes or liabilities (i) that would not have been imposed but for the existence of both an action by us and an action by First Data or (ii) where we and First Data each take actions that, standing alone, would have resulted in the imposition of such taxes or liabilities. We may be similarly liable if we breach certain representations or covenants set forth in the tax allocation agreement. If we are 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 our business, financial position and results of operations.

Under some circumstances, we could be prevented from engaging in strategic or capital raising transactions, and we could be liable to First Data for any resulting adverse tax consequences.

Even if the spin-off otherwise qualified as a tax-free distribution under section 355 of the Internal Revenue Code, the spin-off may result in significant U.S. federal income tax liabilities to First Data if 50% or more of First Data s stock or our stock (in each case, by vote or value) is treated as having been acquired, directly or indirectly, by one or more persons as part of a plan (or series of related transactions) that includes the spin-off. For purposes of this test, any acquisitions of First Data stock or our stock, or any understanding, arrangement or substantial negotiations regarding an acquisition of First Data stock or our stock, within two years before or after the spin-off are subject to special scrutiny.

The process for determining whether a change in control prohibited under the foregoing rules has occurred is complex, inherently factual and subject to interpretation of the facts and circumstances of a particular case. If a direct or indirect acquisition of First Data stock or our stock resulted in a change in control prohibited under those rules, First Data (but not its stockholders) would recognize taxable gain. Under the tax allocation agreement, we will be liable to First Data (i) for any such taxes or liabilities attributable solely to actions taken by or with respect to us, one of our affiliates, or any person that, after the spin-off, is an affiliate thereof. In addition, we will be liable for 50% of any such taxes or liabilities (i) that would not have been imposed but for the existence of both an action by us and an action by First Data or (ii) where we and First Data each take actions that, standing alone, would have resulted in the imposition of such taxes or liabilities. We may be similarly liable if we breach certain representations or covenants set forth in the tax allocation agreement. If we are required to indemnify First Data for taxes incurred as a result of a prohibited change in control under the rules noted above, it likely would have a material adverse effect on our business, financial position and results of operations. As a result, we may be unable to engage in strategic or capital raising transactions that our stockholders might consider favorable, or to structure potential transactions in the manner most favorable to us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Properties and Facilities

As of December 31, 2007, we owned or leased 228 domestic and international properties. Our owned and leased facilities are used for operational, sales and administrative purposes and are all currently being utilized.

	Leased Facilities	Owned Facilities
United States facilities	37	3
International facilities	188	

Our owned facilities include our corporate headquarters located in Englewood, Colorado. We believe that our facilities are suitable and adequate for our current business; however, we periodically review our facility

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requirements and may acquire new facilities to meet the needs of our businesses or consolidate and dispose of or sublet facilities which are no longer required.

ITEM 3. LEGAL PROCEEDINGS

We are 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 our results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange under the symbol WU. There were 4,542 stockholders of record as of February 15, 2008. This figure does not include an estimate of the indeterminate number of beneficial holders whose shares may be held of record by brokerage firms and clearing agencies. The following table presents the high and low closing prices of the common stock on the New York Stock Exchange as well as dividends declared per share during the calendar quarter indicated.

	Common Stock Market Price		Dividends Declared per Share
	High	**Low**	
2007			
First Quarter	$ 23.55	$ 20.94	$
Second Quarter	23.26	20.45	
Third Quarter	21.49	18.36	
Fourth Quarter	24.72	18.43	$ 0.04
2006			
Fourth Quarter (commencing on October 2, 2006)	$ 24.12	$ 18.58	$ 0.01

The following table sets forth stock repurchases for each of the three months of the quarter ended December 31, 2007:

	Total Number of Shares Purchased *	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs **	Remaining Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
October 1 31	122,485	$ 22.10	100,000	$ 397.4
November 1 30	4,025,000	$ 22.37	4,025,000	$ 307.4
December 1 31	2,300,083	$ 23.39	2,300,000	$ 1,253.6
Total	6,447,568	$ 22.73	6,425,000	

* 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 awards and units that have vested.

** In September 2006, our Board of Directors authorized the purchase of up to $1.0 billion of our common stock through December 31, 2008. On December 4, 2007, our Board of Directors authorized the purchase of up to an additional $1.0 billion of our common stock through December 31, 2009.

Refer to Note 14 of the company s consolidated financial statements for information related to our equity compensation plans.

Dividend Policy

On December 4, 2007, our Board of Directors declared a cash dividend of $0.04 per share payable on December 28, 2007 to shareholders of record on December 14, 2007. The declaration and amount of future dividends will be determined by our Board of Directors and will depend on our financial condition, earnings, capital requirements, regulatory constraints, industry practice and any other factors that our Board of Directors believes are relevant. As a holding company with no material liquid assets other than the capital stock of our subsidiaries, our ability to pay dividends in future periods will be dependent on our receiving dividends from our operating subsidiaries. Many of our operating subsidiaries are highly regulated and may be subject to restrictions on their ability to pay dividends to us.

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ITEM 6. SELECTED FINANCIAL DATA

The financial information in this Annual Report on Form 10-K for periods ending on or after the Distribution is presented on a consolidated basis and includes the accounts of the Company and our majority-owned subsidiaries. The financial information for the periods presented prior to the Distribution is presented on a combined basis and represents those entities that were ultimately transferred to the Company as part of the spin-off. The assets and liabilities presented have been reflected on a historical basis, as prior to the Distribution such assets and liabilities presented were 100% owned by First Data. However, the financial statements for the periods presented prior to the Distribution do not include all of the actual expenses that would have been incurred had Western Union been a stand-alone entity during the periods presented and do not reflect Western Union s combined results of operations, financial position and cash flows had Western Union been a stand-alone company during the periods presented.

Our selected historical financial data are not necessarily indicative of our future financial position, future results of operations or future cash flows.

You should read the information set forth below in conjunction with our historical consolidated financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K.

	Year ended December 31,				
(in millions, except per share data)	**2007**	**2006**	**2005**	**2004**	**2003**
Statements of Income Data:					
Revenues	$ 4,900.2	$ 4,470.2	$ 3,987.9	$ 3,547.6	$ 3,151.6
Operating expenses (a)	3,578.2	3,158.8	2,718.7	2,435.5	2,148.6
Operating income	1,322.0	1,311.4	1,269.2	1,112.1	1,003.0
Interest income (b)	79.4	40.1	7.6	1.8	0.7
Interest expense (c)	(189.0)	(53.4)	(1.7)	(1.7)	(1.3)
Other income/(expense), net, excluding interest income and interest expense (d)	10.0	37.0	69.0	(13.6)	(39.8)
Income before income taxes (a) (b) (c) (d)	1,222.4	1,335.1	1,344.1	1,098.6	962.6
Net income (a) (b) (c) (d)	857.3	914.0	927.4	751.6	633.7
Depreciation and amortization	123.9	103.5	79.5	79.2	78.4
Cash Flow Data:					
Net cash provided by operating activities	1,103.5	1,108.9	1,002.8	930.2	792.8
Capital expenditures (e)	(192.1)	(202.3)	(65.0)	(49.5)	(99.8)
Shares repurchased (f)	(726.8)	(19.9)			
Dividends to First Data		2,953.9	417.2	659.8	324.2
Earnings Per Share Data:					
Basic (a) (b) (c) (d) (g)	$ 1.13	$ 1.20	$ 1.21	$ 0.98	$ 0.83
Diluted (a) (b) (c) (d) (g)	$ 1.11	$ 1.19	$ 1.21	$ 0.98	$ 0.83
Cash dividends to public stockholders per common share	$ 0.04	$ 0.01			
Key Indicators (unaudited):					
Consumer-to-consumer transactions (h)	167.73	147.08	118.52	96.66	81.04
Consumer-to-business transactions (i)	404.55	249.38	215.11	192.57	179.39

	As of December 31,				
	2007	**2006**	**2005**	**2004**	**2003 (unaudited)**
Balance Sheet Data:					
Settlement assets	$ 1,319.2	$ 1,284.2	$ 914.4	$ 702.5	$ 583.9
Total assets	5,784.2	5,321.1	4,591.7	3,315.8	3,027.4
Settlement obligations	1,319.2	1,282.5	912.0	696.6	573.6
Total borrowings	3,338.0	3,323.5			
Total liabilities	5,733.5	5,635.9	1,779.9	1,381.3	1,198.5
Total stockholders equity/(deficiency)/Net Investment in The Western Union Company	50.7	(314.8)	2,811.8	1,934.5	1,828.9

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(a) We adopted SFAS No. 123R, Share-Based Payment, or SFAS No. 123R, following the modified prospective method effective January 1, 2006. SFAS No. 123R requires all stock-based payments to employees to be recognized in the income statement based on their respective grant date fair values over the corresponding service periods and also requires an estimation of forfeitures when calculating compensation expense. Stock-based compensation expense, including stock compensation expense allocated by First Data prior to the spin-off on September 29, 2006 and the impact of adopting SFAS No. 123R, was $50.2 million and $30.1 million for the years ended December 31, 2007 and 2006. Our stock-based compensation expense in 2007 included a non-recurring charge of $22.3 million related to the vesting of the remaining converted unvested Western Union stock-based awards upon the completion of the acquisition of First Data on September 24, 2007 by an affiliate of Kohlberg Kravis Roberts & Co. s (KKR).

(b) Interest income is attributed primarily to international cash balances and loans made to several agents. On the spin-off date, the Company received cash in connection with the settlement of intercompany notes with First Data (net of certain other payments made to First Data) which significantly increased our international cash balances.

(c) Interest expense primarily relates to debt incurred in connection with the spin-off from First Data. Interest expense was significantly higher in 2007 since the related borrowings were outstanding for the full year 2007 compared to three months during 2006.

(d) Amounts were primarily recognized prior to the spin-off and include derivative gains and losses, net interest income due from First Data, and the net foreign exchange effect on notes receivable from First Data and related foreign currency swaps with First Data. Prior to the spin-off, we did not have any forward contracts that qualified as hedges, and therefore, the gains and losses on these contracts were reflected in income prior to that date. On September 29, 2006, we entered into foreign currency forward positions to qualify for cash flow hedge accounting. As a result, we anticipate future amounts reflected in the caption Derivative gains/(losses), net will be minimal. During the years ended December 31, 2007, 2006, 2005, 2004 and 2003, the pre-tax derivative gain/(loss) was $8.3 million, $(21.2) million, $45.8 million, $(30.2) million and $(37.9) million, respectively. Notes receivable from First Data affiliates and related foreign currency swap agreements were settled in cash in connection with the spin-off. During the years ended December 31, 2006, 2005 and 2004, the interest income, net recognized from First Data, including the impact of foreign exchange translation of the underlying notes, was $45.8 million, $18.4 million and $16.6 million, respectively. There were no amounts recognized during 2003.

(e) Capital expenditures include capitalization of contract costs, capitalization of purchased and developed software and purchases of property and equipment.

(f) In September 2006, the Company s Board of Directors authorized the purchase of up to $1.0 billion of our common stock through December 31, 2008. In December 2007, the Company s Board of Directors authorized the purchase of up to an additional $1.0 billion of the Company s common stock through December 31, 2009. As of December 31, 2007 and 2006, we reacquired 35.6 million and 0.9 million shares pursuant to these plans, respectively, and through shares withheld to cover tax withholding obligations on restricted stock awards and units that have vested.

(g) For all periods prior to September 29, 2006 (the date of our spin-off from First Data), basic and diluted earnings per share were computed utilizing the basic shares outstanding at September 29, 2006.

(h) Consumer-to-consumer transactions include consumer-to-consumer money transfer services worldwide. Amounts include Vigo Remittance Corp. transactions since the acquisition date of October 21, 2005.

(i) Consumer-to-business transactions include Quick Collect, Western Union Convenience Pay, Speedpay, Equity Accelerator, Just in Time EFT and Pago Fácil transactions processed by us. Amounts include Pago Fácil transactions since its acquisition in December 2006.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the consolidated financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in the Management s Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Annual Report on Form 10-K. See Risk Factors and Forward-looking Statements.

Overview

We are a leading provider of money transfer services, operating in two business segments:

- Consumer-to-consumer money transfer services, provided primarily through a global network of third-party agents using our multi-currency, real-time money transfer processing systems. This service is available for both international transactions that is, the transfer of funds from one country to another and intra-country transfers that is, money transfers from one location to another in the same country.

- Consumer-to-business payment services, which allow consumers to send funds to businesses and other organizations that receive consumer payments, including utilities, auto finance companies, mortgage servicers, financial service providers and government agencies (all sometimes referred to as billers) through our network of third-party agents and various electronic channels. While we continue to pursue international expansion of our offerings in selected markets, as demonstrated by our December 2006 acquisition of Servicio Electronico de Pago S.A. and related entities (SEPSA or Pago Fácil) in Argentina, the segment s revenue was primarily generated in the United States during all periods presented.

Businesses not considered part of the segments described above are categorized as Other and represented 3% or less of consolidated revenue during the three years ended December 31, 2007, 2006 and 2005, and include Western Union branded money orders available through a network of third-party agents primarily in the United States and Canada, and prepaid services. Prepaid services include a Western Union branded prepaid MasterCard® card sold through select agents in the United States and the internet, a Western Union branded prepaid Visa® card sold on the internet, and top-up services for third parties that allow consumers to pay in advance for mobile phone and other services.

Also included in other are recruiting and relocation expenses associated with hiring senior management positions new to our company, and consulting costs used to develop ongoing processes in connection with completing the spin-off; and expenses incurred in connection with the development of certain new service offerings, including costs to develop mobile money transfer and micro-lending services.

The consumer-to-consumer money transfer service is available through an extensive network of agent locations that offer Western Union services around the world. Some of our agent locations only pay out and do not send money. In addition to our agent locations, we are expanding the ability of consumers to send money through other channels, such as our internet site, westernunion.com, and the telephone. Consumer-to-consumer money transfer service is available through the Western Union® , Orlandi Valuta® and Vigo℠ brands. The consumer-to-business service allows consumers to transfer money to a biller. This service is available at many of our Western Union agent locations, primarily in the United States, and through the internet or by telephone.

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Factors that we believe are important to our long-term success include international growth by expanding and diversifying our global distribution network, building our brands and enhancing the consumer experience, expanding the channels by which consumers can send or receive money, and diversifying our consumer-to-consumer and consumer-to-business service offerings through new technologies and new services. Significant factors affecting our financial position and results of operations include:

Transaction volume is the primary generator of revenue in our businesses. Transaction volume in our consumer-to-consumer segment is affected by, among other things, the size of the international migrant population and individual needs to transfer funds in emergency situations. We believe that the demand for money transfer services will be strong as people continue to migrate to other countries for economic and other reasons. As noted elsewhere in this Annual Report on Form 10-K, a reduction in the size of the migrant population, interruptions in migration patterns or reduced employment opportunities including those resulting from any changes in immigration laws, economic development patterns or political events, could adversely affect our transaction volume. For discussion on how these factors have impacted us in recent periods, refer to the consumer-to-consumer segment discussion below.

Revenue is also impacted by changes in the fees we charge consumers, the amount of money sent, and by the foreign exchange spreads we set. We intend to continue to implement strategic pricing reductions, including actions to reduce foreign exchange spreads, where appropriate, taking into account growth opportunities and competitive factors. Decreases in our fees or foreign exchange spreads generally reduce margins, but are done in anticipation that they will result in increased transaction volumes and increased revenues over time.

We continue to face robust competition in both our consumer-to-consumer and consumer-to-business segments from a variety of money transfer and consumer payment providers. We believe the most significant competitive factors in the consumer-to-consumer segment relate to brand recognition, distribution network, consumer experience and price and in the consumer-to-business segment relate to brand recognition, convenience, speed, variety of payment methods and price.

Regulation of the money transfer industry is increasing. The number and complexity of regulations around the world and the pace at which regulation is changing are factors that pose significant challenges to our business. We continue to implement policies and programs and adapt our business practices and strategies to help us comply with current legal requirements, as well as with new and changing legal requirements affecting particular services, or the conduct of our business in general. Our activities include dedicated compliance personnel, training and monitoring programs, government relations and regulatory outreach efforts and support and guidance to the agent network on compliance programs. These efforts increase our costs of doing business.

Our consumer-to-business segment continues to experience a shift in demand in the United States from cash-based walk-in payment services to lower margin, higher volume growth electronic payment services.

Significant Financial and Other Highlights

Significant financial and other highlights for the year ended December 31, 2007 include:

We generated $4,900.2 million in total consolidated revenues and $1,322.0 million in consolidated operating income, resulting in year-over-year growth of 10% and 1% in total consolidated revenues and operating income, respectively. Our operating income margin was 27% during the year ended December 31, 2007 compared to 29% during the year ended December 31, 2006. Operating income and operating income margin were impacted by the shift in business mix reflecting stronger growth in the international business, which carries a lower margin than the United States originated businesses, the $22.3 million accelerated non-cash stock compensation charge taken in connection with the change in control of First Data as further described in Results of Operations, and $59.1 million of incremental independent public company expenses compared to $25.1 million in 2006.

Consolidated net income during 2007 was $857.3 million, representing a decrease of 6% from 2006. Basic and diluted earnings per share during 2007 were $1.13 and $1.11, respectively, compared to basic and diluted earnings per share in 2006 of $1.20 and $1.19, respectively. In addition to the factors described above which have negatively impacted operating income during 2007, net income also decreased in 2007 due to higher interest expense in connection with higher outstanding borrowings payable to third parties.

We completed 167.7 million consumer-to-consumer transactions worldwide, representing an increase of 14% over 2006, due primarily to transactions generated outside of the United States.

We completed 404.5 million consumer-to-business transactions, an increase of 62% over 2006. Excluding transactions attributable to Pago Fácil, which was acquired in December 2006, consumer-to-business transactions increased 1% in 2007 compared to 2006.

Consolidated cash flow provided by operating activities was $1,103.5 million. Cash provided by operating activities remained consistent during the year ended December 31, 2007 compared to the year ended December 31, 2006, despite decreased net income, as some of the decrease to net income was from increased non-cash charges which have not impacted cash flows.

The Separation of Western Union from First Data

On January 26, 2006, the First Data Corporation (First Data) Board of Directors announced its intention to pursue the distribution of 100% of its money transfer and consumer payments businesses related assets, through a tax-free distribution to First Data shareholders. Effective on September 29, 2006, First Data completed the separation and the distribution of these businesses (the Distribution). Prior to the Distribution, our company had been a segment of First Data.

In connection with the spin-off, we reported a $4.1 billion dividend to First Data in our consolidated statements of stockholders equity/(deficiency)/net investment in The Western Union Company, consisting of a promissory note from our subsidiary, First Financial Management Corporation, or FFMC, in an aggregate principal amount of $2.4 billion, the issuance of $1.0 billion in Western Union notes and a cash payment to First Data of $100.0 million. The remaining dividend was comprised of cash, consideration for an ownership interest held by a First Data subsidiary in one of our agents which had already been reflected as part of our company, settlement of net intercompany receivables (exclusive of certain intercompany notes as described in the following paragraph), and transfers of certain liabilities, net of assets.

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

Basis of Presentation

The financial statements in this Annual Report on Form 10-K for periods ending on or after the Distribution are presented on a consolidated basis and include the accounts of our company and its majority-owned subsidiaries. The financial statements for the periods presented prior to the Distribution are presented on a combined basis and represent those entities that were ultimately transferred to our company in connection with the spin-off. All significant intercompany accounts and transactions between our company s segments have been eliminated. The historical consolidated statements of income include expense allocations for certain corporate functions historically provided to Western Union by First Data, including treasury, tax, accounting and reporting, mergers and acquisitions, risk management, legal, internal audit, procurement, human resources, investor relations and information technology. If possible, these allocations were made on a specific identification basis. Otherwise, the expenses related to services provided to Western Union by First Data were allocated to Western

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Union based on the relative percentages, as compared to First Data s other businesses, of headcount or other appropriate methods depending on the nature of each item of cost to be allocated. Pursuant to a transition services agreement we entered into with First Data prior to the spin-off, First Data provided Western Union with certain of these services at prices agreed upon by First Data and Western Union. The transition services agreement expired on September 29, 2007. The costs historically allocated to us by First Data for the services provided to us were lower than the costs we have incurred and will continue to incur following the spin-off.

Certain expenses related to being a stand-alone company, reflected in the consolidated statements of income, are higher than the historical amounts prior to the spin-off. The financial information presented in this Annual Report on Form 10-K prior to the spin-off date of September 29, 2006 does not reflect what our consolidated financial position, results of operations or cash flows would have been as a stand-alone company during the periods presented and is not necessarily indicative of our future consolidated financial position, results of operations or cash flows.

Adoption of FIN 48

We adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under FIN 48, we recognize the tax benefits from an uncertain tax position only when it is more likely than not, based on the technical merits of the position, that the tax position will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. As a result of the implementation of FIN 48, we recognized an increase in our liability for unrecognized tax benefits plus associated accrued interest and penalties of $0.6 million, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

Refer to Note 8 Income Taxes in our historical consolidated financial statements for a more detailed discussion of the adoption of FIN 48.

Adoption of FAS 123R

We adopted Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, (SFAS No. 123R), following the modified prospective method effective January 1, 2006. SFAS No. 123R requires all stock-based payments to employees to be recognized in the income statement based on their respective grant date fair market values over the corresponding service periods and also requires an estimation of forfeitures when calculating compensation expense. Stock-based compensation expense, including stock compensation expense allocated by First Data prior to the spin-off on September 29, 2006 and the impact of adopting SFAS No. 123R, was $50.2 million and $30.1 million during the years ended December 31, 2007 and 2006, respectively. Stock compensation expense during the year ended December 31, 2007 included a $22.3 million accelerated non-cash stock compensation charge taken in connection with the change in control of First Data.

In December 2005, First Data accelerated vesting of all outstanding unvested stock options granted to its officers and employees under its 2002 Long-Term Incentive Plan. The decision to accelerate the vesting of these stock options was made primarily to reduce stock based compensation expense that otherwise likely would have been recorded in future periods following First Data s adoption of SFAS No. 123R. We recognized compensation expense of $1.8 million during the fourth quarter of 2005 related to this accelerated vesting.

Refer to Note 14 Stock Compensation Plans in our historical consolidated financial statements for a more detailed discussion of First Data s and our stock-based compensation plans and the adoption of SFAS No. 123R.

Components of Revenue and Expenses

The following briefly describes the components of revenue and expenses as presented in the consolidated statements of income. Descriptions of our revenue recognition policies are included in Note 2 Summary of Significant Accounting Policies in our consolidated financial statements.

Transaction fees Transaction fees are charged to consumers for sending money transfers and consumer-to-business payments. Consumer-to-consumer transaction fees generally vary according to the principal amount of the money transfer and the locations from and to which the funds are sent. Transaction fees represented 81% of Western Union s total consolidated revenues for the year ended December 31, 2007, and are most reflective of our performance.

Foreign exchange revenue In certain consumer money transfer transactions involving different send and receive currencies, we generate revenue based on the difference between the exchange rate set by us to the consumer and the rate at which we or our agents are able to acquire currency. Foreign exchange revenue growth has historically been driven principally by growth in international cross-currency transactions. Foreign exchange revenue represented approximately 16% of Western Union s total consolidated revenues for the year ended December 31, 2007.

Commission and other revenues Commission and other revenues represented approximately 3% of our total consolidated revenue for the year ended December 31, 2007. Commission and other revenues consist of commissions we receive in connection with the sale of money orders, enrollment fees received when consumers enroll in our Equity Accelerator® program (a recurring mortgage payment service program), revenue recorded for reimbursable costs incurred to operate payment services programs and investment income primarily derived from interest generated on money transfer and payment services settlement assets as well as realized net gains and losses from such assets.

Cost of services Cost of services includes the costs directly associated with providing services to consumers, including commissions paid to agents and billers, personnel expenses, software maintenance costs, equipment, telecommunications costs, bank fees, infrastructure costs to provide the resources and materials necessary to offer money transfer and other payment services (including reimbursable costs), depreciation and amortization expense, and other operating expenses.

Selling, general and administrative Selling, general and administrative, or SG&A, primarily consists of salaries, wages and related expenses paid to sales and administrative personnel, as well as certain advertising and promotional costs and other selling and administrative expenses. Prior to September 29, 2006, the date of the spin-off, SG&A also included allocations of general corporate overhead costs from First Data.

Interest expense Interest expense represents interest incurred in connection with outstanding borrowings payable to third parties.

Interest income Interest income consists of interest earned on cash balances not required to satisfy settlement obligations and in connection with loans made to several agents.

Interest income from First Data, net Interest income from First Data, net consists of interest income earned on notes receivable from First Data, net of interest expense incurred on notes payable to First Data. All notes receivable and payable were settled in connection with the spin-off on September 29, 2006.

Derivative gains/(losses), net Derivative gains and losses include realized and unrealized gains and losses associated with certain foreign currency forward contracts that did not qualify as hedges under derivative accounting rules prior to September 29, 2006, and the portion of the change in fair value that is considered ineffective or is excluded from the measure of effectiveness related to contracts designated as accounting hedges entered into on or after September 29, 2006. Derivative gains and losses do not include fluctuations in foreign currency forward contracts intended to mitigate exposures on settlement activities of our money transfer business or on certain foreign currency denominated cash positions. Gains and losses associated with those foreign currency forward contracts are included in operating expenses, consistent with exchange rate fluctuations on the related settlement assets, obligations and cash positions.

Foreign exchange effect on notes receivable from First Data, net Certain of the notes receivable from First Data in our consolidated balance sheets prior to September 29, 2006, the spin-off date, were repayable in euros, and certain of those euro denominated notes also had foreign currency swap agreements associated with them. These notes receivable were translated based on current exchange rates between the euro and the United States dollar, and changes in fair value of the related foreign currency swap agreements were recorded based on current market valuations. The effect of translation adjustments and recording the foreign currency swaps to market is reflected in our consolidated statements of income as foreign exchange effect on notes receivable from First Data. All notes receivable and payable with First Data were settled in connection with the spin-off on September 29, 2006.

Other income, net Other income, net is comprised primarily of equity earnings from equity investments and other income and expenses.

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Results of Operations

The following discussion of our results of operations refers to the year ended December 31, 2007 compared to the same period in 2006 and the year ended December 31, 2006 compared to the same period in 2005. 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 consolidated statements of income. All significant intercompany accounts and transactions between our company s segments have been eliminated.

The following table sets forth our consolidated results of operations for the years ended December 31, 2007, 2006 and 2005.

	Years Ended December 31,			% Change	
(in millions, except per share amounts)	**2007**	**2006**	**2005**	**2007 vs. 2006**	**2006 vs. 2005**
Revenues:					
Transaction fees	$ 3,989.8	$ 3,696.6	$ 3,354.8	8%	10%
Foreign exchange revenue	771.3	653.9	531.0	18%	23%
Commission and other revenues	139.1	119.7	102.1	16%	17%
Total revenues	4,900.2	4,470.2	3,987.9	10%	12%
Expenses:					
Cost of services	2,808.4	2,430.5	2,118.9	16%	15%
Selling, general and administrative	769.8	728.3	599.8	6%	21%
Total expenses	3,578.2	3,158.8	2,718.7	13%	16%
Operating income	1,322.0	1,311.4	1,269.2	1%	3%
Other (expense)/income:					
Interest income	79.4	40.1	7.6	98%	*
Interest expense	(189.0)	(53.4)	(1.7)	254%	*
Derivative gains/(losses), net	8.3	(21.2)	45.8	*	*
Foreign exchange effect on notes receivable from First Data, net		10.1	(5.9)	*	*
Interest income from First Data, net		35.7	24.3	*	47%
Other income, net	1.7	12.4	4.8	(86)%	158%
Total other (expense)/income, net	(99.6)	23.7	74.9	*	(68)%
Income before income taxes	1,222.4	1,335.1	1,344.1	(8)%	(1)%
Provision for income taxes	365.1	421.1	416.7	(13)%	1%
Net income	$ 857.3	$ 914.0	$ 927.4	(6)%	(1)%
Earnings per share:					
Basic	$ 1.13	$ 1.20	$ 1.21	(6)%	(1)%
Diluted	$ 1.11	$ 1.19	$ 1.21	(7)%	(2)%
Weighted-average diluted shares outstanding:					
Basic	760.2	764.5	763.9		
Diluted	772.9	768.6	763.9		

* Calculation not meaningful

Revenues overview

The following provides highlights of revenue growth while a more detailed discussion is included in Segment Discussion :

Transaction fees and foreign exchange revenue

The majority of transaction fees and foreign exchange revenue are contributed by our consumer-to-consumer segment, which is discussed in greater detail in Segment Discussion. Consolidated revenue growth of 10% and 12%

during the years ended December 31, 2007 and 2006, respectively, was driven by revenue growth in our international business (as defined in Segment Discussion) due to increased money transfers at existing agent locations, and to a lesser extent, money transfers at new agent locations. International revenue represented 65%, 62% and 59% of our consolidated revenue for the years ended December 31, 2007, 2006 and 2005, respectively. Our international consumer-to-consumer transactions that were originated outside of the United States continued to display strong transaction and revenue growth for all periods presented.

Pago Fácil, which was acquired in December 2006 and is primarily included in our consumer-to-business segment, contributed $67.7 million and $3.6 million of revenue for the years ended December 31, 2007 and 2006, respectively. Our acquisition of Vigo in October 2005 contributed $140.5 million and $24.2 million in total revenue during the years ended December 31, 2006 and 2005, respectively. Excluding the impact of the acquisitions of Pago Fácil and Vigo, consolidated revenue growth for the years ended December 31, 2007 and 2006 compared to the previous corresponding years was 8% and 9%, respectively.

In addition, fluctuations in the exchange rate between the euro and the United States dollar have resulted in the following benefit or reduction to consumer-to-consumer transaction fee and foreign exchange revenue (which represents over 80% of our consolidated revenue) over the previous year, net of foreign currency hedges, that would not have occurred had there been a constant exchange rate:

Year ended December 31, (in millions)	**Benefit / (Reduction)**
2007	$ 78.8
2006	$ 11.5
2005	$ (1.4)

Overall, consolidated revenue increased due to the strong transaction growth in our international business, and due to the impact of the acquisitions and the euro noted above. The revenue growth experienced by our international business was offset by revenue declines in our domestic business (transactions between and within the United States and Canada), and to a lesser extent, the Mexico business during the years ended December 31, 2007 and 2006 compared to the corresponding previous periods. Revenue for the years ended December 31, 2007 and 2006 for our United States to Mexico, United States outbound and domestic businesses were adversely impacted by various factors which began in the second quarter of 2006 in the United States, including the immigration debate and subsequent general market softness, in part due to the slow down in the construction industry. Domestic and United States outbound transactions and revenues for money transfers were also impacted by a decline in transactions initiated on our website and on the telephone in the United States during the year ended December 31, 2007. These declines resulted primarily from additional controls implemented beginning in early 2007 by Western Union, card associations and issuing banks in response to credit and debit card fraud.

Foreign exchange revenue increased for the years ended December 31, 2007 and 2006 over the corresponding previous periods, due to an increase in cross-currency transactions primarily as a result of strong growth in international consumer-to-consumer transactions. The overall increase in foreign exchange revenue during these periods relating to the increase in cross-currency transactions was partially offset by reduced foreign exchange spreads in selected markets. The acquisition of Vigo also contributed to foreign exchange revenue growth in 2006.

We have and intend to continue to implement strategic pricing reductions to reduce fees and foreign exchange spreads, where appropriate, taking into account growth opportunities and competitive factors. Pricing decreases and foreign exchange actions generally reduce margins, but are done in anticipation that they will result in increased transaction volumes and increased revenues over time. The costs of such pricing decreases and foreign exchange actions have averaged approximately 3% of our annual consolidated revenue over the last three years.

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Commission and other revenues

During the year ended December 31, 2007, commission and other revenues increased over the previous corresponding period primarily as a result of interest income from higher money transfer and payment services settlement asset balances and higher enrollment fees from increased participation in our recurring mortgage payment service program. Commission and other revenue increased during the year ended December 31, 2006 compared to the year ended December 31, 2005 as a result of higher investment income on money orders pending settlement and higher enrollment fees from increased participation in our recurring mortgage payment service program.

Operating expenses overview

Incremental independent public company expenses of $59.1 million and $25.1 million in 2007 and 2006, respectively, are classified within operating expenses under the captions cost of services and selling, general and administrative in the consolidated statements of income. Incremental public company expenses relate to staffing additions and related costs to replace First Data support, corporate governance, information technology, corporate branding and global affairs, benefits and payroll administration, procurement, workforce reorganization, stock compensation, and other expenses related to being a stand-alone public company as well as recruiting and relocation expenses associated with hiring key management positions new to our company, other employee compensation expenses and temporary labor used to develop ongoing processes. These expenses are those in excess of amounts allocated to us by First Data prior to September 29, 2006 or beyond amounts we presume First Data would have allocated subsequently thereto. We expect most of these expenses will continue to be incurred in future periods.

At the time of the spin-off, First Data converted stock options, restricted stock awards and restricted stock units (collectively, stock-based awards) of First Data stock held by Western Union and First Data employees. Both Western Union and First Data employees received converted Western Union stock-based awards. All converted stock-based awards, which had not vested prior to September 24, 2007, are subject to the terms and conditions applicable to the original First Data stock-based awards, including change of control provisions which require full vesting upon a change of control of First Data. Accordingly, upon the completion of the acquisition of First Data on September 24, 2007 by an affiliate of Kohlberg Kravis Roberts & Co (KKR), all of these remaining converted unvested Western Union stock-based awards vested. In connection with this accelerated vesting, we incurred a non-cash pre-tax charge of $22.3 million during the third quarter of 2007. Approximately one-third of this charge was recorded within cost of services and two-thirds was recorded within selling, general and administrative expenses in the consolidated statements of income.

Cost of services

Cost of services is primarily comprised of agent commissions and also includes expenses for personnel, software, equipment, telecommunications, bank fees, depreciation and amortization and other expenses incurred in connection with providing money transfer and other payment services. Cost of services was 57%, 54%, and 53% of consolidated revenue for the years ended December 31, 2007, 2006 and 2005, respectively. Overall, agent renewals in 2007 resulted in commission rates materially consistent with previous agreements.

The majority of the increase in cost of services as a percentage of revenue in 2007 compared to the corresponding period in 2006 was attributable to the shift in our business mix reflecting stronger growth from our international business, which carries higher cost of services compared to our United States originated businesses. The Pago Fácil business, which carries a lower margin than our existing consumer-to-business services, also contributed to the increase in cost of services. The stock compensation charge resulting from the acquisition of First Data by an affiliate of KKR and incremental public company expenses were additional factors leading to the increase in cost of services in 2007, and caused cost of services to increase at a higher rate between 2007 and 2006 compared to the increase in 2006 compared to 2005.

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The majority of the increase in cost of services for the year ended December 31, 2006 compared to 2005 was attributable to the shift in our business mix reflecting stronger growth from our international business, as described above. Another factor impacting cost of services as a percent of revenue was the October 2005 acquisition of Vigo, which has higher cost of services compared to Western Union branded money transfers. Higher stock compensation costs in connection with the adoption of SFAS No. 123R, and higher employee incentive compensation expense also contributed to the increase in cost of services as a percent of revenue.

Selling, general and administrative

Selling, general and administrative expenses increased for the year ended December 31, 2007 compared to the corresponding period in the prior year primarily due to incremental public company expenses and the stock compensation charge related to KKR s acquisition of First Data, as described above. In addition, costs associated with the inclusion of the Pago Fácil business contributed to the increase in 2007 from 2006.

Selling, general and administrative expenses increased for the year ended December 31, 2006 compared to the corresponding period in the prior year due primarily to Vigo, incremental public company expenses, as discussed above, higher stock compensation expense from the adoption of SFAS No. 123R and higher employee incentive compensation expenses in 2006 compared to 2005.

Marketing related expenditures, principally classified within selling, general and administrative expenses, increased during the years ended December 31, 2007 and 2006 compared to the corresponding periods in the prior years. However, marketing related expenditures as a percent of consolidated revenue were approximately 6.0%, 6.5% and 6.9% during the years ended December 31, 2007, 2006 and 2005, respectively. Marketing related expenditures include advertising, events, 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 pricing adjustments and other initiatives in order to best maximize the return on these investments. For further discussion regarding the impact of pricing decreases refer to the Transaction fees and foreign exchange revenue discussion within the consumer-to-consumer segment section.

Interest income

Interest income increased during the years ended December 31, 2007 and 2006 compared to corresponding periods in the prior years due to higher international cash balances resulting from the net cash received in connection with the settlement of intercompany notes with First Data (net of certain other payments made to First Data) on the spin-off date, and from cash generated through our international operations. Also contributing to higher interest income in 2007 and 2006 was interest income recorded in connection with a $140.0 million loan made to one of our agents in the first quarter of 2006.

Interest expense

Interest expense increased to $189.0 million for the year ended December 31, 2007 compared to $53.4 million during 2006, due to interest expense on our outstanding borrowings that arose in connection with the spin-off on September 29, 2006. Interest expense was significantly higher in 2007 since the related borrowings were outstanding for the full year 2007 compared to three months during 2006.

Derivative gains/(losses), net

Our foreign currency forward contracts that did not qualify as hedges under applicable derivative accounting rules were held primarily in the euro and British pound and had maturities of one year or less. Prior to September 29, 2006, we did not have any forward contracts that qualified as hedges, and therefore the unrealized gains and losses on these contracts were reflected within this line item in the consolidated statements of income prior to that date. Since these instruments did not qualify for hedge accounting treatment, there was resulting volatility in our net income for the periods presented prior to September 29, 2006. For example, during the years ended December 31, 2006 and 2005, we had pre-tax derivative (losses)/gains of $(21.2) million and $45.8 million, respectively.

On September 29, 2006, we established our foreign currency forward positions to qualify for cash flow hedge accounting. We anticipate the amounts reflected in this income statement caption going forward will be minimal, as such amounts will relate primarily to the portion of the change in fair value that is considered ineffective or is excluded from the measure of effectiveness related to contracts designated as accounting hedges.

Foreign exchange effect on notes receivable from First Data, net

All euro denominated notes receivable with First Data, and related foreign currency swap agreements were settled in connection with the spin-off on September 29, 2006. Accordingly, no amounts related to the revaluation of such notes or related swaps were recorded during the year ended December 31, 2007, explaining the decrease from the year ended December 31, 2006. No such amounts will be recognized in future periods.

Prior to the spin-off, the revaluation to fair market value of these euro denominated notes receivable from First Data and the related foreign currency swap arrangements benefited income before income taxes for the year ended December 31, 2006 by $10.1 million compared to a reduction to income before income taxes for the year ended December 31, 2005 of $5.9 million. Such fluctuations corresponded to changes in the value of the euro.

Interest income from First Data, net

Interest income from First Data, net consists of interest income earned on notes receivable from First Data, partially offset by interest incurred on notes payable to First Data. All notes receivable and payable were settled in connection with the spin-off on September 29, 2006, and accordingly, no such amounts were recognized during the year ended December 31, 2007.

Interest income from First Data, net increased for the year ended December 31, 2006 compared to the year ended December 31, 2005 due to increased average net borrowings by First Data from Western Union affiliates.

Other income, net

Changes in other income, net during the years ended December 31, 2007 and 2006 compared to the previous corresponding years were primarily attributable to fluctuations in equity earnings from equity method investments.

Income taxes

Our effective tax rates on pretax income were 29.9%, 31.5% and 31.0% for the years ended December 31, 2007, 2006 and 2005, respectively. The effective tax rate over the three periods remained relatively constant. The decrease in the effective tax rate for the year ended December 31, 2007 compared to the prior year is primarily the result of a higher proportion of foreign derived profits compared to United States derived profits (our foreign derived profits are taxed at lower rates than our United States derived profits) and the favorable resolution of certain income tax matters.

We have established contingency reserves for material, known tax exposures, including potential tax audit adjustments with respect to our international operations restructured in 2003, whereby our income from certain foreign-to-foreign money transfer transactions has been taxed at relatively low foreign tax rates compared to our combined federal and state tax rates in the United States. As of December 31, 2007, the total amount of unrecognized tax benefits is a liability of $276.2 million, including accrued interest and penalties. Our reserves reflect our judgment as to the resolution of the issues involved if subject to judicial review. 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

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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.

Earnings per share

During the years ended December 31, 2007, 2006 and 2005, basic earnings per share were $1.13, $1.20 and $1.21, respectively, and diluted earnings per share were $1.11, $1.19 and $1.21, respectively. All issued and outstanding shares of Western Union common stock until the spin-off on September 29, 2006, consisting of 100 shares, were held by First Data. Accordingly, for all periods presented prior to the spin-off date of September 29, 2006, basic and diluted earnings per share were computed using our basic shares outstanding as of the spin-off date.

Unvested shares of restricted stock are excluded from basic shares outstanding. Diluted earnings per share subsequent to September 29, 2006 reflects the potential dilution that could occur if outstanding stock options on the presented dates are exercised and shares of restricted stock have vested. As of December 31, 2007 and 2006, there were 10.4 million and 4.9 million, respectively, 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 is anti-dilutive. The treasury stock method assumes proceeds from the exercise price of stock options, the unamortized compensation expense and assumed tax benefits are available to reduce the dilutive effect upon exercise. Of the 59.4 million outstanding options to purchase shares of our common stock as of December 31, 2007, approximately 58% are held by employees of First Data.

Diluted earnings per share decreased during the year ended December 31, 2007 and 2006 compared to the previous periods due to the decrease in net income as a result of the previously described factors and the increase in diluted shares outstanding, because, as described above, prior to the September 29, 2006 spin-off date, there were no potentially dilutive instruments outstanding. Accordingly, the potentially dilutive shares arising in connection with the spin-off had no impact to 2005 and minimal impact to 2006 due to the impact of weighting. In 2007, the dilutive shares outstanding were outstanding for a full year.

Segment Discussion

We manage our business around the consumers we serve and the types of services we offer. Each of our two segments addresses a different combination of consumer groups, distribution networks and services offered. Our segments are:

- Consumer-to-consumer money transfer services between consumers, primarily through a global network of third-party agents using our multi-currency, real-time money transfer processing systems. This service is available for both international cross-border transfers that is, the transfer of funds from one country to another and intra-country transfers that is, money transfers from one location to another in the same country.

- Consumer-to-business the processing of payments from consumers to billers through our networks of third-party agents and various electronic channels. The segment s revenue was primarily generated in the United States for all periods presented.

Businesses not considered part of the segments described above are categorized as Other. In 2007 and 2006, Other also included recruiting and relocation expenses associated with hiring senior management positions new to our company, and consulting costs used to develop ongoing processes in connection with completing the spin-off; and expenses incurred in connection with the development of certain new service offerings, including costs to develop mobile money transfer and micro-lending services.

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The business segment measurements provided to, and evaluated by, our chief operating decision maker are computed in accordance with the following principles:

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies.

Corporate and other overhead is allocated to the segments primarily based on a percentage of the segments revenue.

All items not included in operating income are excluded.

The following table sets forth the different components of segment revenues as a percentage of the consolidated totals for the years ended December 31, 2007, 2006 and 2005.

	Years Ended December 31, 2007	2006	2005
Consumer-to-consumer	83%	84%	82%
Consumer-to-business	15%	14%	15%
Other	2%	2%	3%
Total	100%	100%	100%

Consumer-to-Consumer Segment

The following table sets forth our consumer-to-consumer segment results of operations for the years ended December 31, 2007, 2006 and 2005.

	Years Ended December 31,			% Change	
(in millions)	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Revenues:					
Transaction fees	$ 3,286.6	$ 3,059.0	$ 2,724.0	7%	12%
Foreign exchange revenue	769.3	652.4	529.6	18%	23%
Other revenues	37.2	33.5	25.6	11%	31%
Total revenues	$ 4,093.1	$ 3,744.9	$ 3,279.2	9%	14%
Operating income	$ 1,078.3	$ 1,069.7	$ 1,047.9	1%	2%
Operating margin	26%	29%	32%		
Key indicators:					
Consumer-to-consumer transactions	167.7	147.1	118.5	14%	24%

During the year ended December 31, 2007 international, domestic and Mexico revenue represented approximately 65%, 11% and 7% of total consolidated revenue, respectively (or approximately 78%, 13% and 9% of our consumer-to-consumer revenue, respectively). The table below sets forth performance indicators for the consumer-to-consumer segment for the years ended December 31, 2007, 2006 and 2005.

	Years Ended December 31,				
	2007	2006	2006 (excluding Vigo)	2005	2005 (excluding Vigo)

Consumer-to-consumer transaction growth/(decline):					
International (a)	20%	29%	24%	27%	26%
Domestic (b)	(4)%	(1)%	(2)%	5%	5%
Mexico (c)	4%	35%	6%	28%	21%
Consumer-to-consumer revenue growth/(decline):					
International (a)	15%	17%	15%	16%	15%
Domestic (b)	(10)%	(3)%	(3)%	4%	4%
Mexico (c)	(4)%	29%	7%	33%	27%

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

(b) Represents all transactions between and within the United States and Canada.

(c) Represents all transactions to and from Mexico.

Revenues

2007 compared to 2006

The primary driver of consumer-to-consumer revenue growth are transaction fees and foreign exchange revenue. Consumer-to-consumer money transfer revenue growth of 9% for the year ended December 31, 2007 over the same period in 2006 was driven by our international business. However, the growth experienced by our international business has been partially offset by revenue declines in our domestic and Mexico businesses in 2007.

International revenue growth of 15% for the year ended December 31, 2007 compared to the corresponding period in 2006, resulted from a 20% increase in volume of international money transfer transactions. Our international transactions that were originated outside of the United States also continued to display strong transaction and revenue growth for the year ended December 31, 2007.

The key strategic inbound markets of India and China continued to grow, with revenue growth of 44% and 37%, respectively, on transaction growth of approximately 75% and 25%, respectively, and these two markets combined represented approximately 5% of Western Union consolidated revenues for the year ended December 31, 2007.

Fluctuations in the exchange rate between the euro and the United States dollar have resulted in benefits of $78.8 million and $11.5 million in 2007 and 2006, respectively, over the previous year. These benefits to consumer-to-consumer revenue would not have occurred had there been a constant exchange rate, and was net of the impact of our foreign currency hedges.

The United States to Mexico, United States domestic and the United States outbound businesses were adversely impacted by various factors in the United States for the year ended December 31, 2007. These factors, which began in the second quarter 2006 and are discussed in more detail below, include the immigration debate, and market softness, in part due to the slowdown in the construction industry. We responded to these factors by launching distribution, pricing, advertising, promotion and community outreach initiatives. We have not seen transaction and revenue growth rates return to levels prior to 2006. We believe this is due primarily to market softness in the United States, in part due to a slow down in the construction industry.

Although domestic transactions decreased for the year ended December 31, 2007 over the corresponding period in 2006, due primarily to the factors described above and the decline in transactions initiated on our website and through the telephone, as described below, the decline in domestic transactions began to moderate during each sequential quarter in 2007. Domestic revenue declined at a higher rate than transactions, due in part to the impact of price decreases and lower principal amounts sent.

Transactions and revenues for money transfers initiated on our website and through the telephone declined for the year ended December 31, 2007 compared to the same period in 2006. Transactions initiated in the United States have been, and we anticipate will continue to be, impacted by tightened controls implemented beginning in early 2007 by Western Union, card issuing banks and card associations in response to credit and debit card fraud in the United States. These tightened controls have directly impacted our consumers ability to use their debit and credit cards to send money on our website and through the telephone, decreasing the volume of transactions.

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Card issuing banks and card associations have begun to allow more consumer transactions to be processed, in part in response to Western Union s own increased scrutiny of these transactions. However, we anticipate transaction growth will continue to be impacted by these factors and consumer perceptions of their ability to transact on the website and through the telephone as a result of the additional controls that have been implemented.

While Mexico transactions grew for the year ended December 31, 2007 compared to the year ended December 31, 2006, revenue declined due to price reductions taken in early 2007. However, Mexico revenue and transaction growth rates began to converge during each sequential quarter in 2007 as there were no significant pricing reductions after the early part of 2007.

Foreign exchange revenue increased for the year ended December 31, 2007 compared to the same period in the prior year due to an increase in the international business resulting in increased cross-currency transactions, partially offset by reduced foreign exchange rate spreads in selected markets.

We have and intend to continue to implement strategic pricing reductions, including actions to reduce foreign exchange spreads, where appropriate, taking into account growth opportunities and competitive factors. Pricing decreases and foreign exchange actions generally reduce margins, but are done in anticipation that they will result in increased transaction volumes and increased revenues over time. Such overall pricing decreases and foreign exchange actions have averaged approximately 3% of our annual consolidated revenue over the last three years, a trend that is expected to continue.

Contributing to the increase in total consumer-to-consumer money transfer revenue and transaction growth in all periods presented was the growth in transactions at existing agent locations, the increased number of agent locations and marketing campaigns promoting Western Union services. The majority of transaction growth is derived from more mature agent locations; new agent locations typically contribute only marginally to revenue 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 drive 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. The number of send and receive transactions at an agent location can vary significantly due to such factors as customer demographics around the location, immigration 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 more than 335,000 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 December 31, 2007, more than 85% of agent locations in the United States, Canada and western Europe (representing at least one of our three money transfer brands) experienced money transfer activity in the last 12 months. In the developing regions of Asia and other areas where there are predominantly receive locations, more than 65% of locations experienced money transfer activity in the last 12 months. We periodically review locations to determine whether they remain enabled to perform money transfer transactions.

2006 compared to 2005

Consumer-to-consumer money transfer revenue growth for the year ended December 31, 2006 over the same period in 2005 was driven by international revenue growth and the acquisition of Vigo, which was completed in October 2005. Vigo contributed $140.5 million and $24.2 million in total revenue for the years ended December 31, 2006 and 2005, respectively. This revenue growth was offset by declines in our domestic businesses and a slow down in revenue growth in our Mexico business, both of which began in the second quarter of 2006.

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International revenue growth in the year ended December 31, 2006 compared to the same period in 2005 resulted from growth in money transfer transactions and the acquisition of Vigo. International money transfer transaction growth in the year ended December 31, 2006 compared to the prior year period was driven most significantly by growth in the United States and European outbound businesses. The international transaction growth rate excluding Vigo for the year ended December 31, 2006 of 24% and was directionally consistent with the 26% growth rate for the comparable period in 2005. Although international intra-country transaction growth remained strong in 2006, the overall international transaction growth rate during 2006 was impacted by high transaction growth rates experienced in the intra-country business in the second half of 2005, particularly in the Philippines.

The key inbound markets of India and China continued to grow, with transactions in India more than doubling and China transaction growth rates exceeding 35% for the year ended December 31, 2006. For the year ended December 31, 2006, India and China combined represented approximately 4% of Western Union consolidated revenues.

Fluctuations in the exchange rate between the euro and the United States dollar have resulted in a benefit or (reduction) to consumer-to-consumer transaction fee and foreign exchange revenue of $11.5 million and $(1.4) million in 2006 and 2005, respectively, over the previous corresponding year. This benefit or reduction to consumer-to-consumer revenue would not have occurred had there been a constant exchange rate, and was net of the impact of our foreign currency hedges.

The relationship between international transaction growth and revenue growth was relatively consistent during the year ended December 31, 2006 compared to the corresponding period in 2005. Transactions related to Vigo, which have lower revenue per transaction compared to the Western Union branded business, benefited transactions more than revenue. Offsetting this impact was the benefit to revenue from the euro described above, which did not have a corresponding benefit to transactions compared to 2005.

Revenue for the year ended December 31, 2006 for our United States to Mexico, United States outbound and domestic businesses was adversely impacted by various factors in the United States, including the immigration debate, which raised concerns with certain consumers in the United States and decreased the frequency of money transfers from the United States to Mexico and other countries. These concerns, together with general market softness, in part due to the slow down in the construction industry, led some competitors to lower fees and reduce foreign exchange spreads in certain markets.

In 2006, Western Union was also impacted by the actions of the Office of Attorney General in the State of Arizona which also may have added to the uncertainty with some of our consumers. The Arizona Attorney General seized money transfers initiated in Arizona during certain periods in 2006, and, in September 2006, sought to seize money transfers originated in other states and intended for payment in certain areas of Mexico. Western Union obtained an injunction preventing such seizures, and the Arizona Attorney General has appealed that injunction. Furthermore, the Arizona Attorney General sought personal information about a large number of Western Union customers outside of Arizona, which efforts Western Union has resisted in court. We believe that these events and the publicity they created led some consumers to avoid Western Union s services in late 2006 and early 2007. Western Union remains in litigation with the Arizona Attorney General on these matters. We believe that our legal position is sound, and the publicity surrounding these matters has largely abated.

Domestic transaction growth rates in the year ended December 31, 2006 over the same period in 2005 declined compared to increases observed for the year 2005 due in part to the uncertainty created by the immigration debate described above, and broader market softness experienced within the United States domestic business in 2006.

Growth in Mexico money transfer transactions for the year ended December 31, 2006 compared to the same period in 2005 was driven by the acquisition of Vigo and growth in Western Union branded transactions. The

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decline in revenue growth rates was primarily due to the uncertainty created by the immigration debate in the United States as described above.

Foreign exchange revenue increased for the year ended December 31, 2006 due to the acquisition of Vigo and an increase in the higher growth international business resulting in increased cross-currency transactions.

Operating income

The consumer-to-consumer segment s operating income increased by 1% for the year ended December 31, 2007 compared to the corresponding period in 2006. This increase was primarily driven by increased revenue in our international business. Operating income during the year ended December 31, 2007 was impacted by the ongoing shift in our business mix reflecting stronger growth in our international business, which carries lower profit margins than in our United States originated businesses. However, we have been experiencing a convergence between international operating profit margins and profit margins of our United States originated businesses. Operating income during the year ended December 31, 2007 was adversely impacted by incremental public company expenses which are incremental to both costs allocated by First Data prior to the spin-off and presumed overhead allocations from First Data had we remained part of First Data. Such incremental public company expenses include salaries, benefits, equipment, supplies and other costs incurred in connection with operating as a separate public company. In addition, we recognized an accelerated non-cash stock compensation charge of $22.3 million taken in connection with the change in control of First Data, of which 85% was allocated to the consumer-to-consumer segment.

The consumer-to-consumer segment s operating income increased for the year ended December 31, 2006 compared to the same period in 2005 due to an increase in revenue and by lower escheatment accruals resulting from charges incurred in 2005 that did not recur in 2006. These benefits to operating income during the year ended December 31, 2006 were partially offset by the ongoing shift in our business mix reflecting stronger growth in our international business, and incremental public company expenses as discussed above. In addition, we incurred higher employee incentive compensation expenses, including those incurred in connection with the adoption of SFAS No. 123R.

Consumer-to-Business Segment