

Western Union CO
Form 424B3
March 01, 2007
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Prospectus Supplement No. 2

to Prospectus Dated September 28, 2006

THE WESTERN UNION COMPANY

The Western Union Company 2006 Long-Term Incentive Plan

Shares of Common Stock, Par Value \$0.01 Per Share

This prospectus supplement supplements information contained in the prospectus dated September 28, 2006 relating to the offer and sale of shares of our common stock issuable in connection with Western Union stock options issued in connection with our spin-off from First Data Corporation and effective as of September 29, 2006, the distribution date for the spin-off, to current and former employees and directors of certain subsidiaries of First Data Corporation who held First Data Corporation stock options at that time and who did not become Western Union employees at the time of the spin-off. This prospectus supplement should be read in conjunction with, and may not be delivered or utilized without, the prospectus and prior prospectus supplements. This prospectus supplement is qualified by reference to the prospectus and the prior prospectus supplements, except to the extent that the information in this prospectus supplement supersedes the information contained in the prospectus and any prior prospectus supplements.

This prospectus supplement includes our attached Annual Report on Form 10-K dated February 27, 2007.

In reviewing this prospectus supplement and the prospectus, you should carefully consider the risks under **Risk Factors beginning on page 10 of the prospectus.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is February 28, 2007.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2006

OR

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

For the transition period from to

Commission file number: 001-32903

THE WESTERN UNION COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

THE WESTERN UNION COMPANY

12500 East Belford Avenue

Englewood, Colorado 80112

Telephone: (866) 405-5012

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

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

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

None

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the 2007 annual meeting of stockholders are incorporated into Part III.

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PART I

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

technological changes, particularly with respect to e-commerce;

our ability to attract and retain qualified key employees;

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

adverse movements and volatility in debt and equity capital markets;

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

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

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

our ability to maintain our agent network;

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

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

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

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

changes in accounting standards, rules and interpretations;

competition with banks and other nonbank money transfer services providers;

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our ability to grow our core businesses;

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

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

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

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

catastrophic events; and

management's ability to manage these and other risks.

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ITEM 1. BUSINESS

Overview

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

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

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

History and Development

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

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

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

The Separation of Western Union from First Data

The spin-off by First Data of its money transfer and consumer payments businesses became effective on September 29, 2006 through a distribution of 100% of the common stock of The Western Union Company to the holders of record of First Data's common stock (the Distribution). The Distribution was pursuant to the separation and distribution agreement by which First Data contributed to Western Union the subsidiaries that operated its money transfer and consumer payments businesses and its interest in a Western Union money transfer agent, as well as related assets, including real estate. We have received a private letter ruling from the Internal Revenue Service and an opinion from tax counsel indicating that the spin-off was tax free to the stockholders, First Data and Western Union. Refer to Item 1A of Part I for additional details on tax risks associated with the spin-off from First Data. First Data distributed all of the shares of Western Union common stock as a dividend to holders of First Data common stock as of the record date for the Distribution.

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

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

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

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

Our Relationship with First Data

General

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

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Separation and Distribution Agreement

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

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

Transition Services Agreement

We entered into a transition services agreement with First Data pursuant to which First Data and Western Union are providing each other with a variety of administrative services for a period of time following the spin-off. Western Union and First Data have agreed to make each service available to the other on an as-needed basis for a period of time not to exceed one year following September 29, 2006, the date of the spin-off.

Employee Matters Agreement

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

Tax Allocation Agreement

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

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

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

Money Order Agreement

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

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Patent Ownership Agreement

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

The Western Union Business

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

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

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

Geographic Presence

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

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

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

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

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

Our Strengths

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Our Strategy

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

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

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

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

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

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

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

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

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

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

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

Westernunion.com our Internet service;

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

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

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

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

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

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

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

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

Our Segments

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

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

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

Consumer-to-Consumer Segment

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

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

Operations

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

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

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

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

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

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

Seasonality

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

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Services

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

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

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

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

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

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

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

Distribution and Marketing Channels

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

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

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

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

Industry Trends

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

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

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

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

Competition

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

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

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

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

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

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

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

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

Consumer-to-Business Segment

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

Operations

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

Services

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

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

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

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

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Distribution and Marketing Channels

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

Industry Trends

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

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

Competition

We face robust competition in the highly-fragmented consumer-to-business payment industry. Competition in electronic payments includes financial institutions (which may offer bill-payment services in their own name or may host payment services operated under the

Lee M. Stewart

2004 \$299,179 \$278,700 19,800 0\$137,642

Senior Vice President

2003 \$299,179 \$269,000 27,700 0\$84,749 2002 \$299,179 \$267,300 96,800 \$86,964 \$85,614

Steven D. Davis

2004 \$279,345 \$264,800 13,400 0\$67,875

Senior Vice President and

2003 \$259,731 \$233,100 18,000 0\$56,108

Chief Financial Officer

2002 \$249,215 \$222,800 60,500 \$37,635 \$54,105

Margot A. Kyd

2004 \$269,000 \$250,000 17,800 0\$85,779

Senior Vice President

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2003 \$269,000 \$241,200 24,800 0\$74,539 2002 \$269,000 \$239,700 86,800 \$78,742 \$85,616

James P. Avery (D)

2004 \$267,619 \$248,900 13,300 0\$66,983

Senior Vice President

2003 \$258,562 \$232,100 17,900 0\$58,190 2002 \$250,000 \$222,800 60,500 0\$60,069

- (A) Long-term incentive plan payouts represent the fair market value of performance-based restricted stock for which forfeiture and transfer restrictions terminated during the year based upon satisfaction of long-term performance goals.
- (B) The aggregate holdings/value of restricted stock held on December 31, 2004 were 126,531 shares/\$4,641,148 for Mr. Guiles; 59,304 shares/\$2,175,253 for Ms. Reed; 40,141 shares/\$1,472,372 for Mr. Stewart; 26,473 shares/\$971,030 for Mr. Davis; 35,971 shares/\$1,319,416 for Ms. Kyd; and 26,371 shares/\$967,288 for Mr. Avery. These include additional shares purchased, at then fair market value, with dividends paid on restricted stock that become subject to the same forfeiture conditions and transfer restrictions as the shares to which the dividends relate.
- (C) All other compensation includes amounts paid as (i) interest on deferred compensation above 120% of the applicable federal rate, (ii) insurance premiums, (iii) financial and estate planning services, (iv) contributions to defined benefit plans and related supplemental plans, and (v) car allowances. The respective amounts paid in 2004 were \$249, \$102,445, \$10,000, \$44,349, and \$13,000, for Mr. Guiles; \$13,794, \$52,938, \$10,000, \$32,388, and \$12,350 for Ms. Reed; \$9,192, \$85,541, \$10,000, \$20,559, and \$12,350, for Mr. Stewart; \$0, \$3,780, \$3,762, \$17,983 and \$12,350 for Mr. Davis; \$17,655, \$30,486, \$7,000, \$18,288, and \$12,350 for Ms. Kyd; and \$0, \$32,783, \$4,261, \$17,589, and \$12,350 for Mr. Avery.
- (D) Mr. Avery is an officer of SDG&E only. Mr. Avery's wife is also an employee of SDG&E. She received compensation from SDG&E of approximately \$100,000 for 2004.

Stock Options

The following table shows information as to stock options granted during 2004 to the executive officers of the Sempra Utilities named in the Summary Compensation Table. All options are to purchase Sempra Energy Common Stock, were granted at an exercise price of 100% of the fair market value of the option shares on the date of the grant and for a ten-year term subject to earlier expiration following termination of employment. They become exercisable in cumulative installments of one-fourth of the shares initially subject to the option on each of the first four anniversaries of the grant date, with immediate exercisability upon a change of control or various events specified in the executive severance pay agreement.

Option Grants in 2004

Name	Number of	% of Total	Exercise	Expiration	Grant Date
	Shares	Options			
	Underlying	Granted to	Price	Date	Present
	Options	Employees	(\$/Share)		Value(A)
	Granted	in 2004			
Edwin A. Guiles	64,000	4.86%	\$ 30.20	1/01/14	\$ 465,920
Debra L. Reed	30,000	2.28%	\$ 30.20	1/01/14	\$ 218,400
Lee M. Stewart	19,800	1.50%	\$ 30.20	1/01/14	\$ 144,144
Steven D. Davis	13,400	1.02%	\$ 30.20	1/01/14	\$ 97,552
Margot A. Kyd	17,800	1.35%	\$ 30.20	1/01/14	\$ 129,584
James P. Avery	13,300	1.01%	\$ 30.20	1/01/14	\$ 96,824

(A) Sempra Energy used a modified Black-Scholes option pricing model to develop the theoretical values set forth in this column. Grant date present value per option share was \$7.28 based on the following assumptions: share volatility 30.19%; dividend yield 3.31%; risk-free rate of return 4.15%; and outstanding term 10 years.

The following table shows information as to the exercise of options during 2004 and unexercised options held on December 31, 2004 by the executive officers of the Sempra Utilities named in the Summary Compensation Table.

Option Exercises and Holdings

Name	Shares	Value	Number of Shares		Value of Unexercised
	Acquired	Realized	Underlying Unexercised		In-the-Money
	on Exercise		Options		Options
			at Year-End		at Year-End(A)
			Exercisable	Unexercisable	Exercisable
					Unexercisable

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Edwin A. Guiles	72,775	\$ 1,082,149	402,820	341,700	\$ 5,217,742	\$ 3,901,833
Debra L. Reed	158,320	\$ 1,857,233	169,925	158,675	\$ 2,236,904	\$ 1,808,698
Lee M. Stewart	142,300	\$ 2,058,508	126,350	112,650	\$ 1,668,825	\$ 1,296,200
Steven D. Davis	40,725	\$ 326,954	40,325	69,950	\$ 556,216	\$ 794,799
Margot A. Kyd	15,225	\$ 263,963	185,975	101,025	\$ 2,492,095	\$ 1,162,175
James P. Avery	52,850	\$ 401,714	0	75,100	\$ 0	\$ 943,501

(A) The exercise price of outstanding options ranges from \$18.38 to \$30.20.

Performance-Based Restricted Stock

The following table shows information as to performance-based restricted stock granted during 2004 to the executive officers of the Sempra Utilities named in the Summary Compensation Table.

Restricted Stock Awards in 2004

Name	Number of	Performance Period Until	Estimated Future Payouts (A)
	Restricted Shares	Payout	
Edwin A. Guiles	55,400	Four Years	\$ 1,673,080
Debra L. Reed	26,000	Four Years	\$ 785,200
Lee M. Stewart	17,200	Four Years	\$ 519,440
Steven D. Davis	11,600	Four Years	\$ 350,320
Margot A. Kyd	15,400	Four Years	\$ 465,080
James P. Avery	11,500	Four Years	\$ 347,300

(A) The estimated future payout amount represents the entire fair market value on the January 2, 2004 grant date of the shares subject to the restricted stock award without any reduction for forfeiture conditions or transfer restrictions. The actual payout (if any) will depend upon the extent to which performance goals are achieved and upon the then fair market value of Sempra Energy Common Stock.

Performance-based restricted stock consists of shares of Sempra Energy Common Stock that are subject to forfeiture conditions and transfer restrictions that terminate upon the satisfaction of long-term performance criteria. During the four-year performance period, the executive is entitled to vote the shares but they cannot be sold or otherwise transferred and dividends are reinvested to purchase additional shares, at then fair market value, which become subject to the same forfeiture conditions and transfer restrictions as the shares to which the dividends relate. If the performance criteria are not satisfied or the executive's employment is terminated during the performance period (other than by death or retirement after attaining age 55) the restricted shares are forfeited to the company and canceled subject to earlier vesting upon a change of control or various events specified in the executive's severance pay agreement.

The forfeiture conditions and transfer restrictions on restricted stock granted during 2004 will terminate at the end of 2007 if Sempra Energy has then achieved a four-year cumulative total return to shareholders that places it among the top 50% of the companies in the Standard & Poor's Utility Index or the Standard & Poor's 500 Composite Stock Price Index. If neither of these performance criteria is satisfied, the forfeiture conditions and transfer restrictions may be terminated as to a portion of the shares if Sempra Energy's four-year cumulative total shareholder return is among the top 70% of the companies in the S&P Utility Index. They will terminate as to 80% of the shares for performance among the top 55% of the companies in the S&P Utility Index with the percentage of shares as to which the restrictions may terminate declining ratably to 20% for performance among the top 70% of the companies in the S&P Utility Index. Any restricted shares for which forfeiture conditions and transfer restrictions have not terminated as of the end of 2007 will be forfeited to Sempra Energy and canceled.

Pension Plans

The following table shows the estimated single life annual pension annuity benefit provided to the executive officers of the Sempra Utilities named in the Summary Compensation Table under the Sempra Energy Supplemental Executive Retirement Plan (combined with benefits payable under the other pension plans of SDG&E and SoCalGas and its affiliates in which the officers also participate) based on the specified compensation levels and years of credited service and retirement at age 65.

Pension Plan Table

(\$000 s)

Pension Plan Compensation	Years of Service				
	5	10	20	30	40
\$ 250	\$ 50	\$ 100	\$ 150	\$ 156	\$ 163
\$ 500	\$ 100	\$ 200	\$ 300	\$ 313	\$ 325
\$ 750	\$ 150	\$ 300	\$ 450	\$ 469	\$ 488
\$1,000	\$ 200	\$ 400	\$ 600	\$ 625	\$ 650
\$1,250	\$ 250	\$ 500	\$ 750	\$ 781	\$ 813
\$1,500	\$ 300	\$ 600	\$ 900	\$ 938	\$ 975

Pension benefits are based on average salary for the highest two years of service and the average of the three highest annual bonuses during the last ten years of service and are paid without offset for Social Security benefits. Years of service includes service with subsidiaries and number 32 years for Mr. Guiles, 26 years for Ms. Reed, 37 years for Mr. Stewart, 24 years for Mr. Davis, 24 years for Ms. Kyd, and 4 years for Mr. Avery.

Mr. Guiles is entitled to pension benefits at the greater of that provided by Sempra Energy's pension plans or that to which he would have been entitled under the pension plans (including a supplemental pension plan) of a predecessor company had those plans remained in effect. Under the predecessor plans and retirement after attaining age 62, Mr. Guiles would be entitled to a monthly pension benefit of 60% of his final pay. Final pay is defined as the monthly base pay rate in effect during the month immediately preceding retirement, plus one-twelfth of the average of the highest three years' gross bonus awards. The plans provide for reduced pension benefits for retirement between the ages of 55 and 61, and surviving spouse and disability benefits equal to 100% of pension benefits.

Severance Pay Agreements

Sempra Energy has entered into a severance pay agreement with each of the executive officers of the Sempra Utilities providing for the payment of benefits in the event Sempra Energy or its subsidiaries terminates the executive's employment (other than for cause, death or disability) or the executive terminates his or her employment for good reason. Each agreement is for an initial term of three years and subject to automatic one year extensions on each anniversary of the effective date (commencing with the second anniversary) unless Sempra Energy or the executive elects not to extend the term.

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Severance benefits vary with the executive's position and include (i) a lump sum cash payment varying from 50% to 100% of the sum of the executive's annual base salary and the greater of the executive's average annual bonus or average annual target bonus for the two years prior to termination; (ii) continuation of health insurance benefits for a period of one year; and (iii) financial planning and outplacement services for a period ranging from 18 months to two years. If the termination were to occur within two years after a change in control of Sempra Energy (i) the lump sum cash payment would be multiplied by two; (ii) an additional lump sum payment would be paid equal to the pro rata portion for the year of termination of the target amount payable under any annual incentive compensation award for that year or, if greater, the average of the three highest gross

annual bonus awards paid to the executive in the five years preceding the year of termination; (iii) all equity-based incentive compensation awards would immediately vest and become exercisable or payable and any restrictions on the awards would automatically lapse; (iv) a lump sum cash payment would be made equal to the present value of the executive's benefits under the supplemental executive retirement plan calculated on the basis of the greater of actual years of service and years of service that would have been completed upon attaining age 62 and applying certain early retirement factors; (v) life, disability, accident and health insurance benefits would be continued to two years and (vi) financial planning and outplacement services would be provided for three years.

The agreements also provide that if the terminated executive agrees to provide consulting services to Sempra Energy for two years and abide by certain covenants regarding non-solicitation of employees and information confidentiality, the executive would receive (i) an additional lump sum payment equal to the executive's annual base salary and the greater of the executive's target bonus for the year of termination or the average of the two or three highest gross annual bonus awards paid to the executive in the five years prior to termination and (ii) health insurance benefits would be continued for an additional one year.

The agreements also provide for a gross up payment to offset the effects of any excise tax imposed on the executive under Section 4999 of the Internal Revenue Code.

Good reason is defined in the severance agreements to include the assignment to the executive of duties materially inconsistent with those appropriate to a senior executive of Sempra Energy and its subsidiaries; a material reduction in the executive's overall standing and responsibilities within Sempra Energy and its subsidiaries; and a material reduction in the executive's annualized compensation and benefit opportunities other than across-the-board reductions affecting all similarly situated executives of comparable rank. Following a change in control of Sempra Energy, good reason is defined to include an adverse change in the executive's title, authority, duties, responsibilities or reporting lines; reduction in the executive's annualized compensation opportunities other than across-the-board reductions of less than 10% similarly affecting all similarly situated executives of comparable rank; relocation of the executive's principal place of employment by more than 30 miles; and a substantial increase in business travel obligations. A change in control is defined to include the acquisition by one person or group of 20% or more of the voting power of Sempra Energy's shares; the election of a new majority of the board of Sempra Energy comprised of individuals who are not recommended for election by two-thirds of the current directors or successors to the current directors who were so recommended for election; certain mergers, consolidations or sales of assets that result in the shareholders of Sempra Energy owning less than 60% of the voting power of Sempra Energy or of the surviving entity or its parent; and shareholder approval of the liquidation or dissolution of Sempra Energy.

SHAREHOLDER PROPOSALS

Shareholders intending to bring any business before an Annual Meeting of Shareholders of the Sempra Utilities, including nominations for election as directors, must give written notice to the Corporate Secretary of the business to be presented. The notice must be received within the specified periods and must be accompanied by the information required by the bylaws. A copy of the applicable bylaw requirements will be provided upon request in writing to the Corporate Secretary.

The period for notice of business to be brought by shareholders before the 2005 Annual Meetings of Shareholders has expired. The period for the receipt of notice of business to be brought by shareholders before the 2006 Annual Meetings of Shareholders will commence on January 10, 2006 and end on March 11, 2006.

ANNUAL REPORTS

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SDG&E and SoCalGas are mailing their respective Annual Reports to the Securities and Exchange Commission on Form 10-K to their shareholders together with this Information Statement.