HARLEY DAVIDSON INC
Form 11-K
June 20, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 11-K

ý ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934:
For the fiscal year ended December 31, 2012.
OR

.. TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934:
For the transition period from to .
Commission File No. 1-9183

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:
Harley-Davidson Retirement Savings Plan for Salaried Employees
Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees
Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees
Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:
Harley-Davidson, Inc.
3700 West Juneau Avenue
Milwaukee, Wisconsin 53208

REQUIRED INFORMATION

1. Not applicable.
2. Not applicable.
3. Not applicable.
4. The Harley-Davidson Retirement Savings Plans (the "Plans") are subject to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Attached hereto are copies of the most recent financial statements and schedule of the Plans prepared in accordance with the financial reporting requirements of ERISA.

Exhibits

23 Consent of Independent Registered Public Accounting Firm

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plans) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

	Harley-Davidson Retirement Savings Plan for Salaried Employees
Date: June 20, 2013	By: /s/ Perry A. Glassgow
	Perry A. Glassgow Administrative Committee Member
	Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees
Date: June 20, 2013	By: /s/ Perry A. Glassgow
	Perry A. Glassgow Administrative Committee Member
	Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees
Date: June 20, 2013	By: /s/ Perry A. Glassgow
	Perry A. Glassgow Administrative Committee Member
	Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees
Date: June 20, 2013	By: /s/ Perry A. Glassgow
	Perry A. Glassgow Administrative Committee Member

Harley-Davidson Retirement Savings Plans
Financial Statements and Supplemental Schedule
Years Ended December 31, 2012 and 2011
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Harley-Davidson Retirement Plans Committee
Harley-Davidson, Inc.

We have audited the accompanying statements of net assets available for benefits of the Harley-Davidson Retirement Savings Plans as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plans' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Harley-Davidson Retirement Savings Plans at December 31, 2012 and 2011, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2012 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young, LLP
Milwaukee, Wisconsin
June 20, 2013

Harley-Davidson Retirement Savings Plans
Statements of Net Assets Available for Benefits
December 31, 2012

	Harley-Davidson Retirement Savings Plan for Salaried Employees (Plan No. 002)	Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees (Plan No. 005)	Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees (Plan No. 006)	Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees (Plan No. 008)
Assets:				
Investment in Harley-Davidson Retirement Savings Plan Master Trust (Note 3)	$ 423,078,399	$ 152,738,660	$ 11,730,983	$ 69,867,859
Receivables:				
Notes receivable from participants	4,119,176	3,388,307	741,406	1,487,994
Company contribution receivable	3,332,414	24,444	4,481	37,750
Total receivables	7,451,590	3,412,751	745,887	1,525,744
Net assets available for benefits	$ 430,529,989	$ 156,151,411	$ 12,476,870	$ 71,393,603

See accompanying notes to financial statements.

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Harley-Davidson Retirement Savings Plans
Statements of Net Assets Available for Benefits
December 31, 2011

	Harley-Davidson Retirement Savings Plan for Salaried Employees (Plan No. 002)	Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees (Plan No. 005)	Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees (Plan No. 006)	Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees (Plan No. 008)
Assets:				
Investment in Harley-Davidson Retirement Savings Plan Master Trust (Note 3)	$357,074,281	$ 150,300,030	$ 9,995,554	$ 65,521,445
Receivables:				
Notes receivable from participants	4,097,809	3,942,570	641,371	1,253,174
Company contribution receivable	2,399,212	—	—	—
Total receivables	6,497,021	3,942,570	641,371	1,253,174
Net assets available for benefits	$363,571,302	$ 154,242,600	$ 10,636,925	$ 66,774,619

See accompanying notes to financial statements.

Harley-Davidson Retirement Savings Plans
Statements of Changes in Net Assets Available for Benefits
Year Ended December 31, 2012

	Harley-Davidson Retirement Savings Plan for Salaried Employees (Plan No. 002)	Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees (Plan No. 005)	Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees (Plan No. 006)	Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees (Plan No. 008)
Additions:				
Income:				
Investment income of Harley-Davidson Savings Master Trust (Note 3)	$ 59,205,071	$ 19,980,602	$ 1,568,885	$ 10,500,395
Interest on notes receivable from participants	172,342	192,449	26,922	74,739
Total Income	59,377,413	20,173,051	1,595,807	10,575,134
Contributions:				
Participant	22,679,057	6,713,030	1,065,005	2,862,552
Participant rollovers	1,447,860	55,263	6,916	—
Company	11,222,452	946,800	189,834	958,656
Total contributions	35,349,369	7,715,093	1,261,755	3,821,208
Total additions	94,726,782	27,888,144	2,857,562	14,396,342
Deductions:				
Benefit payments and withdrawals	29,887,421	24,062,840	864,925	9,678,356
Administrative expenses	16,365	17,079	5,674	9,743
Total deductions	29,903,786	24,079,919	870,599	9,688,099
Net increase (decrease)	64,822,996	3,808,225	1,986,963	4,708,243
Transfers from (to) other Plans	2,135,691	(1,899,414)	(147,018)	(89,259)
Net increase (decrease)	66,958,687	1,908,811	1,839,945	4,618,984
Net assets available for benefits at beginning of year	363,571,302	154,242,600	10,636,925	66,774,619
Net assets available for benefits at end of year	$ 430,529,989	$ 156,151,411	$ 12,476,870	$ 71,393,603

See accompanying notes to financial statements.

Harley-Davidson Retirement Savings Plans
Statements of Changes in Net Assets Available for Benefits
Year Ended December 31, 2011

	Harley-Davidson Retirement Savings Plan for Salaried Employees (Plan No. 002)	Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees (Plan No. 005)	Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees (Plan No. 006)	Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees (Plan No. 008)
Additions:				
Income:				
Investment income of Harley-Davidson Savings Master Trust (Note 3)	$ 2,500,394	$ 2,698,157	$ 84,554	$ 945,548
Interest on notes receivable from participants	180,519	200,016	28,801	67,600
Total Income	2,680,913	2,898,173	113,355	1,013,148
Contributions:				
Participant	21,279,444	7,370,470	1,082,540	3,332,847
Participant rollovers	1,339,504	27,899	—	63,617
Company	9,899,293	1,061,745	186,320	1,172,633
Total contributions	32,518,241	8,460,114	1,268,860	4,569,097
Total additions	35,199,154	11,358,287	1,382,215	5,582,245
Deductions:				
Benefit payments and withdrawals	30,623,082	9,398,462	702,434	8,879,361
Administrative expenses	18,729	21,991	7,062	10,169
Total deductions	30,641,811	9,420,453	709,496	8,889,530
Net increase (decrease)	4,557,343	1,937,834	672,719	(3,307,285)
Transfers from (to) other Plans	111,217	—	(22,224)	(88,993)
Net increase (decrease)	4,668,560	1,937,834	650,495	(3,396,278)
Net assets available for benefits at beginning of year	358,902,742	152,304,766	9,986,430	70,170,897
Net assets available for benefits at end of year	$ 363,571,302	$ 154,242,600	$ 10,636,925	$ 66,774,619

See accompanying notes to financial statements.

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Harley-Davidson Retirement Savings Plans
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

1. Description of Plans

The accompanying financial statements comprise certain retirement savings plans of Harley-Davidson, Inc. and subsidiaries (collectively, the "Company") that participate in the Harley-Davidson Retirement Savings Plan Master Trust (the "Master Trust"). The Harley-Davidson Financial Services, Inc. 401(k) Profit Sharing Plan (the "Affiliated FSI Plan") also participates, to a limited extent, in the Master Trust. The financial statements of the Affiliated FSI Plan are not included herewith.

The following description of the Harley-Davidson Retirement Savings Plan for Salaried Employees, the Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees, the Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees, and the Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees (each, a "Plan" and collectively, the "Plans") provides only general information. Participants should refer to the applicable plan document for a more complete description of each Plan's provisions. The Plans are subject to and comply with the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The purpose of the Plans is to encourage eligible employees to regularly save part of their earnings and to assist them in accumulating additional financial security for their retirement. The Plans provide that both participant contributions and Company contributions be held in a trust by an independent trustee for the benefit of participating employees. Except for participant loans, all Plan assets are held in the Master Trust. The trustee of the Master Trust is Fidelity Management Trust Company. Fidelity Workplace Services LLC is the record-keeper for the Plans. Harley-Davidson Motor Company Group, LLC is the plan sponsor for the Plans.

General

Harley-Davidson Retirement Savings Plan for Salaried Employees

The Harley-Davidson Retirement Savings Plan for Salaried Employees ("SSP") is a defined contribution plan that covers salaried employees of Harley-Davidson, Inc.; Harley-Davidson Motor Company Group, LLC; Harley-Davidson Motor Company, Inc.; Harley-Davidson Motor Company Operations, Inc.; H-D U.S.A., LLC; and Harley-Davidson Dealer Systems, Inc. ("HDDS") meeting minimum eligibility requirements.

Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees

The Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees ("WHSP") is a defined contribution plan that covers hourly employees of the Harley-Davidson Motor Company Operations, Inc. Milwaukee area and Tomahawk plants, subject to a collective bargaining agreement and meeting minimum eligibility requirements.

Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees

The Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees ("KCSP") is a defined contribution plan that covers hourly employees of the Harley-Davidson Motor Company Operations, Inc. Kansas City plant, subject to a collective bargaining agreement and meeting minimum eligibility requirements.

Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees

The Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees ("YSP") is a defined contribution plan that covers hourly employees of the Harley-Davidson Motor Company Operations, Inc. York plant, subject to a collective bargaining agreement and meeting minimum eligibility requirements.

Contributions

Participants may defer a portion of their compensation on a pretax basis through contributions to the Plans. The Plans also allow participants to make Roth contributions to the Plans on an after-tax basis. The maximum amount that participants may defer and contribute to the Plans is determined from time to time by the plan administrator and is subject to limitations under the Internal Revenue Code (the "Code"). Rollover contributions to the Plans are permitted under certain circumstances, as defined in the applicable Plans. Participants who attain age 50 before the end of the applicable plan year are eligible to make additional elective deferrals (catch-up contributions), subject to Internal Revenue Service ("IRS") limits.

Harley-Davidson Retirement Savings Plans
Notes to Financial Statements (Continued)

1. Description of Plans (continued)

Harley-Davidson Retirement Savings Plan for Salaried Employees (SSP)
The SSP allows for Company matching contributions in Harley-Davidson, Inc. common stock up to $0.50 or $0.75 per dollar of participant contributions, depending on the participant's date of hire and/or employment locations. Company matching contributions may vary according to the Company's financial performance. For the 2012 and 2011 plan years, the matching contributions were made without regard to financial performance. The matching contributions apply only to participant contributions up to 6% of a participant's eligible compensation. Certain participants with a date of hire or rehire on or after August 1, 2006, and who are not covered under the Retirement Annuity Plan for Salaried Employees of Harley-Davidson ("Retirement Annuity Plan") during the same period receive an employer retirement contribution of 4% of their eligible pay, which is made regardless of the employee's participation in the SSP or Company performance. Effective January 1, 2011, HDDS employees were eligible to receive the 4% contribution regardless of hire date. Employees hired on or after January 1, 2007, are automatically enrolled in the SSP unless they affirmatively opt out.
Upon termination of employment, the nonvested portion of the participant's account, as defined by the SSP, represents a forfeiture. As of December 31, 2012 and 2011, forfeited nonvested accounts totaled $368,753 and $201,242, respectively. Company contributions to the SSP for the years ended December 31, 2012 and 2011, were reduced by forfeited nonvested accounts of $87,546 and $70,090, respectively.
Harley-Davidson Retirement Savings Plan for Milwaukee & Tomahawk Hourly Bargaining Unit Employees (WHSP)
The WHSP allows for Company matching contributions in Harley-Davidson, Inc. common stock up to $0.25 per dollar of participant contributions. Company matching contributions may vary according to the Company's financial performance. For the 2012 and 2011 plan years, the matching contributions were made without regard to financial performance. The matching contributions apply only to participant contributions up to 6% of a participant's eligible compensation. Employees hired on or after April 1, 2012, are automatically enrolled into the WHSP unless they affirmatively opt out.
Upon termination of employment, the nonvested portion of the participant's account, as defined by the WHSP, represents a forfeiture. There were no forfeited nonvested accounts as of December 31, 2012 and 2011.

Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees (KCSP)
The KCSP allows for Company matching contributions in Harley-Davidson, Inc. common stock up to $0.25 per dollar of participant contributions. Company matching contributions may vary according to the Company's financial performance. For the 2012 and 2011 plan years, the matching contributions were made without regard to financial performance. The matching contributions apply only to participant contributions up to 6% of a participant's eligible compensation. Employees hired on or after August 1, 2011, are automatically enrolled into the KCSP unless they affirmatively opt out.
Upon termination of employment, the nonvested portion of the participant's account, as defined by the KCSP, represents a forfeiture. There were no forfeited nonvested accounts as of December 31, 2012 and 2011.
Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees (YSP)
The YSP allows for Company matching contributions in Harley-Davidson, Inc. common stock up to $0.50 per dollar of participant contributions. Company matching contributions may vary according to the Company's financial performance. For the 2012 and 2011 plan years, the matching contributions were made without regard to financial performance. The matching contributions apply only to participant contributions up to 6% of a participant's eligible compensation. Employees hired on or after February 2, 2010, are automatically enrolled into the YSP unless they affirmatively opt out.
Upon termination of employment, the nonvested portion of the participant's account, as defined by the YSP, represents a forfeiture. There were no forfeited nonvested accounts as of December 31, 2012 and 2011.

Participants' Accounts

Separate accounts are maintained for each participant. The account balances are adjusted on a daily basis for participants' contributions, Company contributions, net investment income, loan fees, and distributions of participants' benefits or withdrawals. Participants have the option of investing their contributions in one or any combination of 31 investment funds, which includes a self-directed brokerage account feature. The Plans are intended to satisfy the requirements under Section 404(c) of ERISA and, therefore, provide that participants may choose to direct their contributions and/or all or part of their account balances among any of their respective Plan's investment alternatives daily. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Harley-Davidson Retirement Savings Plans
Notes to Financial Statements (Continued)

1. Description of Plans (continued)

Vesting

Participants are immediately vested in 100% of their contributions and earnings thereon. Participants vest 100% in Company contributions after completing three years of vesting service, with 1,000 hours of service in each year. Participants are 100% vested in their proportionate share of any dividends received by the Plans after September 1, 2011, on shares of Harley-Davidson, Inc. common stock held by the Plans in the Harley-Davidson, Inc. Common Stock Fund.

Participants who terminate due to death, disability, or retirement immediately become 100% vested in their entire account.

During the year ended December 31, 2011, the WHSP, KCSP and YSP each experienced a significant reduction in their employee work-force. This triggered partial plan terminations under the Code and Department of Labor regulations. As a result, the participants who were terminated in relation to the employee work-force reductions have been 100% vested in their account balances.

Payments of Benefits and Withdrawals

For payments made upon retirement, death, disability, or termination of employment, the balance in a participant's account is paid to the participant or beneficiary in a lump sum, periodic payments (in certain instances), or other form of payment as allowed under the Plans.

Participants may not withdraw prior to retirement, death, disability, or termination of employment any portion of their account pertaining to contributions made under provisions of Section 401(k) of the Code, except for financial hardships, as defined in the Code, or after the participant attains age 59 1/2 or becomes disabled, as defined by the Social Security Administration. The permissible in-service withdrawals are from participant contributions.

Participant Employee Stock Ownership Plan Dividend Election Rights

Effective September 1, 2011, the portion of the Plans that are at any time invested in Harley-Davidson, Inc. common stock held in the Harley-Davidson, Inc. Common Stock Fund shall be considered an employee stock ownership plan under Section 4975(e)(7) of the Code. Subsequent to September 1, 2011, each participant or beneficiary may elect to have their proportionate share of the Harley-Davidson, Inc. common stock dividends paid to them as cash or reinvested in the Harley-Davidson, Inc. Common Stock Fund.

Participant Loans

Participants may borrow up to 50% of their vested account balances, not to exceed $50,000. A borrower may request a loan only if the borrower's vested Plan account balance is at least $2,000, and the minimum loan amount shall be $1,000. Loans are not permitted from employer matching contributions or employer retirement contributions regardless of vesting status. Loans bear interest at a rate commensurate with that charged by commercial lenders for similar loans. The term of the loan cannot exceed five years (ten years in the case of a home purchase).

Administrative Expenses

Administrative expenses are shared by the Company and the Plans. Loan application and service fees are paid directly by participants.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plans to terminate the Plans subject to the provisions of ERISA, and for the WHSP, YSP, and KCSP the applicable collective bargaining agreements. In the event of plan termination, participants will become fully vested in their accounts.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plans are prepared under the accrual method of accounting in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

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2. Summary of Significant Accounting Policies (continued)

Investment Valuation and Income Recognition

All investment assets held by the Master Trust are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). See Note 4 for further discussion and disclosures related to fair value measurement. The Master Trust is an arrangement that provides for the collective investment of the assets of the Plans (see Note 3). Purchases and sales of specific Master Trust investments are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date.

Risks and Uncertainties

The Plans invest in various investment securities. Investments are exposed to various risks, such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the accompanying financial statements and notes.

Notes Receivable From Participants

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2012 or 2011. If a participant ceases to make loan repayments, the Plan administrator will deem the participant loan to be a distribution in accordance with applicable legal requirements, and the participant's account balance will be reduced at the earliest permitted date.

Use of Estimates

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

Payment of Benefits

Benefits are recorded when paid.

New Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 amended Accounting Standards Codification ("ASC") 820, Fair Value Measurement, to converge the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards. Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures, although certain of these new disclosures are not required for nonpublic entities, as defined in ASC 820. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Adoption of ASU 2011-04 did not have an effect on the Plan's net assets available for benefits or their changes in net assets available for benefits.

3. Master Trust

The purpose of the Master Trust is the collective investment of assets of the participating Plans. Each participating Plan's interest in the Master Trust is based on account balances of the participants and their elected investment options. The Master Trust assets are allocated among the participating Plans by assigning to each Plan those transactions (primarily contributions, benefit payments, and plan-specific expenses) that can be specifically identified and by allocating among all Plans, in proportion to the fair value of the assets assigned to each Plan, income and expenses resulting from the collective investment of the assets of the Master Trust.

Investment income and administrative expenses related to the Master Trust are allocated to the individual Plans daily based on each participant's account balance within each investment fund option.

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Harley-Davidson Retirement Savings Plans
Notes to Financial Statements (Continued)

3. Master Trust (continued)

A summary of the Master Trust's net assets as of December 31, 2012 and 2011 is as follows:

	2012	2011
Investments at fair value:		
Mutual funds:		
U.S. equity funds	$167,124,168	$147,809,370
International equities	49,580,085	44,276,202
Fixed income	57,244,897	43,247,051
Balanced funds	152,346,671	135,341,422
Brokerage accounts	8,017,602	2,585,955
Money market fund:		
Fidelity Retirement Money Market Portfolio	69,240,505	74,378,173
Harley-Davidson, Inc. Common Stock Fund	154,011,512	135,253,137
Net assets of the Master Trust	$657,565,440	$582,891,310

Investment income has been allocated among the Plans and the Affiliated FSI Plan based on the respective participants' interest, adjusted for other income and losses. Investment income generated by the investments of the Master Trust for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Interest and dividend income	$15,928,556	$14,051,907
Net appreciation (depreciation) in fair value of mutual funds	40,609,946	(24,860,136)
Net appreciation in fair value of brokerage accounts	233,087	13,917
Net appreciation in fair value of Harley-Davidson, Inc. common stock	34,500,322	17,022,965
Investment income of the Master Trust	$91,271,911	$6,228,653

The Plans' and the Affiliated FSI Plan's percentage interests in the Master Trust as of December 31, 2012 and 2011, are as follows:

	2012	2011
SSP	64.0 %	61.0 %
WHSP	23.4	26.0
KCSP	1.9	2.0
YSP	10.7	11.0
Affiliated FSI Plan	<0.1	—
Total	100.0 %	100.0 %

The net assets of the Harley-Davidson, Inc. Common Stock Fund consist of the following as of December 31, 2012 and 2011:

	2012	2011
Harley-Davidson, Inc. common stock	$153,409,126	$134,598,393
Money market fund	1,740,298	1,962,383
Other payable	(1,137,912)	(1,307,639)
Net assets of the Harley-Davidson, Inc. Common Stock Fund	$154,011,512	$135,253,137

Harley-Davidson Retirement Savings Plans
Notes to Financial Statements (Continued)

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Unobservable inputs for assets or liabilities (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumption about risk).

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

The following is a description of the valuation techniques and inputs used as of December 31, 2012 and 2011, for the Master Trust's assets measured at fair value:

Mutual funds: Valued at quoted market prices, which represent the net asset value ("NAV") of shares held at year-end.

Money market fund: Valued at cost, which approximates the fair value of the NAV of shares held at year-end.

Harley-Davidson Inc. Common Stock Fund: The fund is tracked on a unitized basis. The fund consists of Harley-Davidson, Inc. common stock and funds held in a money market fund sufficient to meet the fund's daily cash needs and other miscellaneous assets and liabilities. Unitizing the fund allows for daily trades. The fair value of a unit is based on the combined fair value of Harley-Davidson, Inc. common stock (closing price in an active market on which the securities are traded), the NAV of the money market fund, and other miscellaneous assets and liabilities held by the fund at year-end.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Harley-Davidson Retirement Savings Plans
Notes to Financial Statements (Continued)

4. Fair Value Measurements (continued)

The following tables set forth by level, within the fair value hierarchy, the Master Trust's assets at fair value as of December 31, 2012 and 2011:

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
U.S. equity funds	$167,124,168	$—	$ —	$167,124,168
International equity	49,580,085	—	—	49,580,085
Fixed income	57,244,897	—	—	57,244,897
Balanced funds	152,346,671	—	—	152,346,671
Brokerage accounts:				
Common stock				
Domestic	3,994,092	—	—	3,994,092
International	942,307	—	—	942,307
Mutual funds				
U.S. equity funds	799,948	—	—	799,948
International equity	211,884	—	—	211,884
Fixed income	609,727	—	—	609,727
Cash	1,459,644	—	—	1,459,644
Money market fund	69,240,505	—	—	69,240,505
Harley-Davidson Inc.				
Common Stock Fund	154,011,512	—	—	154,011,512
Total assets at fair value	$657,565,440	$—		

(in millions, except per share amounts)	**2009**	**2008**	**% Change**
Revenues:			
Transaction fees	$ 958.5	$ 1,020.8	(6)%
Foreign exchange revenue	205.1	210.0	(2)%
Commission and other revenues	37.6	35.1	7%
Total revenues	1,201.2	1,265.9	(5)%
Expenses:			
Cost of services	669.1	758.6	(12)%
Selling, general and administrative	191.2	198.0	(3)%
Total expenses	860.3	956.6	(10)%
Operating income	340.9	309.3	10%
Other income/(expense):			
Interest income	3.7	17.7	(79)%
Interest expense	(40.0)	(45.0)	(11)%
Derivative (losses)/gains, net	(3.6)	6.8	*
Other income, net	4.2	3.7	14%
Total other expense, net	(35.7)	(16.8)	*
Income before income taxes	305.2	292.5	4%
Provision for income taxes	81.3	85.4	(5)%
Net income	$ 223.9	$ 207.1	8%

Earnings per share:					
Basic	$	0.32	$	0.28	14%
Diluted	$	0.32	$	0.27	19%
Weighted-average shares outstanding:					
Basic		707.1		746.7	
Diluted		708.0		756.8	

* Calculation not meaningful

Revenues Overview

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 revenues declined 5% during the three months ended March 31, 2009. The revenue decrease is attributable to the strengthening of the United States dollar compared to most other foreign currencies, which adversely impacted revenue growth by approximately 5%, as discussed below. The weakening global economy and its impact on Western Union customers contributed to the decrease in revenue and slowing transaction growth. Also, impacting revenue was geographic mix, product mix including intra-country activity which has a lower revenue per transaction than cross-border transactions and price decreases.

Within our consumer-to-consumer segment, the Europe, Middle East, Africa and South Asia (EMEASA) region, which represented 43% of our total consolidated revenue for the three months ended March 31, 2009, experienced revenue declines and slower transaction growth rates during the three months ended March 31, 2009 compared to the corresponding period in the prior year due to most of the same factors discussed earlier related

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to the consolidated results. The acquisition of FEXCO s money transfer business did not have an impact on our revenue as we were already recognizing 100% of the revenue arising from money transfers originating at FEXCO s subagents.

The Americas region (which includes North America, Latin America, the Caribbean and South America), which represented a third of our total consolidated revenue, experienced revenue declines due primarily to the overall weakening of the United States economy.

The consumer-to-business segment, which is discussed in greater detail in Segment Discussion, also experienced a revenue decline during the three months ended March 31, 2009 compared to the corresponding period in the prior year. Revenue was adversely impacted by the continued weakening economic situation in the United States and by a shift to lower revenue per transaction products in a portion of this segment.

Foreign exchange revenue decreased for the three months ended March 31, 2009 over the corresponding previous period at a rate relatively consistent with the decrease in our revenue from our cross-currency, international consumer-to-consumer business outside of the United States.

Fluctuations in the exchange rate between the United States dollar and currencies other than the United States dollar for the three months ended March 31, 2009 have resulted in a reduction to transaction fee and foreign exchange revenue of $60.7 million over the same period in the prior year, net of foreign currency hedges, that would not have occurred had there been constant currency rates. The impact to earnings per share during the quarter was less than the revenue impact due to the translation of expenses and our foreign currency hedging program. The majority of our foreign currency exchange rate exposure is related to the EMEASA region. If exchange rates between the United States dollar and other currencies remain constant with those experienced in the first quarter of 2009, we expect a continued negative impact on our revenue for the remainder of 2009.

Operating expenses overview

Restructuring and related expenses

For the three months ended March 31, 2008, restructuring and related expenses of $22.4 million and $1.8 million are classified within cost of services and selling, general and administrative, respectively, in the condensed consolidated statements of income. These restructuring and related expenses are associated with the closure of our facilities in Missouri and Texas and other reorganization plans executed in the first quarter of 2008.

Cost of services

Cost of services primarily consists of agent commissions and expenses for call centers, settlement operations, and related information technology costs. Expenses within these functions include 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 decreased for the three months ended March 31, 2009 compared to the corresponding previous period due primarily to agent commissions, which decrease as revenues decrease, the restructuring costs incurred in 2008 which did not recur in 2009 and the strengthening of the United States dollar compared to most other foreign currencies which resulted in a favorable impact on the translation of our expenses. Cost of services as a percentage of revenue was 56% and 60% during the three months ended March 31, 2009 and 2008, respectively. The decrease in cost of services as a percentage of revenue for the three months ended March 31, 2009 compared to the corresponding period in 2008 was generally due to the restructuring costs incurred in 2008 and the related cost savings in 2009 as well as signing selective agents at lower commission rates than in 2008, offset somewhat by certain agents signing at higher commission rates.

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Selling, general and administrative

Selling, general and administrative expenses (SG&A) decreased for the three months ended March 31, 2009 compared to the corresponding period in the previous year primarily due to decreased employee compensation and related expenses, the timing of marketing initiatives, better leveraging of our marketing expenses and the strengthening of the United States dollar compared to most other foreign currencies which resulted in a favorable impact.

Marketing related expenditures, principally classified within SG&A, were approximately 4% and 5% of revenue during the three months ended March 31, 2009 and 2008, respectively. The decrease over prior year is due to timing of marketing initiatives and better leveraging of our marketing expenditures. 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 fee adjustments, as discussed in Segment Discussion, and other initiatives in order to best maximize the return on these investments.

Interest income

Interest income during the three months ended March 31, 2009 decreased due to lower short-term interest rates and, to a lesser extent, lower average interest bearing cash balances.

Interest expense

Interest expense decreased during the three months ended March 31, 2009 compared to the same period in the prior year due to lower short-term interest rates and lower average borrowing balances.

Derivative (losses)/gains, net

Derivative (losses)/gains, net for the three months ended March 31, 2009 and 2008 relate primarily to the portion of the change in fair value of foreign currency accounting hedges that is excluded from the measurement of effectiveness, which includes (a) differences between changes in forward rates and spot rates, and (b) gains or losses on the contract and any offsetting positions during periods in which the instrument is not designated as a hedge. Although the majority of changes in the value of our hedges are deferred in accumulated other comprehensive income or loss until settlement (i.e. spot rate changes), the remaining portion of changes in value are recognized in income as they occur.

Other income, net

Other income, net increased during the three months ended March 31, 2009 compared to the corresponding period in 2008 primarily due to increased earnings on our equity method investments, partially offset by no equity method earnings for FEXCO recorded subsequent to the acquisition date.

Income taxes

Our effective tax rates on pretax income were 26.6% and 29.2% for the three months ended March 31, 2009 and 2008, respectively. We continue to benefit from an increasing proportion of profits being foreign-derived and therefore taxed at lower rates than our combined federal and state tax rates in the United States. In addition, in 2008, we implemented additional foreign tax efficient strategies consistent with our overall tax planning which impacted our effective tax rate for all subsequent periods.

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 March 31, 2009, the total amount of unrecognized tax benefits is a liability of $426.0 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 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.

The United States Internal Revenue Service (IRS) completed its examination of the United States federal consolidated income tax returns of First Data for 2003 and 2004, of which we are a part, and issued a Notice of Deficiency in December 2008. The Notice of Deficiency alleges significant additional taxes, interest and penalties owed with respect to a variety of adjustments involving us and our subsidiaries, and we generally have responsibility for taxes associated with these potential Western Union-related adjustments under the tax allocation agreement with First Data executed at the time of the spin-off. We agree with a number of the adjustments in the Notice of Deficiency; however, we do not agree with the Notice of Deficiency regarding several substantial adjustments representing total alleged additional tax and penalties due of approximately $114 million. As of March 31, 2009, interest on the alleged amounts due for unagreed adjustments would be approximately $25 million. A substantial part of the alleged amounts due for these unagreed adjustments relates to our international restructuring, which took effect in the fourth quarter 2003, and, accordingly, the alleged amounts due related to such restructuring largely are attributable to 2004. On March 20, 2009, we filed a petition in the United States Tax Court contesting those adjustments with which it does not agree. We believe our overall reserves are adequate, including those associated with adjustments alleged in the Notice of Deficiency. If the IRS position in the Notice of Deficiency is sustained, our tax provision related to 2003 and later years would materially increase.

Earnings per share

During the three months ended March 31, 2009, basic and diluted earnings per share were both $0.32. Unvested shares of restricted stock are excluded from basic shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options on the presented dates are exercised and shares of restricted stock have vested. As of March 31, 2009 and 2008, there were 43.1 million and 8.2 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation under the treasury stock method as their effect was anti-dilutive. The treasury stock method assumes proceeds from the exercise price of stock options, the unamortized compensation expense and assumed tax benefits of options and restricted stock are available to acquire shares at an average price throughout the year, and therefore, reduce the dilutive effect throughout the year. The increase in anti-dilutive shares is primarily due to the majority of our outstanding options having an exercise price higher than our average stock price for the three months ended March 31, 2009.

Of the 45.3 million outstanding options to purchase shares of our common stock as of March 31, 2009, approximately 43% are held by employees of First Data.

Earnings per share increased during the three months ended March 31, 2009 compared to the same period in the prior year due to increased net income as a result of the previously described factors, and lower weighted-average shares outstanding. The lower number of shares outstanding was driven by stock repurchases exceeding stock option exercises during the period from January 1, 2008 through March 31, 2009.

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

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segments are consumer-to-consumer and consumer-to-business. Businesses not considered part of these segments are categorized as Other. Expenses incurred in connection with the development of certain new service offerings, including costs to develop mobile money transfer services, new prepaid service offerings and costs incurred in connection with mergers and acquisitions are included in Other.

We incurred expenses of $24.2 million for restructuring and related activities during the three months ended March 31, 2008, which were not allocated to segments. While these items were identifiable to our segments, they were not included in the measurement of segment operating profit provided to the CODM for purposes of assessing segment performance and decision making with respect to resource allocation. For additional information on restructuring and related activities refer to Operating expenses overview.

The following table sets forth the components of segment revenues as a percentage of the consolidated totals for the three months ended March 31, 2009 and 2008.

	Three Months ended March 31,	
	2009	**2008**
Consumer-to-consumer (a)		
EMEASA	43%	42%
Americas	33%	34%
APAC	8%	7%
Total Consumer-to-consumer	84%	83%
Consumer-to-business	14%	15%
Other	2%	2%
Total	100%	100%

(a) The geographic split is determined based upon the region where the money transfer is initiated and the region where the money transfer is paid. For transactions originated and paid in different regions, we split the revenue between the two regions, with each region receiving 50%. For money transfers initiated and paid in the same region, 100% of the revenue is attributed to that region.

Consumer-to-Consumer Segment

The following table sets forth our consumer-to-consumer segment results of operations for the three months ended March 31, 2009.

	Three Months Ended March 31,		
(dollars and transactions in millions)	**2009**	**2008**	**% Change**
Revenues:			
Transaction fees	$ 785.6	$ 834.6	(6)%
Foreign exchange revenue	204.3	209.3	(2)%
Other revenues	13.8	9.9	39%
Total revenues	$ 1,003.7	$ 1,053.8	(5)%
Operating income	$ 286.7	$ 273.3	5%
Operating income margin	29%	26%	
Key indicators:			
Consumer-to-consumer transactions	45.9	43.1	7%

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The table below sets forth transaction and revenue growth/(decline) rates by region for the three months ended March 31, 2009 and 2008.

	Three Months Ended March 31, 2009
Consumer-to-consumer transaction growth/(decline) (a)	
EMEASA	15%
Americas	(3)%
APAC	25%
Consumer-to-consumer revenue (decline)/growth (a)	
EMEASA	(4)%
Americas	(7)%
APAC	3%

(a) In determining the revenue and transaction growth rates under the regional view in the above table, the geographic split is determined based upon the region where the money transfer is initiated and the region where the money transfer is paid. For transactions originated and paid in different regions, we split the transaction count and revenue between the two regions, with each region receiving 50%. For money transfers initiated and paid in the same region, 100% of the revenue and transactions are attributed to that region.

When referring to revenue and transaction growth rates for individual countries in the following discussion, all transactions to, from and within those countries, and 100% of the revenue associated with each transaction to, from and within those countries are included. The countries of India and China combined represented approximately 7% and 6% of consolidated Western Union revenues during the three months ended March 31, 2009 and 2008, respectively. No individual country, other than the United States, represented more than approximately 6% of our consolidated revenue for the three months ended March 31, 2009.

Transaction fees and foreign exchange revenue

Consumer-to-consumer money transfer revenue declined 5% on transaction growth of 7% for the three months ended March 31, 2009 over the same period in 2008. The revenue decline is attributable to the strengthening of the United States dollar compared to most other foreign currencies, which adversely impacted revenue growth by approximately 6%, as discussed below. The weakening global economy and its impact on Western Union customers contributed to the decrease in revenue and slowing transaction growth. Also, impacting revenue was geographic mix, product mix including intra-country activity which has a lower revenue per transaction than cross border transactions and price decreases. Our international consumer-to-consumer business experienced a revenue decline of 3% on transaction growth of 11%. Our international business represents all transactions other than transactions between and within the United States and Canada and transactions to and from Mexico. Our international consumer-to-consumer business outside of the United States also experienced revenue declines on transaction increases for the three months ended March 31, 2009 as a result of the factors described above.

Revenue in our EMEASA region declined 4% during the three months ended March 31, 2009, compared to the same period in 2008. Certain of our European markets experienced revenue declines during the three months ended March 31, 2009 as compared to the same period in 2008. The revenue decline in the EMEASA region was primarily driven by the impact of translating foreign currency denominated revenues into the United States dollar, as further described below. Also, impacting EMEASA revenue was geographic mix and price decreases. Our money transfer business to India for the three months ended March 31, 2009 versus the same period in 2008 continued to grow with strong transaction and revenue growth of 42% and 19%, respectively. Over the same period, transaction growth and, to a lesser extent, revenue growth in the Gulf States continued to be strong.

Americas revenue declined 7% on transaction declines of 3% for the three months ended March 31, 2009 compared to the same period in 2008. Contributing to the overall decline in the Americas region was the

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domestic business which experienced revenue declines of 10% on transaction declines of 7% and our Mexico business with revenue declines of 10% on transaction declines of 9%. Our United States domestic and Mexico business revenue declined due to the continued weakening of the United States economy and rising unemployment.

In early July 2008, the Arizona Court of Appeals overturned a trial court s ruling in Western Union s favor regarding the authority of the Arizona Attorney General to seize money transfers originated in states other than Arizona and intended for payment in Mexico. In December, the Arizona Supreme Court agreed to hear the case, which was argued on January 13, 2009. The Arizona Supreme Court has not yet issued a decision. The Arizona Attorney General has not attempted to resume the type of seizures that are at issue in this litigation. However, we remain subject to scrutiny in Arizona by law enforcement and regulatory agencies. The Arizona Attorney General has and continues to make extensive data requests of us regarding our operations, our agents and our consumers.

The legal and regulatory environment in Arizona remains challenging, and we could become subject to additional civil and possibly criminal actions. For example, in recent weeks, the Arizona Attorney General has publicly alleged that Western Union s money transfer system, in violation of law, has facilitated third-party criminal activity. Although Western Union vigorously disagrees with any allegation that it has failed to comply with applicable laws, the Company hopes to resolve these issues in a manner reasonably acceptable to all parties. However, additional civil or criminal actions are possible and could have a material adverse effect on our business, financial position and results of operations.

APAC revenue increased 3% on transaction growth of 25% for the three months ended March 31, 2009 compared to the same period in 2008, driven by strong inbound growth to the region. The Philippines continues to be a main driver of inbound growth, even though the growth in this market has moderated during the three months ended March 31, 2009 compared to the first quarter of 2008. Growth in the Philippines was offset to some extent by declines in other countries, such as China, due to the weakening global economy described above and the decline in high revenue transactions from small entrepreneurs that typically make purchases in China. China revenue and transactions declined 13% and 1% for the three months ended March 31, 2009, respectively.

Foreign exchange revenue decreased for the three months ended March 31, 2009 over the corresponding previous period at a rate relatively consistent with the decrease in our revenue from our cross-currency, international consumer-to-consumer business outside of the United States.

Fluctuations in the exchange rate between the United States dollar and currencies other than the United States dollar for the three months ended March 31, 2009 have resulted in a reduction to transaction fee and foreign exchange revenue of $57.9 million over the same period in the previous year, net of foreign currency hedges, that would not have occurred had there been constant currency rates. The majority of our exposure is related to the EMEASA region. If exchange rates between the United States dollar and other currencies remain constant with those experienced in the first quarter of 2009, we expect a continued negative impact on our revenue for the remainder of 2009.

We have historically implemented and will likely implement future strategic fee reductions and actions to reduce foreign exchange spreads, where appropriate, taking into account growth opportunities and competitive factors. Fee 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. For the full year 2009, we expect that such fee decreases and foreign exchange actions may be around 2% of total Western Union revenue compared to 1% for the full year 2008.

Contributing to the increase in total consumer-to-consumer money transfer 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 the Western Union brand and services. The majority of transaction growth is

derived from more mature agent locations; new agent locations typically contribute only marginally to growth in the first few years of their operation. Increased productivity, measured by transactions per location, is often experienced as locations mature. We believe that new agent locations will help 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 and convenience for consumers to generate transactions. The number of send and receive transactions at an agent location can vary significantly due to such factors as customer demographics around the location, migration patterns, the location s class of trade, hours of operation, length of time the location has been offering our services, regulatory limitations and competition. Each of the more than 379,000 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 March 31, 2009, 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 previous 12 months. In the developing regions of Asia and other areas where there are primarily receive locations, approximately 70% of locations experienced money transfer activity in the previous 12 months. We periodically review locations to determine whether they remain enabled to perform money transfer transactions.

Historically, consumer-to-consumer segment revenue has typically increased from the first quarter to the fourth quarter each year, and declined from the fourth quarter to the first quarter of the following year. This seasonal fluctuation is related in part to holidays in various countries during the fourth quarter. However, prior results may not be indicative of future periods.

Operating income

Consumer-to-consumer operating income increased 5% during the three months ended March 31, 2009 compared to the same period in 2008 due to lower agent commission costs and savings realized from the 2008 restructurings. These factors also contributed to the increase in operating income margin.

Consumer-to-Business Segment

The following table sets forth our consumer-to-business segment results of operations for the three months ended March 31, 2009 and 2008.

	Three Months Ended March 31,		
	2009	**2008**	**% Change**
(dollars and transactions in millions)			
Revenues:			
Transaction fees	$ 163.0	$ 176.6	(8)%
Other revenues	11.2	13.2	(15)%
Total revenues	$ 174.2	$ 189.8	(8)%
Operating income	$ 50.5	$ 56.2	(10)%
Operating income margin	29%	30%	
Key indicators:			
Consumer-to-business transactions	105.9	103.5	2%

Revenues

During the three months ended March 31, 2009, the consumer-to-business segment revenue was adversely impacted by the continued weakening economic situation in the United States and by a shift to lower revenue per

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transaction products in a portion of our segment. Many United States consumers who would use our services are having difficulty paying their bills and are unable to obtain credit in any form, resulting in us handling fewer bill payments. Nearly 90% of the segment s revenues are generated in the United States.

Transaction growth during the three months ended March 31, 2009 compared to the corresponding period in the prior year, was driven by our South America business which carries a lower revenue per transaction than our United States bill payment businesses which declined, resulting in a decrease in overall revenue.

Operating income

For the three months ended March 31, 2009, operating income decreased compared to the same period in the prior year primarily due to operating income declines related to the United States-based bill payments businesses and expenses associated with changes to our segment s senior management, offset slightly by the savings generated from the 2008 restructurings and an increase in operating profit in our South America business.

The decline in operating income margin in the segment is due to the factors described above and continues to be impacted by the decline in the United States cash-based payments businesses which have a higher operating income margin compared to our South America business.

Other

The following table sets forth other results for the three months ended March 31, 2009 and 2008.

	Three Months Ended March 31,		
	2009	**2008**	**% Change**
(dollars in millions)			
Revenues	$ 23.3	$ 22.3	4%
Operating income	$ 3.7	$ 4.0	(8)%
Operating income margin	16%	18%	

Revenues

Revenue increased slightly for the three months ended March 31, 2009 over the same period in 2008 due to revenue growth in our prepaid services businesses.

First Data, through its subsidiary Integrated Payment Systems Inc. (IPS), issues Western Union branded money orders, pursuant to a five year agreement that was executed in conjunction with the spin-off. On July 18, 2008, we entered into an agreement with IPS which modified the existing business relationship with respect to the issuance and processing of money orders. Under the terms of that agreement beginning on October 1, 2009 (the Transition Date), IPS will assign and transfer to us certain operating assets used by IPS to issue money orders and an amount of cash sufficient to satisfy all outstanding money order liabilities. On the Transition Date, we will assume IPS s role as issuer of the money orders, including its obligation to pay outstanding money orders and will terminate the existing agreement whereby IPS pays us a fixed return on the outstanding money order balances (which vary from day to day but approximate $800 million). Following the Transition Date, we will invest the cash received from IPS in high-quality, investment grade securities in accordance with applicable regulations, which are the same as those currently governing the investment of our United States originated money transfer principal. In anticipation of investing the cash received at the Transition Date and the exposure to fluctuations in interest rates, we have entered into interest rate swaps on certain of our fixed rate notes. Through a combination of the revenue generated from investment securities and the interest rate swaps described below, we anticipate that we should be able to retain a comparable rate of return through 2011 as we are receiving under our current agreement with IPS.

Subsequent to the Transition Date, all revenue generated from the management of the investment portfolio will be retained by us and none will be shared with our agents. IPS will continue to provide to us clearing services necessary for payment of the money orders in exchange for the payment by us to IPS of a per-item administrative fee. We will no longer provide to IPS the services required under the original money order agreement or receive from IPS the fee for such services.

Operating income

During the three months ended March 31, 2009, the decrease in operating income is due to costs incurred in connection with expenses associated with evaluating and closing acquisitions, partially offset by increased profits from our prepaid services and money order businesses.

Capital Resources and Liquidity

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

Our future cash flows could be impacted by a variety of factors, some of which are out of our control, including changes in economic conditions, especially those impacting the migrant population, and changes in income tax laws or the status of income tax audits. In addition, we are subject to certain provisions in our 6.500% notes due 2014 (2014 Notes) and our derivative contracts which would require settlement or collateral posting in the event of a change in control combined with a downgrade below investment grade.

A significant portion of our cash flows from operating activities has been generated from subsidiaries, some of which are regulated entities. These subsidiaries may transfer all excess cash to the parent company for general corporate use, except for assets subject to legal or regulatory restrictions. The assets subject to legal or regulatory restrictions include those located in countries outside of the United States containing restrictions from being transferred outside of those countries and cash and investment balances that are maintained by a regulated subsidiary to secure certain money transfer obligations initiated in the United States in accordance with applicable state regulations in the United States. Significant changes in the regulatory environment for money transmitters could impact our primary source of liquidity.

Cash and Investment Securities

As of March 31, 2009, we have cash and cash equivalents of $1.5 billion. Our foreign entities held $560.7 million of our cash and cash equivalents at March 31, 2009. Our ongoing cash management strategies to fund our business needs could cause United States and foreign cash balances to fluctuate.

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

On September 15, 2008, we requested redemption of our shares in the Reserve International Liquidity Fund, Ltd. (the Fund), a money market fund, totaling $298.1 million, which was included in Other assets in the condensed consolidated balance sheet as of December 31, 2008. This surplus cash was not required or used for daily operations. At the time the redemption request was made, we were informed by the Reserve Management Company, the Fund s investment advisor (the Manager), that our redemption trades would be honored at a

$1.00 per share net asset value. In January 2009, we received a partial distribution of $193.6 million from the Fund. As of March 31, 2009, we had a remaining balance of $104.5 million. We expect to receive and are vigorously pursuing collection of the remaining balance based on the maturities of the underlying investments in the Fund, the written and verbal representations from the Manager to date and our legal position regarding our right to full payment. Nevertheless, due to uncertainty surrounding the outcome of litigation facing the Fund, as well as potential variability in the ultimate amount and timing of the recovery of the remaining balance, the fair value of this financial asset may be less than the related carrying value. There is a risk the redemption process could be delayed and that we could receive less than the $1.00 per share net asset value, should a pro-rata distribution occur. Based on net asset information provided by the Fund, our exposure related to pro-rata distribution could be approximately $12 million, excluding potential costs incurred by the Fund. We believe that, despite this situation, we have adequate liquidity to meet our business needs through our existing cash balances, our ability to generate cash flows through operations, and the amounts available to borrow under our commercial paper program and our revolving credit facility, as described under Financing Resources below.

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

Investment securities, included in settlement assets, were $469.7 million as of March 31, 2009. Substantially all of these investments are state and municipal debt instruments. Most state regulators in the United States require us to maintain specific high-quality, investment grade securities and such investments are intended to secure relevant outstanding settlement obligations in accordance with applicable regulations. We do not hold financial instruments for trading purposes, and all of our investment securities are classified as available-for-sale and recorded at fair value.

Investment securities are exposed to market risk due to changes in interest rates and credit risk. We regularly monitor credit risk and attempt to mitigate our exposure by making high quality investments. As of March 31, 2009, the significant majority of our investment securities had credit ratings of AA- or better from a major credit rating agency. Our investment securities are also actively managed with respect to concentration. As of March 31, 2009, there were no investments with a single issuer or individual securities representing more than 10% of our investment securities portfolio.

IPS, our third-party issuer of Western Union money orders, holds the settlement assets generated from the sale of money orders, and maintains the responsibility for investing those funds. Based on the terms of the agreement with IPS, we are provided with a fixed rate of return on the funds awaiting settlement. In connection with the July 18, 2008 agreement we entered into with IPS, on October 1, 2009 we will assume the responsibility for the settlement of money orders and will have responsibility for managing the investment portfolio. On the same date, we will receive an amount of cash sufficient to satisfy all outstanding money order liabilities, which vary from day to day but approximate $800 million. In anticipation of our exposure to fluctuations in interest rates, we have entered into interest rate swaps on certain of our fixed rate notes. Through a combination of the revenue generated from these investment securities and the anticipated interest expense savings resulting from these interest rate swaps, we estimate that we should be able to retain subsequent to the Transition Date a comparable rate of return through 2011 as we are receiving under our current agreement with IPS.

Cash Flows from Operating Activities

During the three months ended March 31, 2009 and 2008, cash provided by operating activities was $356.6 million and $318.0 million, respectively. Cash flows provided by operating activities increased for the three months ended March 31, 2009 compared to the same period in the prior year primarily due to higher net income and beneficial working capital fluctuations in 2009.

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Financing Resources

On February 26, 2009, we issued $500 million aggregate principal amount of 2014 Notes to repay the balance of the term loan which was scheduled to mature in December 2009 (Term Loan). Interest with respect to the 2014 Notes is payable semiannually on February 26 and August 26 each year based on the fixed per annum interest rate of 6.500%. We may redeem the 2014 Notes at any time prior to maturity at the greater of par or the applicable make whole premium.

At March 31, 2009, we have outstanding borrowings of $3,056.6 million. These outstanding borrowings consist of $3,050.6 million in unsecured fixed rate notes with maturities ranging from 2011 to 2036, including our 2014 Notes which were issued in February 2009 and used to repay our Term Loan as discussed above. We also have a $1.5 billion revolving credit facility available, diversified through a group of 15 participating institutions, to meet additional liquidity needs that might arise, and which is available to support borrowings under our commercial paper program. The largest commitment from any single financial institution within the total committed balance of $1.5 billion is approximately 20%. All banks within this group were rated at least A- or better as of March 31, 2009. As of March 31, 2009, there are no borrowings outstanding under the revolving credit facility, and we have $1.5 billion available to borrow.

Pursuant to our commercial paper program, we may issue unsecured commercial paper notes in an amount not to exceed $1.5 billion outstanding at any time. Our commercial paper borrowings may have maturities of up to 397 days from date of issuance. Interest rates for borrowings are based on market rates at the time of issuance. We had no commercial paper borrowings outstanding at March 31, 2009.

Cash Priorities

Liquidity

Our objective is to maintain solid liquidity and a capital structure consistent with our current credit ratings. We have existing cash balances, cash flows from operating activities, access to the commercial paper markets and our $1.5 billion revolving credit facility available to support the needs of our business.

Capital Expenditures

The total aggregate amount capitalized for contract costs, purchases of property and equipment, and purchased and developed software was $15.8 million and $23.5 million for the three months ended March 31, 2009 and 2008, respectively. Amounts capitalized for new and renewed agent contracts were $3.2 million and $7.1 million during the three months ended March 31, 2009 and 2008, respectively. Such contract costs will vary depending on the terms of existing contracts as well as the timing of new and renewed contract signings. Other capital expenditures during these periods included investments in our information technology infrastructure and purchased and developed software, and in the three months ended March 31, 2008, the renovation of certain facilities.

Acquisition of Business

On February 24, 2009, we acquired the money transfer business of European-based FEXCO Group Holdings (FEXCO Group) one of our largest agents providing services in a number of European countries, primarily the United Kingdom, Spain, Sweden and Ireland. We surrendered our 24.65% interest in FEXCO Group and paid 123.1 million ($157.4 million) as consideration for 100% of the common shares of the money transfer business and acquired cash of $11.8 million.

Share Repurchases

Since September 2006, the Board of Directors has authorized common stock repurchases of up to $3.0 billion consisting of a $1.0 billion authorization in June 2008 (2008 Authorization), a $1.0 billion authorization

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in December 2007 (2007 Authorization) and a $1.0 billion authorization in September 2006. Both the 2007 Authorization and the authorization in September 2006 have been fully utilized. During the three months ended March 31, 2009 and 2008, 8.8 million and 13.9 million shares were repurchased for $100.0 million and $297.2 million, excluding commissions, at an average cost of $11.39 and $21.41 per share, respectively. As of March 31, 2009, $839.7 million remains available under the 2008 Authorization for purchases through December 31, 2009.

Off-Balance Sheet Arrangements

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

Pension Plans

We have two frozen defined benefit pension plans for which we have a recorded unfunded pension obligation of $106.8 million as of March 31, 2009. No contributions were made to these plans by Western Union during the three months ended March 31, 2009. Due to the impact of legislation enacted in late 2008, we will not be required to contribute to these plans during 2009, but estimate we will be required to fund approximately $20 to $25 million in 2010.

Other Commercial Commitments

We had $87.1 million in outstanding letters of credit and bank guarantees at March 31, 2009, with expiration dates through 2015, certain of which contain a one-year renewal option. The letters of credit and bank guarantees are primarily held in connection with lease arrangements and certain agent agreements. We expect to renew the letters of credit and bank guarantees prior to expiration in most circumstances.

As of March 31, 2009, our total amount of unrecognized income tax benefits is a liability of $426.0 million, including associated interest and penalties. The timing of related cash payments for substantially all of these liabilities is inherently uncertain because the ultimate amount and timing of such liabilities is affected by factors which are variable and outside our control.

New Accounting Pronouncements

In April 2009, the FASB issued FSP No.157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP No. 157-4) which is required for interim and annual periods ending after June 15, 2009. FSP No. 157-4, which amends SFAS No. 157, provides additional guidance on estimating fair value when an asset or liability s volume and level of activity has significantly decreased in relation to normal market activity for the asset or liability thus indicating the need for additional considerations when estimating fair value. We will adopt these provisions effective June 30, 2009. We do not expect the impact to be significant on our financial position, results of operations and cash flows.

The FASB also issued FSP SFAS No. 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP No. 115-2) in April 2009, which is required for interim and annual periods ending after June 15, 2009. FSP No. 115-2 provides guidance on other-than-temporary impairments for debt securities. We will adopt these provisions effective June 30, 2009. We do not expect the impact to be significant on our financial position, results of operations and cash flows.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in

the financial statements and accompanying notes. Actual results could differ from those estimates. Our Critical Accounting Policies and Estimates disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our 2008 Annual Report on Form 10-K, for which there were no material changes, include:

- Income taxes
- Derivative financial instruments
- Capitalized costs
- Goodwill impairment testing
- Stock-based compensation
- Restructuring and related activities

Risk Management

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

Foreign Currency Exchange Rates

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

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

At December 31, 2008, a hypothetical uniform 10% strengthening or weakening in the value of the United States dollar relative to all other currencies in which our profits are generated would result in a decrease/increase to pre-tax annual income of approximately $24 million based on our forecast of unhedged 2009 exposure to foreign currency. The exposure as of March 31, 2009 is not materially different based on our forecast of unhedged exposure to foreign currency through March 31, 2010. There are inherent limitations in this sensitivity analysis, primarily due to the assumption that foreign exchange rate movements are linear and instantaneous, that

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the unhedged exposure is static, and that we would not hedge any additional exposure. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, which may positively or negatively affect income.

Interest Rates

We invest in several types of interest bearing assets, with a total value at March 31, 2009 of $1.6 billion. Approximately $1.5 billion of these assets bear interest at floating rates and are therefore sensitive to changes in interest rates. These assets primarily include money market funds and variable rate municipal securities and are included in our condensed consolidated balance sheets within cash and cash equivalents and settlement assets. Such assets classified as cash and cash equivalents are highly liquid investments with maturities of three months or less at the date of purchase and are readily convertible to cash. To the extent these assets are held in connection with money transfers and other related payment services awaiting redemption, they are classified as settlement assets. Earnings on these investments will increase and decrease with changes in the underlying short-term interest rates.

Substantially all of the remainder of our interest bearing assets consist of highly rated, fixed rate municipal bonds, which may include investments made from cash received from our money transfer business and other related payment services awaiting redemption classified within settlement assets in the condensed consolidated balance sheets. As interest rates rise, the fair market value of these fixed rate interest-bearing securities will decrease; conversely, a decrease to interest rates would result in an increase to the fair market values of the securities. We have classified these investments as available-for-sale within settlement assets in the condensed consolidated balance sheets, and accordingly, recorded these instruments at their fair market value with the net unrealized gains and losses, net of the applicable deferred income tax effect, being added to or deducted from our total stockholders equity/(deficiency) on our condensed consolidated balance sheets.

As of March 31, 2009, $600.0 million of our total $3,056.6 million in debt is effectively floating rate debt through interest rate swap agreements, changing our fixed-rate debt to LIBOR-based floating rate debt, with spreads ranging from 0.0025 percent below LIBOR to 3.8425 percent above LIBOR. Borrowings under our commercial paper program mature in such a short period that the financing is effectively floating rate. No commercial paper borrowings were outstanding as of March 31, 2009. Refer to Cash and Investment Securities above for further discussion related to the agreements with IPS.

We review our overall exposure to floating and fixed rates by evaluating our net asset or liability position in each, also considering duration of the individual positions. We actively manage this mix of fixed versus floating exposure in an attempt to minimize risk, reduce costs, and optimize returns. Portfolio exposure to interest rates can be modified by changing the mix of our interest bearing assets, as well as adjusting the mix of fixed versus floating rate debt. The latter is accomplished primarily through the use of interest rate swaps and the decision regarding terms of any new debt issuances (i.e., fixed versus floating). We use interest rate swaps designated as hedges, to increase the percent of floating rate debt, subject to market conditions. Our weighted-average interest rate on our borrowings, including our hedges, outstanding at March 31, 2009 was approximately 5.4%.

A hypothetical 100 basis point increase in interest rates would result in a decrease to pre-tax income of approximately $6.0 million annually based on borrowings on March 31, 2009 that are sensitive to interest rate fluctuations. The same 100 basis point increase in interest rates, if applied to our cash and investment balances on March 31, 2009 that are sensitive to interest rate fluctuations, would result in an offsetting benefit to pre-tax income of approximately $14.8 million annually. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that interest rate changes would be instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, including changes in credit risk regarding our investments, which may positively or negatively affect income. In addition, the current mix of fixed versus floating rate debt and investments and the level of assets and liabilities will change over time.

Credit Risk

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

On September 15, 2008, we requested redemption of our shares in the International Liquidity Fund, Ltd., a money market fund, (the Fund) totaling $298.1 million. In January 2009, we received a partial distribution of $193.6 million from the Fund. As of March 31, 2009, we had a remaining balance of $104.5 million which is classified in Other assets in the condensed consolidated balance sheet. We expect to receive the remaining redemption amount based on written and verbal representations from the Manager to date and our legal position regarding our right to full payment. We expect to receive and are vigorously pursuing collection of the remaining balance based on the maturities of the underlying investments in the Fund, the written and verbal representations from the Manager to date and our legal position regarding our right to full payment. Nevertheless, due to uncertainty surrounding the outcome of litigation facing the Fund, as well as potential variability in the ultimate amount and timing of the recovery of the remaining balance, the fair value of this financial asset may be less than the related carrying value. There is a risk the redemption process could be delayed and that we could receive less than the $1.00 per share net asset value should pro-rata distribution occur. Based on the net asset information provided by the Fund, our exposure related to pro-rata distribution could be approximately $12 million, excluding potential costs incurred by the Fund.

To manage our exposures to credit risk with respect to investment securities, money market fund investments and other credit risk exposures resulting from our relationships with banks and financial institutions, we regularly review investment concentrations, trading levels, credit spreads and credit ratings, and we maintain our largest relationships with globally diversified financial institutions. We also limit our investment level with respect to individual funds.

We are also exposed to credit risk related to receivable balances from agents in the money transfer, walk-in bill payment and money order settlement process. In addition, we are exposed to credit risk directly from consumer transactions particularly through our 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. We perform a credit review before each agent signing and conduct periodic analyses when an agent s balance exceeds a minimum threshold. Our losses associated with agent and consumer bad debts have been less than 1% of our annual revenue in all periods presented. We continue to monitor the credit worthiness of our agents and, due to the challenging global economic conditions, we have increased the closure of agents, primarily small retailers in the United States, which may impact transactions and revenues.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of the Principal Executive Officer and Principal Financial Officer, have evaluated the effectiveness of our controls and procedures related to our reporting and disclosure obligations as of March 31, 2009, which is the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that, as of March 31, 2009, the disclosure controls and procedures were effective to ensure that information required to be disclosed by us, including our consolidated subsidiaries, in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission, and are designed to ensure that information required to be disclosed by us in the reports that we file or submit are accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of The Western Union Company

We have reviewed the condensed consolidated balance sheet of The Western Union Company as of March 31, 2009, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2009 and 2008. These financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Western Union Company as of December 31, 2008, and the related consolidated statements of income, cash flows, and stockholders (deficiency)/equity/net investment in The Western Union Company for the year then ended (not presented herein) and in our report dated February 18, 2009, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph for the Company s adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, effective January 1, 2007. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Denver, Colorado

April 30, 2009

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors, described in our 2008 Annual Report on Form 10-K.

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

The following table provides information about the Company s purchases of shares of the Company s common stock during the first quarter:

	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)
January 1 31	10,073	$		$ 939.7
February 1 28	2,150,014	11.36	2,150,000	$ 915.2
March 1 31	6,626,719	11.40	6,626,719	$ 839.7
Total	8,786,806	$ 11.39	8,776,719	

* 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.

** Since September 2006, the Board of Directors has authorized common stock repurchases of up to $3.0 billion consisting of a $1.0 billion authorization in June 2008 (2008 Authorization), a $1.0 billion authorization in December 2007 (2007 Authorization) and a $1.0 billion authorization in September 2006. Both the 2007 Authorization and the authorization in September 2006 have been fully utilized. As of March 31, 2009, $839.7 million remains available under the 2008 Authorization for purchases through December 31, 2009. Management has and may continue to establish prearranged written plans pursuant to Rule 10b5-1. A Rule 10b5-1 plan permits the Company to repurchase shares at times when the Company may otherwise be prevented from doing so, provided the plan is adopted when the Company is not aware of material non-public information.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Western Union Company

(Registrant)

Date: May 4, 2009 By: /s/ Scott T. Scheirman

Scott T. Scheirman

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Date: May 4, 2009 By: /s/ Amintore T.X. Schenkel

Amintore T.X. Schenkel

Senior Vice President, Chief Accounting Officer, and Controller
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
4	Form of 6.50% Note due 2014 (filed as Exhibit 4.1 to the Company s Current Report on Form 8-K filed on February 26, 2009 and incorporated herein by reference thereto)
10	Letter Agreement, dated February 13, 2009, between The Western Union Company and Ranjana Clark*
12	Computation of Ratio of Earnings to Fixed Charges
15	Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information
31.1	Certification of Principal Executive Officer of The Western Union Company Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Principal Financial Officer of The Western Union Company Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract and compensatory plan and arrangement required to be filed as an exhibit pursuant to Item 6 of this report.