Meeting - Friday, April 18, 1969

Earl Hilburn, Vice President and Special Assistant
to the President, Western Union Telegraph Company
Richard Callaghan, Vice President, Congressional Liaison

VIA WUI

HENRY G. CATUCCI

VICE PRESIDENT
WESTERN UNION INTERNATIONAL, INC.

521 - 12TH STREET, N. W.
WASHINGTON, D. C.
TEL.: 638-6724

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

In the Matter of RCA ALASKA COMMUNICATIONS, INC. Application for authority to acquire and operate channels of communication under Section 214 of the Communications Act of 1934, as amended, and Section 63.01 of the Commission's Rules and Regulations, insofar as necessary to provide the service being furnished by the Alaska Communication System	FILE NO. P-C-7587

COMMENTS OF WESTERN UNION INTERNATIONAL, INC.

Western Union International, Inc. (WUI) submits the following comments in response to the above-captioned application by RCA Alaska Communications, Inc. (RCA):

Background

1. The instant RCA application must be considered in the context of the following matters pending before the Commission concerning communications in Alaska:

(a) RCA's request for exclusive ownership and operating rights in the microwave system connecting with the satellite earth station at Talkeetna to the exclusion of WUI and Matanuska Telephone Association, Inc., through whose territory the system will pass (Docket No. 18719, et al.);

(b) RCA's request for a 50% to 100% ownership position in the earth station at Talkeetna to the exclusion of all other public service carriers (File No. 65-CSG-P-69);

(c) RCA's request to acquire and operate 120 circuits via this earth station -- equivalent to its entire initial voice-grade capacity (File No. P-C-7585);

(d) RCA's opposition to WUI's application for authority to provide record communications services from Alaska to points overseas and in the lower 48 States (File No. T-C-2274); and

(e) RCA's attempt to exclude the City of Anchorage from providing direct distance dialing for its local subscribers.

2. RCA's stance with regard to all of these proceedings has been the same -- that its bid for the Alaska Communications System (ACS) entitles it to an exclusive franchise in Alaska.

Discussion

3. A careful consideration of RCA's application for ACS in light of the above background raises serious questions as to whether a grant would be consistent with the public interest. Since RCA insists throughout this application upon an exclusive arrangement, it has raised serious challenges to the statutory role of the Commission, to the rights of other carriers (including WUI), and to the best interests of the public in Alaska.

4. The thrust of RCA's application appears to be the need to establish once and for all a monopoly in Alaska to be vested in RCA over all interstate and foreign communications (see, for example, RCA's letter of September 26, 1969 transmitting the application to the Commission).

5. RCA's plea for an exclusive franchise in Alaska and for total insulation from competition, which runs throughout this application and RCA's other Alaska filings with the Commission, is totally inconsistent with the requirements of the Communications Act of 1934 and the Communications Satellite Act of 1962. RCA is asking the Commission to ignore its statutory mandate in light of a largely irrelevant determination by the Department of The Air Force to accept RCA's bid to purchase certain facilities. Obviously, this choice of a purchaser can in no sense substitute for a public interest finding by the Commission. Otherwise, there would be no need for RCA to apply to the Commission at all. Certainly, any agreement between RCA and the Air Force purporting to invest RCA with an exclusive franchise in Alaska (as is implied throughout RCA's application) can have no standing before the Commission.

6. That the Commission was intended to play its traditional, vitally important role as watchdog of the public interest in this matter, is clear from the statutory background of the ACS transaction. Under the Alaska Communications

Disposal Act, 81 Stat. 441, enacted November 14, 1967, 40 U.S.C.A. §771 et seq., the transfer was made subject to the issuance by the Commission of "any requisite licenses and certificates of convenience and necessity to operate interstate and intrastate record communications in Alaska" 40 U.S.C.A. §783. Further, §791 states that "this chapter does not modify in any manner the provisions of the Communications Act of 1934, as amended".

7. In the Congressional hearings prior to passage of this enabling legislation, preservation of the Commission's traditional role was emphasized. Witness John W. Perry, Deputy for Transportation and Communications, Office of the Assistant Secretary of the Air Force, testified:

> "Consequently, we believe that the predominant guarantee of service to the public would come through the regulatory actions taken by the Federal Communications Commission... I would regret to see any provision that would put the Secretary of Defense in a position of entering into the area more properly handled by the Federal Communications Commission".[1]

8. If the Commission's role in these proceedings is to have any meaning, it must look beyond the rhetoric concerning the protection of RCA's proposed investment and conduct a normal, in-depth, public interest review.

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1. Hearing before the Preparedness Investigating Subcommittee of the Committee on Armed Services, United States Senate, on S. 2444, May 31, 1966, pp. 11, 31.

9. WUI submits that an acquisition of this dimension, which is predicated at the very outset upon an exclusive arrangement, raises crucial public interest questions.

10. A witness in the Congressional hearings pointed to the existing monopoly situation as a cause of the current difficulties in Alaska. He cited "the expressed feeling of higher echelon policy-makers that they were granted a 'monopoly' by Congress to provide long line communications" as a reason for the "less than adequate service, excessively high toll charges for subscribers, and continuing friction between the policies of ACS and the Alaskan telephone operating companies, who were anxious to improve service and provide services similar to those found in the 'south 48'".[2]

11. As was pointed out by the City of Anchorage, a grant of RCA's application "would foreclose the possibility of future competition" and:

> "would give RCA Alascom a measure of control over communication services in Alaska that finds no parallel in the rest of the United States. For RCA Alascom would not only be the sole telephone communication entity furnishing long-lines service to all of Alaska's major cities and connecting Alaska with the rest of the world, but also it would be the sole operator of the telegraph system. In short, RCA Alascom would be the Alaska

2. Hearing, supra, p. 68.

> equivalent of AT&T, Western Union and all the international record carriers combined in the rest of the United States".[3]

12. Anchorage's plea for the benefits of competition is, of course, consistent with established Commission policy. RCA's application makes no showing or argument (aside from its own corporate interest) that this policy is not applicable as well to Alaska. As a matter of fact, a witness in the aforementioned Congressional hearings pointed out that there is no need for any special arrangement concerning Alaska:

> "Senator Stennis. In other words, you think the volume will be sufficient that it will support the operation generally, as it does in other States.
> Mr. Perry. I believe so, Mr. Chairman.
> Senator Stennis. And it wouldn't take a special setup for Alaska because of its great mileage, great distances and relatively sparse population; is that correct?
> Mr. Perry. We do not believe that any special arrangements should be necessary, Mr. Chairman."

13. There can be no doubt that RCA is insisting upon an exclusive status. It has applied for all 120 circuits through the earth station (File No. P-C-7585) and

3. Conditional Petition to Deny and Request for Other Relief, File No. 553-556-C1-P-70, October 23, 1969, pp. 7 - 8.

for up to 100% ownership thereof which would exclude any other public service carrier (File No. 65-CSG-P-69). The Commission is, of course, familiar with RCA's traditional insistence upon exclusivity. These constant battles against competition were recounted in WUI's opposition of October 23, 1969, concerning the competing microwave applications, which is incorporated herein by reference (File Nos. 6406 through 6408-C1-P-69 et al.)

14. Both the Commission and DOD, on the other hand, have long favored competition over exclusive arrangements. DOD is interested in diversity[4] while the Commission has reflected the policy of the Communications Act, the Communications Satellite Act, the antitrust laws and the structure of the industry. Both have cited the benefits to the public, in terms of cost and service, deriving from a competitive climate.[5]

4. See, e.g., testimony of General Starbird:
"Another thing we would like to do is to get as many carriers as we can in a strong position on our link. The number of circuits with time will probably be up. We like the competition on a link... we like the competition that comes by improved service... and it is our hope, of course, that we will be able to operate with all carriers into all places" Hearing on Government Use of Satellite Communications, August-September, 1966, pp. 47, 52.

5. See, for example, the Carterfone (13 F.C.C. 2d 420) and Microwave Communications (18 F.C.C. 2d 953) decisions.

15. As the Department of Justice said about the Carterfone decision:

> "The Commission's decision is a particular application of the basic principle, often reiterated by the courts as well as the Commission, that competition is our basic national policy, and that a party with a monopoly position in one field, however legally acquired, should not be permitted to extend it to other fields. The same policy is applicable in the communications field, because here, as in other fields, allowing greater latitude for competition offers substantial prospects of public benefits -- in innovation, diversity of service and lower rates. Therefore, in this industry competition should be excluded only to the extent necessary to make the telephone system work."[6]

The Department of Justice has also demonstrated its advocacy of a competitive climate in the communications industry in the Computer Inquiry, Multiple Ownership, and CATV dockets and in the ABC-ITT and ITT-Press Wireless merger cases.[7]

16. Antitrust policy, always a significant factor in Commission public interest determinations,[8]

6. Docket No. 16942, Response of the United States to Petitions for Reconsideration, p. 3.
7. Docket 16979, Response of March 5, 1968; Docket 18110, Comments of August 1, 1968; Docket 18509, Comments of July 11, 1969; ABC-ITT Merger, 9 F.C.C. 2d 546, 549-50 (1967); ITT World Communications Inc., 1 F.C.C. 2d 213 (1965), Letter from Assistant Attorney General Orrick to FCC Chairman Henry, February 28, 1965.
8. United States v. RCA, 358 U.S. 334, 348 - 350 (1959).

must play a particularly important role in this case. Congress was cognizant of the potential for anticompetitive abuse when it specifically made the ACS sale subject to the antitrust laws. By statute, the sale cannot be consummated until DOD "has received the advice of the Attorney General on the question whether such disposal would tend to create or maintain a situation inconsistent with the antitrust laws".[9] Moreover, in the "Notice of Acceptance of Offer", the Air Force made the transaction subject to agreement by RCA "to the conditions considered necessary by the government to insure compatibility with the antitrust laws".

17. It is difficult to imagine an arrangement less compatible or consistent with the antitrust laws than one grounded upon an absolute monopoly, which appears to be RCA's view of the ACS transaction. Moreover, since RCA is a developer, manufacturer and supplier of equipment, instruments and devices for the communications industry, any monopoly arrangement also raises the very real danger of a vertical foreclosure of RCA's competitors from the Alaska market.[10]

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9. 40 U.S.C.A. 488, 781.
10. This was a particular concern of the Department of Justice in the ITT-Press Wireless situation. See Orrick letter, *supra*.

18. In addition to the foregoing, the Commission should examine the ACS transaction in light of the specific prescriptions in the Communications Act and the Communications Satellite Act. Is this proposed acquisition consonant with the following provisions:

- Section 222 of the Communications Act prohibits consolidations of international and domestic telegraph carriers.
- Section 314 of the Communications Act prohibits acquisitions, involving commonly owned radio and cable systems, the effect of which may be "unlawfully to create monopoly in any line of commerce".
- Section 102(c) of the Communications Satellite Act guarantees all authorized users nondiscriminatory access to the system and requires the maintenance of "maximum competition" in the provision of services.
- Section 201(c)(2) of the Communications Satellite Act insures equitable and nondiscriminatory access by public service carriers to the satellite system and its earth stations.

Conclusion

19. All of the questions raised in this pleading must be carefully considered by the Commission. It is clear, moreover, that the full text of all the instruments involved in the ACS transaction must be available for study by the Commission and all other interested parties. By letter of October 21, 1969, WUI asked RCA for copies of

contracts, relevant memoranda of understanding, and the full text of the "Notice of Acceptance of Order," a portion of which is appended to RCA's application. To date, WUI has received no response to its request.

20. WUI submits that no action should be taken by the Commission until the ACS sales agreement and other underlying instruments which form the basis for RCA's application are distributed. WUI reserves the right for further comment following receipt of this material. WUI also submits that action should be withheld on RCA's application until such time as the Commission takes final action in all of the related Alaska proceedings enumerated above in the background section of this pleading.

WHEREFORE, WUI respectfully requests that: (a) action on RCA's application be withheld; and (b) any ultimate grant be of an explicitly nonexclusive nature consistent with the antitrust laws, the basic communications statutes and Commission policy.

Respectfully submitted,
WESTERN UNION INTERNATIONAL, INC.

By: /s/ Ernest Brod

/s/ Seth D. Blumenfeld
Its Attorneys

26 Broadway
New York, New York 10004

November 17, 1969

AFFIDAVIT

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

ROBERT E. CONN, being first duly sworn, deposes and says:

I am Senior Vice President of Western Union International, Inc. and am familiar with the facts set forth in the foregoing "Comments". Based on my personal knowledge, the facts stated in said "Comments" are true.

/s/ Robert E. Conn
Robert E. Conn

Sworn to before me this 17th day of November, 1969.

/s/ Roger P. Newell
Roger P. Newell
Notary Public, State of New York
No. 31 2876625
Qualified in New York County
Commission Expires March 30, 1971

CERTIFICATE OF SERVICE

I, Joyce A. Mastro, hereby certify that I have this 17th day of November, 1969, mailed a copy of the foregoing Comments, postage prepaid, via United States mail, to the following:

Randolph W. Young, Esq.
Counsel for Chief, Common Carrier Bureau
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Washington, D. C. 20554

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George T. Vogel, Esq.
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*Via Air Mail

Joyce A. Mastro

Thursday 7/30/7[illegible]

12:20 Dave [illegible] called to say that he had just heard from a relatively authentic source that Western Union is in the process of filing for a domestic satellite system.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

WU

"Mail-gram"

computer - comm carrier

dom sat - wants govt action

FCC rate inquiry

Hard to get Commissioners attn - preoccupied w/ BC

TWX - Telex merger

Bell

western union

R. L. CALLAGHAN

VICE PRESIDENT

WASHINGTON

western union

EARL D. HILBURN
EXECUTIVE VICE PRESIDENT

April 22, 1969

Clay T. Whitehead, Ph.D.
The White House
Room 103, EOB
Washington, D. C.

Dear Dr. Whitehead:

Dick Callaghan and I enjoyed our brief chat with you Friday morning, and, as promised, I'm enclosing a copy of the briefing material which we prepared for President Johnson's Task Force on Communications Policy. I'm also adding a copy of our most recent Annual Report to up-date the earlier information.

Hoping that we may get together again in the near future, I remain

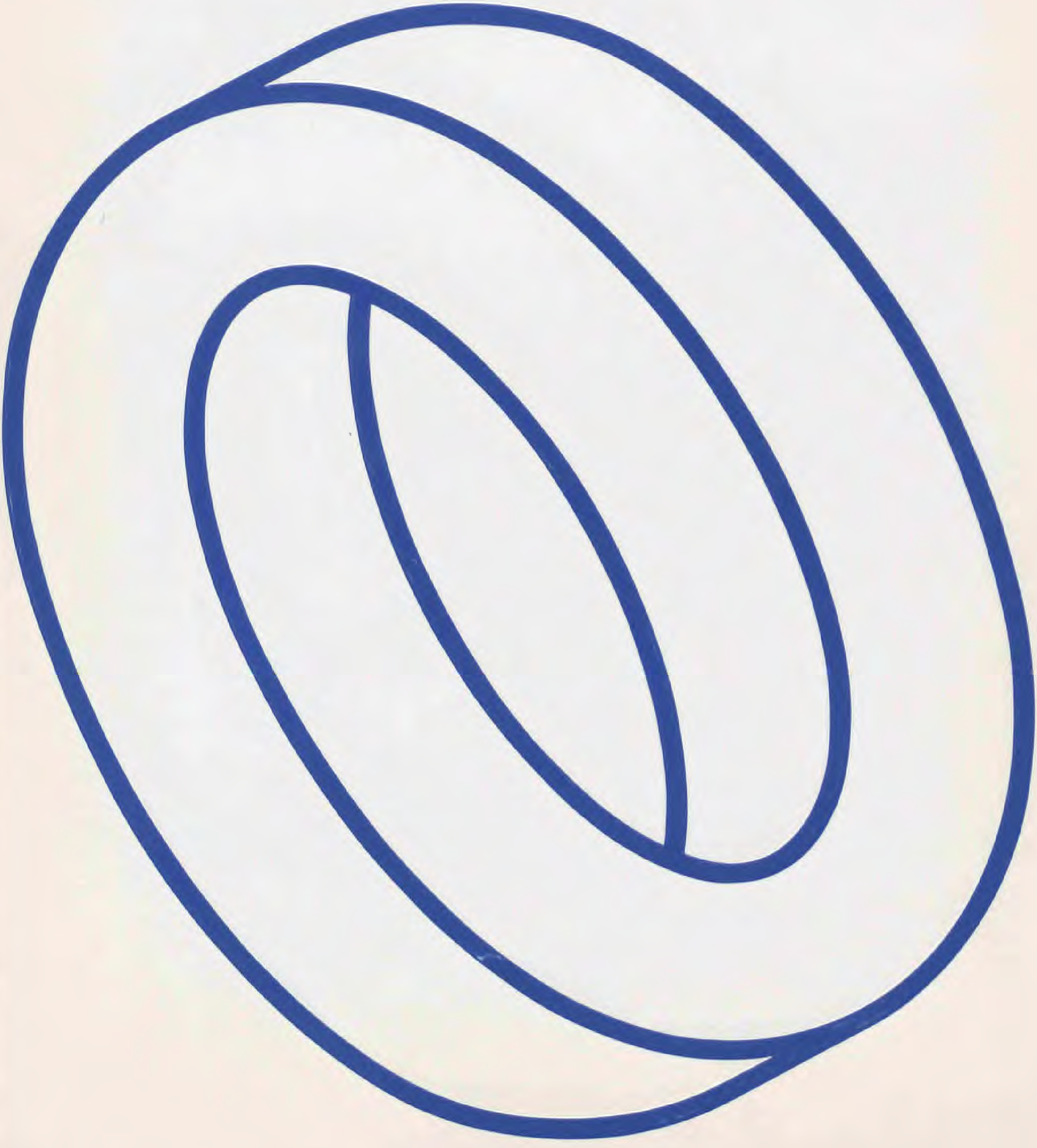
Cordially,

Earl D. Hilburn

EDH:es
Encs.
cc: Messrs. R. McFall
R. Callaghan

60 HUDSON STREET, NEW YORK, NEW YORK 10013

Western Union Corporation Annual Report 1970



Glossary of Electronic Data Communications Services ▷

Contents

COVER: The cover design symbolizes the interrelatedness of the information continuum, which Western Union Corporation is growing to serve.

Western Union Corporation Annual Report 1970

Glossary of Electronic Data Communications Services

Telex

A direct-dial service which allows subscribers to exchange written communications here and abroad by linking distant teleprinters through an exchange in much the same way that telephones are connected with each other.

TWX

A teleprinter exchange service similar to Telex, it is being acquired by Western Union from the Bell System and independent telephone companies.

Telex Computer Communications Services (TCCS)

Enables Telex subscribers to dial a computer for store-and-forward message delivery, multiple-address message handling, and connection with the public message system, MAILGRAM post offices and TWX subscribers.

INFO-COM

A private record communication service offering subscribers the shared use of a computer to handle their message traffic. INFO-COM is interconnected with the public message system, the Telex system and MAILGRAM service through the computer-communications network.

DATACOM

A low-cost data transmission service for customers with bulk low-speed information transmission requirements.

Private Wire Systems

High-volume record communications users may lease specially designed and equipped networks to meet specific internal communication needs. AUTODIN, provided by Western Union for the Department of Defense, and the Advanced Record System, a similar leased system for the General Services Administration, are the two largest such EDC systems in the U. S.

Broadband Exchange Service

An automatic voice-coordinated data transmission service that allows users to dial the appropriate bandwidth for the transmission mode selected.

Financial Highlights (Millions of Dollars, except per share figures)

	1970	1969
Total Revenues and Other Income	$ 399.5	$ 393.7
Net Income	23.4	22.8
Net income per share of common stock	$ 2.28	$ 2.37
Weighted average number of shares of common stock	9,054,818	8,426,079
Dividends declared per share:		
Preferred stock†		
4.6%	$ 4.60	$ 4.60
4.9%	4.90	4.90
Common stock	1.40	1.40
Book value per share of common stock	$ 43.23	$ 42.58
Number of common stockholders (December 31)	43,906	43,254
Number of employees (December 31)	23,735	25,681

†See Note G on page 29 for 5.2% and 6.0% series of subsidiary company

1970 Operating Highlights

January 1	The Western Union Telegraph Company decentralizes operations into 18 geographic areas with single-line management profit responsibilities.
January 12	MAILGRAM service inaugurated for Telex and INFO-COM subscribers in 12 cities.
January 30	Corporate restructuring accomplished: Telegraph Company becomes major subsidiary of Western Union Corporation.
March 12	PR Newswire Association, Inc., national business-news distribution service, acquired by Western Union Corporation.
March 17	Western Union Computer Utilities, Inc., sells 300,000 common shares in public offering.
March 27	Application filed for 400-mile microwave expansion: "hybrid" digital/analog system to connect Cincinnati and Atlanta would be first in nation built specifically to handle both voice and data communications.
May 4	International Data Terminals, Inc. is formed to develop data terminal equipment, with Western Union Corporation acquiring 50 per cent interest.
May 13	Western Union Realty Corporation established to handle corporate and independent real estate transactions.
June 8	Western Union Data Services Company formed: subsidiary to design, sell or lease equipment and systems to complement data communications facilities.
July 28	Federal Communications Commission approves purchase of TWX network from the Bell System and independent telephone companies.
July 30	The Western Union Telegraph Company is first to file plans with Federal Communications Commission for a domestic communications satellite system.
August 20	Federal Reserve Bank communications network placed in service: nationwide computer-controlled system links 37 member banks.
September 9	Order-matching service announced for SICOM, to start January 1, 1971, permitting customers to pair execution reports with original orders.
September 22	Earl D. Hilburn elected fifteenth president of The Western Union Telegraph Company.
October 1	$85 million in convertible debentures sold by Western Union Corporation; proceeds to be made available to Telegraph Company for prepayment of bank loans, and other corporate purposes.
October 1	DATACOM becomes available in 45 connecting cities: new data communications service offers low-cost, low-speed transmission for bulk-information users.
October 29	Telegraph Company proposes expansion of microwave network through addition of digital transmission facilities to serve major cities from New York to Chicago by 1974.
October 30	Agreement for acquisition of the stock of Distronics Corporation signed: company provides electronic data processing services for plumbing and electrical supply distributors.
December 1	Proposal filed with FCC to free SICOM from regulation; service to be provided by new Western Union Corporation subsidiary.

To Our Stockholders:

For Western Union Corporation 1970 was a year of diversification within the framework of the information industry. Significant progress was also made in our program to modernize and enlarge the company's facilities for meeting the nation's electronic data communications needs.

Revenues exceeded record levels achieved in 1969, despite the downturn in the national economy. Earnings, although adversely affected by an accelerated decline in the high-fixed-cost telegram message business, reached a new high, demonstrating the strengthened viability and profitability of Western Union's improving mix of communications and information services.

Consolidated net income in 1970 was $23.4 million compared with $22.8 million in 1969. After provision for preferred dividends, net income was equivalent to $2.28 a common share as against $2.37 in 1969 when the average number of common shares outstanding was 629,000 less. Total revenues and other income rose to $399.5 million. Provision for federal income tax was not required in either year.

On July 28, after staff studies and hearings lasting 16 months, the Federal Communications Commission approved the Telegraph Company's proposed purchase of the Bell System's Teletypewriter Exchange (TWX) Service. Completion of that transaction with the telephone companies at the end of March 1971 will give Western Union operating responsibility for all of the nation's teleprinter exchange service—a $140 million business, and growing. Early in 1972, the 42,000 TWX subscriber terminals will be computer-interconnected with Western Union Telex, a service which experienced a 21 per cent growth during the past year to 36,500 terminals and $57 million in revenues.

The Telegraph Company's expanding network of computer centers, linked by high-speed communications circuitry, has also been experiencing an acceleration in traffic volume consistent with the growth of the new shared-computer services introduced over the past three years. The newest of these services, MAILGRAM, was inaugurated on an experimental basis in January 1970. It has been enthusiastically received by business customers who find it useful as a new communications option—combining the speed of electronic transmission by Western Union with next-day local delivery by the Post Office. From a total of 35 MAILGRAMS sent during the first week of service, weekly volume for the 12 cities taking part in the limited-offering test rose to 20,000 by the end of the year.

Early in 1970, following shareholder approval, a major corporate restructuring took place, with The Western Union Telegraph Company becoming a subsidiary of Western Union Corporation.

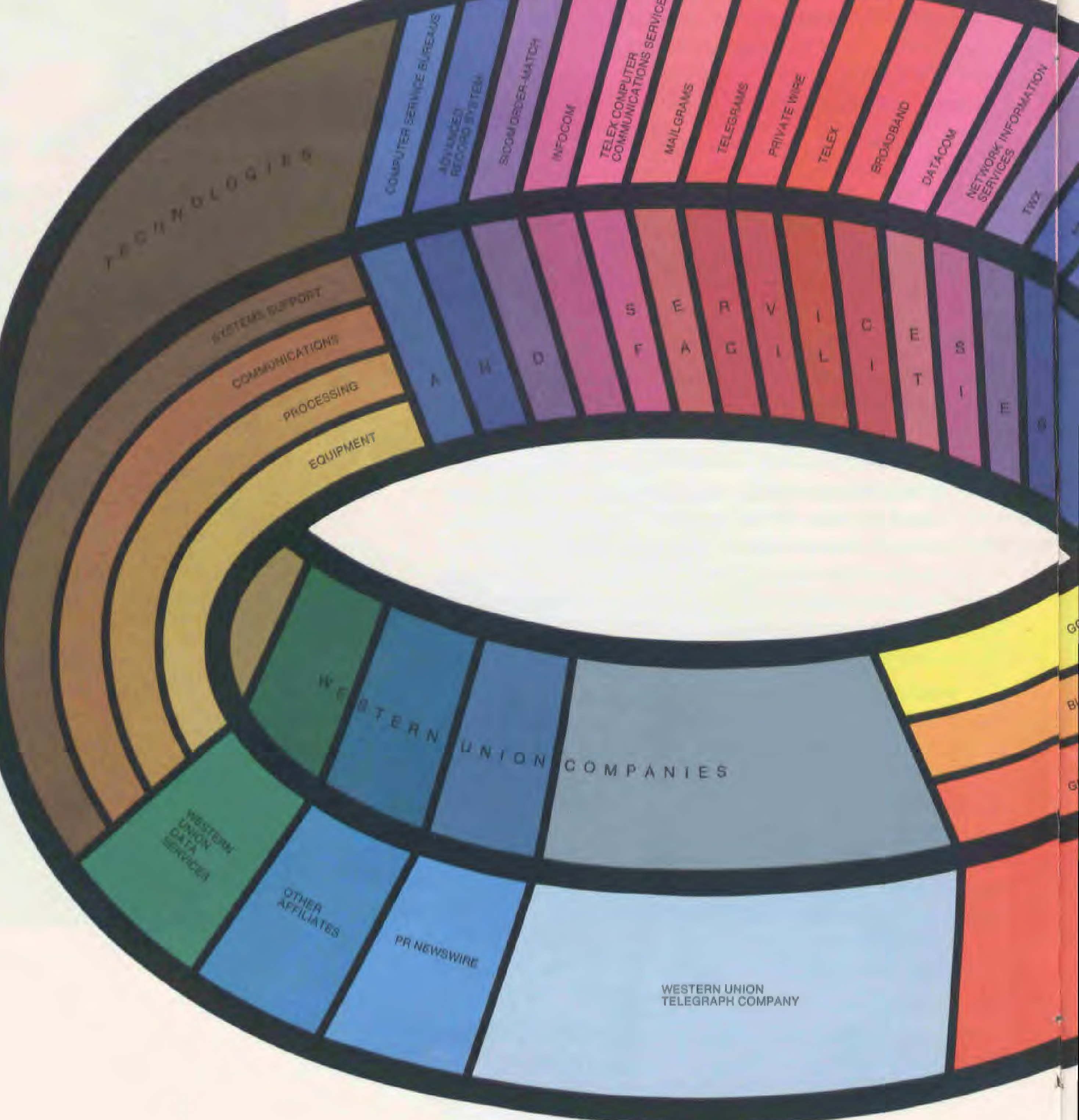
The business and financial flexibility thus achieved became evident throughout the year as the corporation completed acquisition of PR Newswire Association, Inc. and agreed to acquire Distronics Corporation, while also forming new companies from resources existing within the Telegraph Company. These and subsequent Western Union Corporation subsidiaries and affiliates—operating in various sectors of the information industry—will pursue profit opportunities in a nonregulated environment. The Telegraph Company continues to be regulated as a supplier of communications common-carrier services.

The telegram service—one of the Telegraph Company's principal offerings—has been receiving concerted management attention. We are determined to modernize it; to improve service through more-convenient public interfaces including centralized telephone bureaus; to render it on a profitable basis; and to accelerate our program of integrating it with the array of new and growing Western Union services being offered through the computer-communications network.

On July 30, Western Union submitted to the FCC the first comprehensive proposal to establish a domestic communications satellite system. This satellite system would provide transmission facilities to accommodate growth of the company's various record communications services, while at the same time making wideband, intercity circuitry available on a shared basis to other users, including the television networks. The Western Union satellite proposal, along with those from several other business organizations, is now before the FCC. We have urged the Commission to act expeditiously in facilitating construction of this vital addition to the nation's communications resources.

Western Union's expanding business continues to require capital expenditures on the order of $130 million a year, a substantial portion of which is supplied from internally generated funds. These investments are building a modern plant capable of providing a full range of electronic data communications services. As these facilities grow and the corporation's activities expand further into nonregulated, information-oriented businesses, Western Union's investors will participate increasingly in the growth of the whole information industry.

R. W. McFall
Chairman of the Board
and President



Western Union Corporation, through its subsidiaries and affiliates, is a leader in developing and adapting data technology to the market needs of the information continuum, represented by this symbol. The customer services made possible by Western Union's advanced technical capabilities include the gathering, processing and communicating that turn raw data into usable information.

Western Union—where data becomes information

Data of itself has no value. Computers can generate millions of digits and symbols. At the same time, they can generate the dangerous illusion that this raw data somehow brings with it control over a situation.

Data becomes useful only when it is acted upon—gathered, processed, communicated. Then it becomes information. Only then can it influence the decisions—ship or store, buy or sell, go or stay—faced every day by men and women in business, government or private life.

Data—in becoming information—flows. It is collected, correlated, transmitted, displayed, disseminated. This movement in space and time, in form and content, is a continuous process: newly created information becomes another element of data, which is converted into yet more information. This data/information flow is in reality a continuum and it is this continuum Western Union is growing to serve.

For the information industry, the 1960s were characterized by segmented growth, as first one sector developed, then another and another. We saw the proliferation of equipment manufacturers, time-sharing businesses, firms specializing in systems support, and—towards the end of the decade—corresponding growth in the volume of data communications. In the 1970s, on the other hand, once-separate segments of the industry will become increasingly integrated, reflecting the actual interrelations of the information process. Even now, distinctions separating the different technologies—processing, communications, hardware and software—are becoming blurred. As this happens, and the process of turning data into information becomes rationalized, the information industry's growth will far exceed that achieved in the Sixties.

The companies that will benefit most from this development will be those with the foresight to anticipate and respond to the opportunities of the information continuum.

That is why, during 1970, Western Union worked to expand its integrated information services. And that is why, in the decade ahead, we will be in a unique position to grow within the information continuum.

Growing to serve the information continuum

With its restructuring early in 1970 into a corporation with operating subsidiaries, Western Union was able to proceed with its diversification program.

Our growth as a corporation will come from serving the needs of the information industry—which we view as so interrelated as to be almost indivisible. Western Union's individual organizational units each serve within a segment of this continuum; through acquisitions and the creation of new enterprises we are enhancing that capability.

In March, with the acquisition of PR Newswire Association, Inc., we moved into the business-news distribution field. PR Newswire is a profitable, well-established small company that serves a growing market need: distribution of corporate and business information. The firm operates a nationwide news distribution service for business and industrial companies, financial institutions, newspapers, magazines, radio and television stations in 55 cities.

Western Union Data Services Company, a subsidiary formed three months later, provides nationwide sales and service of private data systems and data terminals. Although less than a year old, the company has already achieved recognition in the marketplace and has accepted orders representing more than a million dollars in annual recurring revenues. Its initial product emphasis is focused on teleprinter terminals, but it will augment this product line in the future with other types of data terminals.

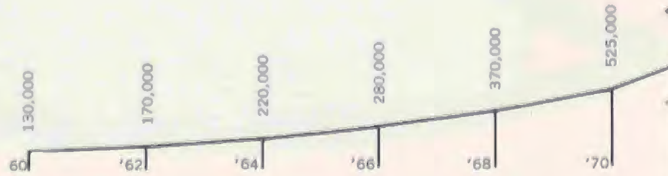
In May, International Data Terminals, Inc., was created for the development of data terminal equipment. This affiliated company is owned jointly by Western Union Corporation with a 50 per cent interest, and by Data Research Corporation and Western Union Computer Utilities, Inc., each of which has a 25 per cent interest.

Western Union Computer Utilities itself was the first step Western Union took outside the traditional boundaries of its common-carrier role. Formed in 1968 as a nationwide licensing organization, WUCU (46 per cent owned) provides data processing services through local computer bureaus. It also provides training for operators of its licensed data processing centers. By year-end 1970, 50 licenses for service bureaus had been granted.

An agreement was signed in October to acquire Distronics Corporation, which will become a wholly-owned subsidiary early in 1971. It serves the management information and data processing needs of plumbing and electrical supply distributors in the eastern half of the United States, using a central computer and long distance communications lines. Distronics' offering can be reproduced to serve other industries in other parts of the country, with a great potential for profitable expansion.

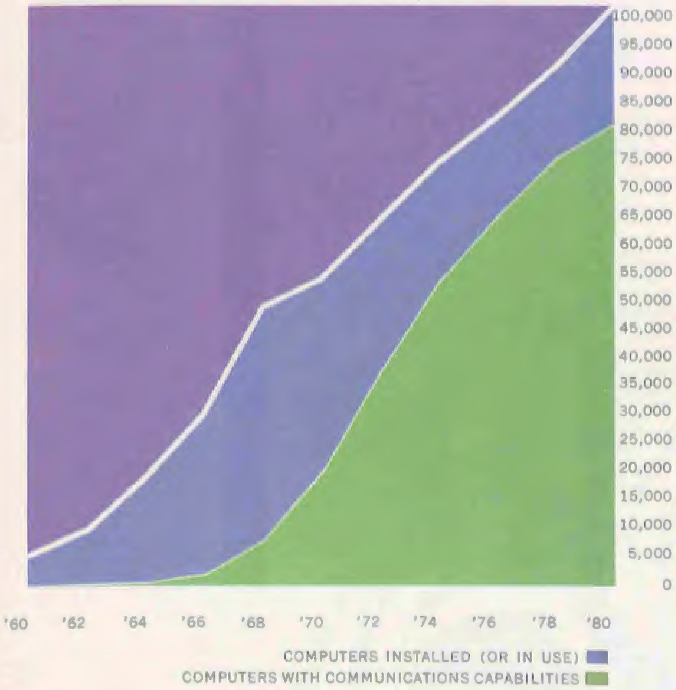
This multiplication of resources will characterize the corporation's future activities in expanding its operations into

Number of computer installations increased dramatically in the past decade, and is expected to double in the decade to come.



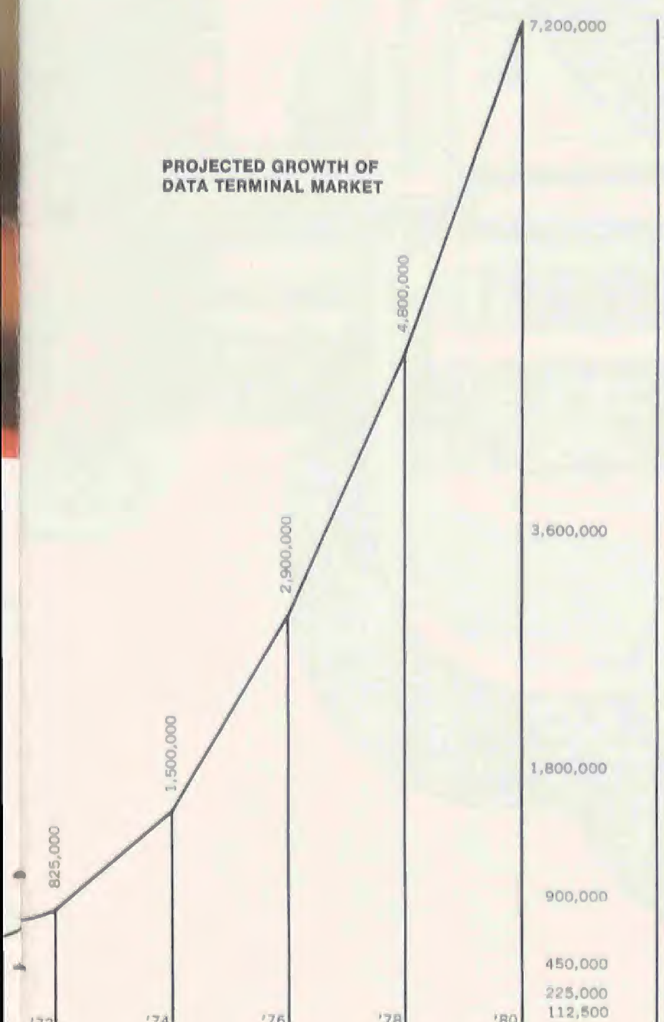
The growth of the data terminal market will parallel the trend of communications-linked computers. The number of data terminals is expected to increase tenfold in the 1970's.

Equally dramatic growth is projected for the percentage of computers with telecommunications capability, from 36% in 1970 to 80% in 1980.



other aspects of electronic data processing. Western Union has, over the past ten years, accumulated considerable experience in information systems through engineering its own modernization program. This experience can be applied to serving customers in areas such as facilities management, systems engineering and implementation and network information services.

This last type of offering is a relatively new development in the data industry. The network information services in which Western Union is interested are standardized information-system modules for multiple customers—generally within the same industry—connected to a remote-access computer with communications lines. As the information industry matures, customer demand for this type of service will become increasingly widespread.



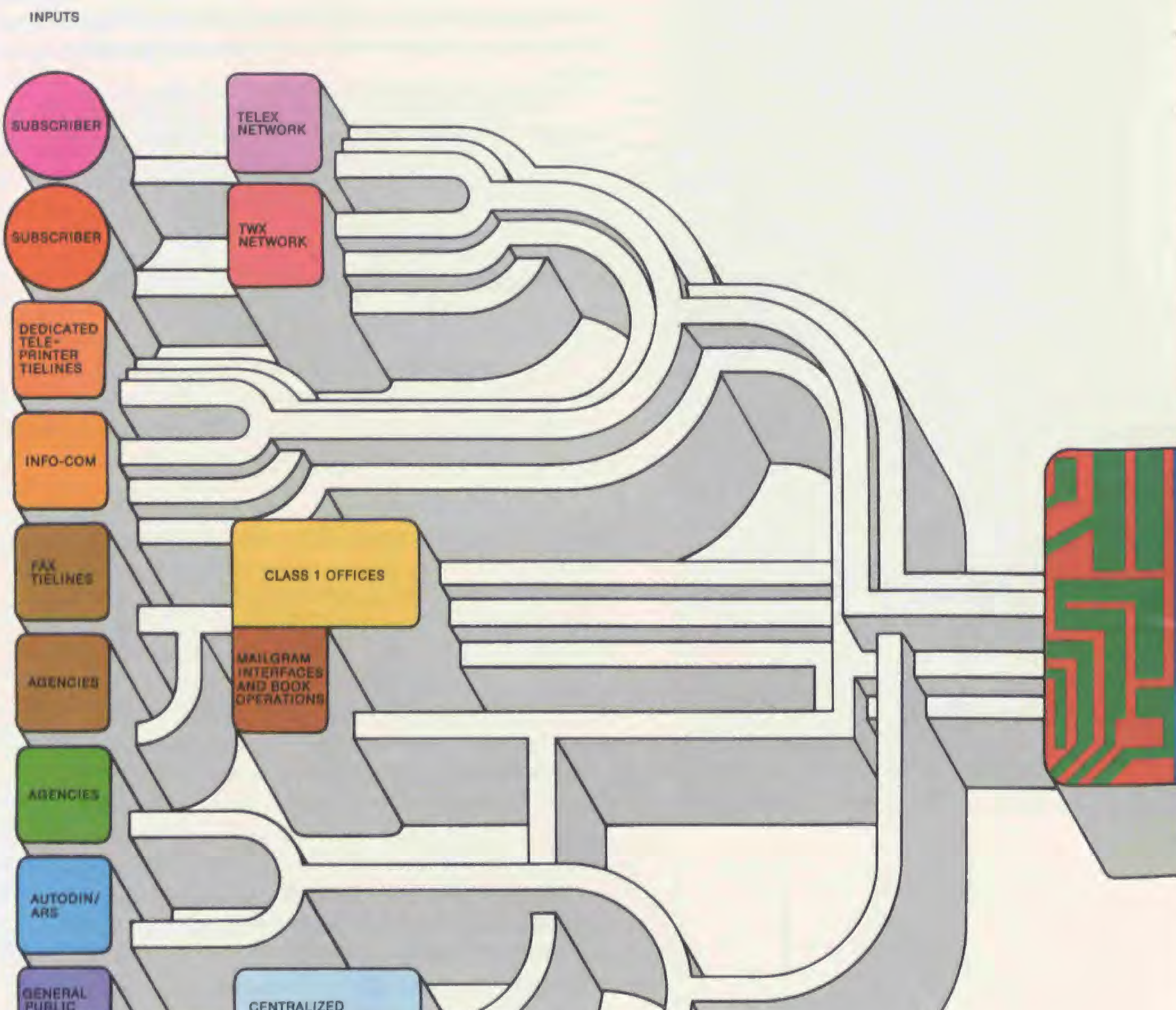
Integration and interconnection—a new facility

The Western Union Telegraph Company, which serves the communications segment of the information continuum, is enlarging and enhancing its computer-communications system. The first phase was fully activated in 1969 when the completion of four linked computer centers permitted the introduction of shared-use offerings such as Telex Computer Communications Services (TCCS) and INFO-COM. This phase is the foundation of a system for the integration of many Telegraph Company services and the interconnection of its various customer communities. The ultimate result will be a totally new type of information service that permits data to flow easily from one subsystem to another. The plan presently calls for completion of this integrated system in 1974.

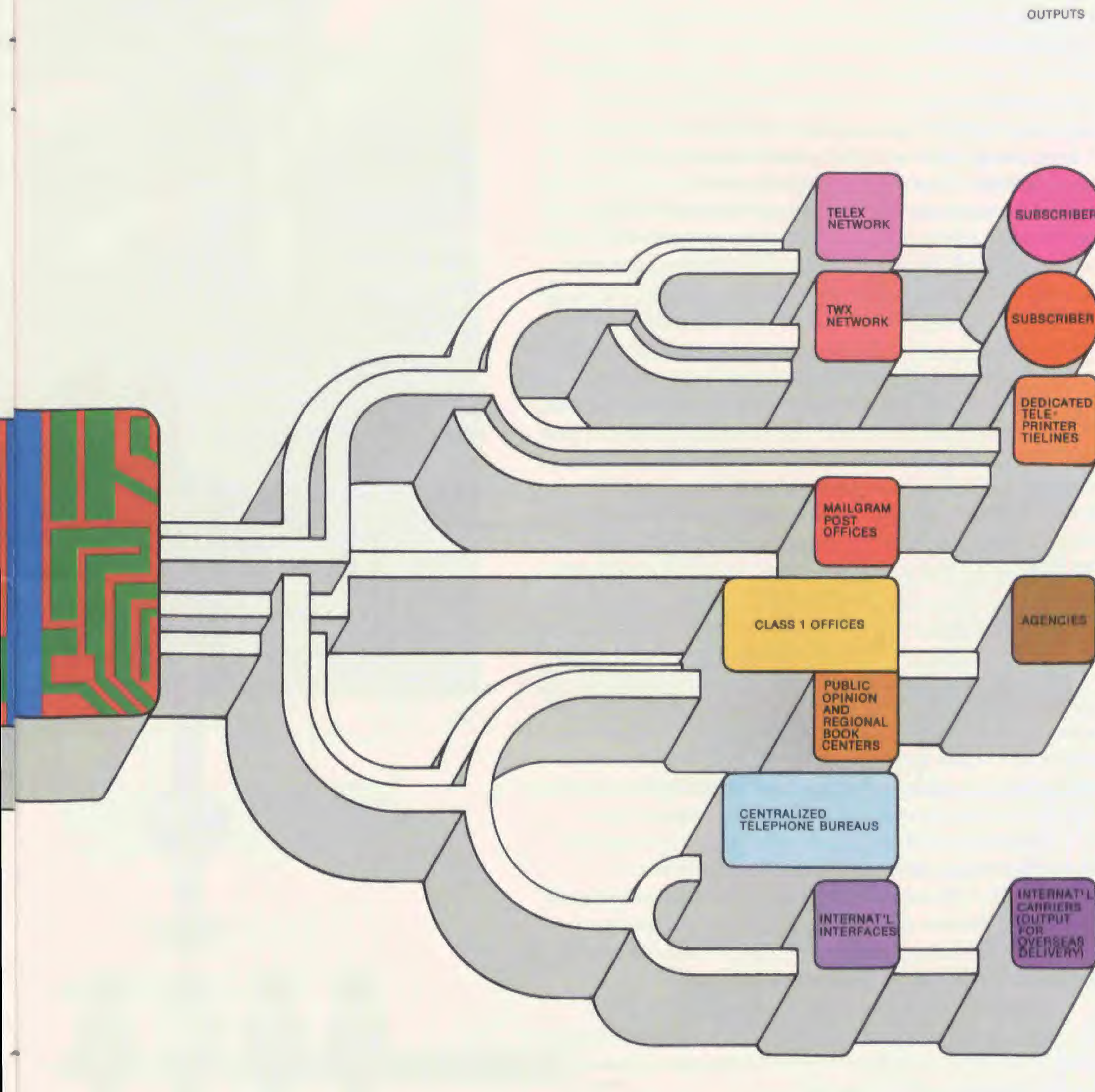
The second major phase in the construction of this new integrated communications system is well under way. Large computers with greater capacity for communications switching and information processing—applicable to Western Union's internal operations—are being programmed for installation in new centers, the first of which is now nearing completion at Middletown, Virginia.

As the system expands, it will incorporate more and more of the company's various services and subsystems: TWX will be fully interconnected; INFO-COM and private wire customers will have greater access to other services; the public message services will be integrated into the computer switching system; and MAILGRAM capacity will be extended to reflect the great and

Information Services Computer System



The integrated communications system planned for 1974 will provide Americans with a totally new type of information service. It will permit communications to flow easily from one subsystem to another. Thus, for example, subscribers to INFO-COM will have communications access to private wire or Telex/TWX customers; to the general public through public



offices and agencies, central telephone bureaus or MAILGRAM; or to international carriers. This type of cross-access will be available to all users of Western Union services. The diagram above is an artist's conception of the configuration in which the many systems and services, linked directly to the computer system, have access to each other.

growing demand for this newest shared-computer service. The chart on pages 8 and 9 portrays the final completely integrated communications system that will result.

Western Union's activities in the field of specialized government communications systems, heretofore concentrated on agencies of the Federal Government, are being extended to the state and local level. Seminars are being held for state officials interested in learning how federal systems experience can be applied to local problems such as law enforcement, pollution control, management information and financial management systems. While Western Union has long provided standard commercial services to state and local governments, the development of the integrated computer-communications network with its cross-access of systems and services will provide a better link between government and the people it serves.

One of the key elements of the integrated system is MAILGRAM. This service affords customers, at moderate cost, the option of using their Western Union terminals to enter messages into the shared-computer network for 98 per cent assurance of next-day postal delivery anywhere in the 48 contiguous states. MAILGRAM is faster than regular mail and less expensive than a telegram. That there has been a need for such a service is demonstrated by the response to its introduction. Since its initial limited 12-city experimental offering in January 1970, volume had risen to an annual rate of more than one million by year-end.

In December, a new computer system was added to the basic Western Union network specifically to expand MAILGRAM service, multiplying our handling capacity from 20,000 to 100,000 MAILGRAMS a week. Presently, we are increasing the number of Telex subscriber terminals to which MAILGRAM will be available during the remainder of the experimental period; and we have begun working with several high-volume users to establish procedures for accepting multiple-address MAILGRAMS directly from customers' computer-generated magnetic tapes.

The usefulness of this MAILGRAM extension is exemplified by a project carried out for Educational Testing Service of Princeton, N. J. ETS administers college entrance examinations to thousands of students across the country and, in an experimental program carried out early in 1971, used MAILGRAMS to inform students about the dates and locations for their tests.

Later this year we plan to inaugurate a new phase of the service which will permit the general public to send MAILGRAMS either by tie-line, by telephone or by filing messages in person at a Western Union office or agency.

Bringing MAILGRAM into being, even on a test basis, required an extraordinary degree of cooperation between an

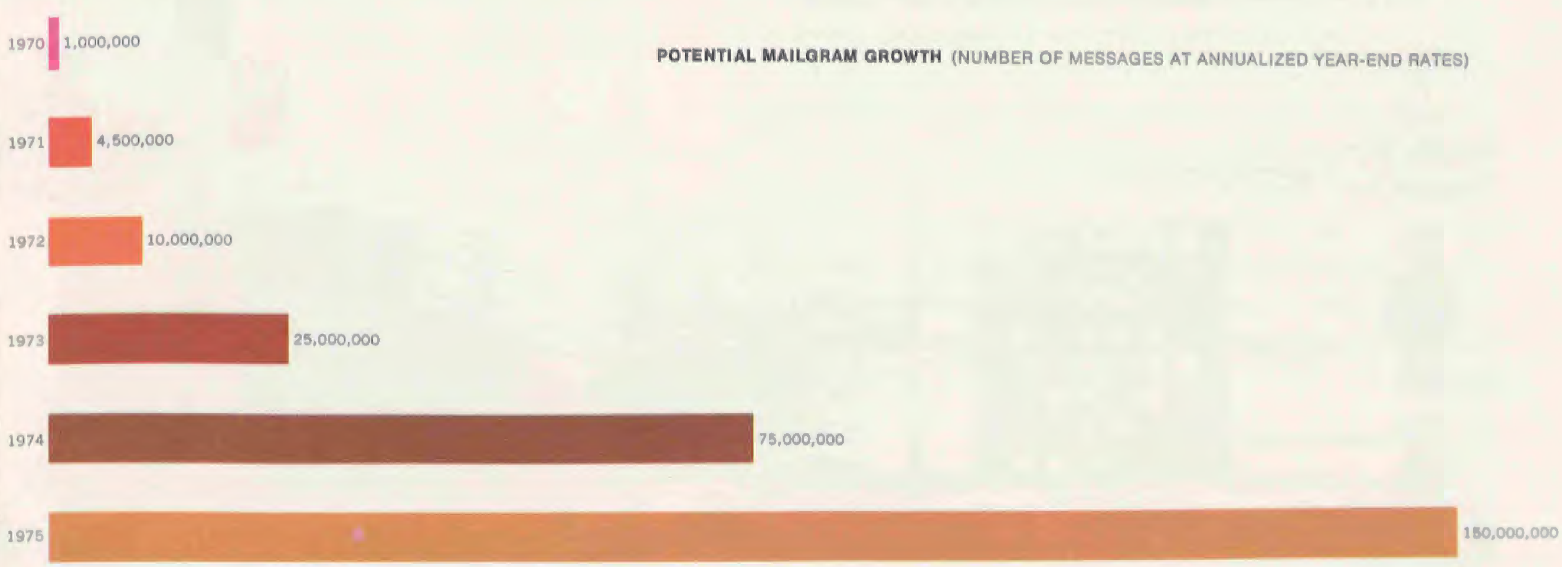
MAILGRAM originates on a Western Union teleprinter and is switched to the MAILGRAM computer center. There a computer "reads" the addressee's zip code and automatically routes the MAILGRAM to the Post Office nearest its final destination. It is printed on a teleprinter at the Post Office, enclosed in a distinctive MAILGRAM envelope, then enters the first-class mail stream for delivery.

investor-owned company, Western Union, and a government agency, the U.S. Post Office Department. The fact that MAILGRAM is growing and meeting with customer acceptance is encouraging evidence that service to the public can be improved by overcoming traditional functional separations and by combining, where appropriate, the complementary technologies of Western Union and the Postal Service.

Improved public service will also result from expansion of the computer-communications network to the point where all of the Telegraph Company's public message services can be routed through it. Computer handling of those services is reducing transmission delays and improving the revenue/cost relationships of these services.

Other improvements now under way include the restructuring of the public office network to be more responsive to customer preference and usage. Prominent among these programs is the establishment of several large centralized telephone bureaus for accepting telegrams. The first of these centers, in Moorestown, N.J., is scheduled to be in service towards the end of this year. When this program is completed early in 1973, customers anywhere in the country wishing to send a Western Union message may do so by dialing a toll-free number to reach an operator promptly, any time of day or night.

These telephone bureaus will be supplemented by a combination of large company-owned public offices and a nationwide network of Western Union agencies. The increasing use of Telex and INFO-COM customer terminals for entering telegrams directly into the public message system—an important part of our integrated system plan—is making the public message service



POTENTIAL MAILGRAM GROWTH (NUMBER OF MESSAGES AT ANNUALIZED YEAR-END RATES)

Customer response to MAILGRAM has been excellent. When MAILGRAM becomes generally available and is integrated with other Western Union services, it will become a major factor in Telegraph Company revenues.

more useful and accessible to business customers.

The use of bank credit card arrangements has further facilitated Western Union's acceptance of telegrams and Instant Gifts. A test now underway in California permits holders of bank credit cards to charge Western Union money orders to their accounts. Nine banks are accepting money orders on a credit-card basis for transmission and delivery through the public message system. If successful, this program will be broadened during 1971 to include other banks throughout the country.

Broadening the range of electronic data communications services

MAILGRAM was not the only important service added during 1970. The introduction of SICOM order-match on an experimental basis and DATACOM, two new information-oriented services, greatly broadened the range of Western Union's electronic data communications.

SICOM order-match is a data processing operation that pairs execution reports from the floor of a stock exchange with orders originating in brokerage offices. This add-on capability enhances the usefulness of SICOM, which was the first shared-use data communications network actually in service for the securities industry.

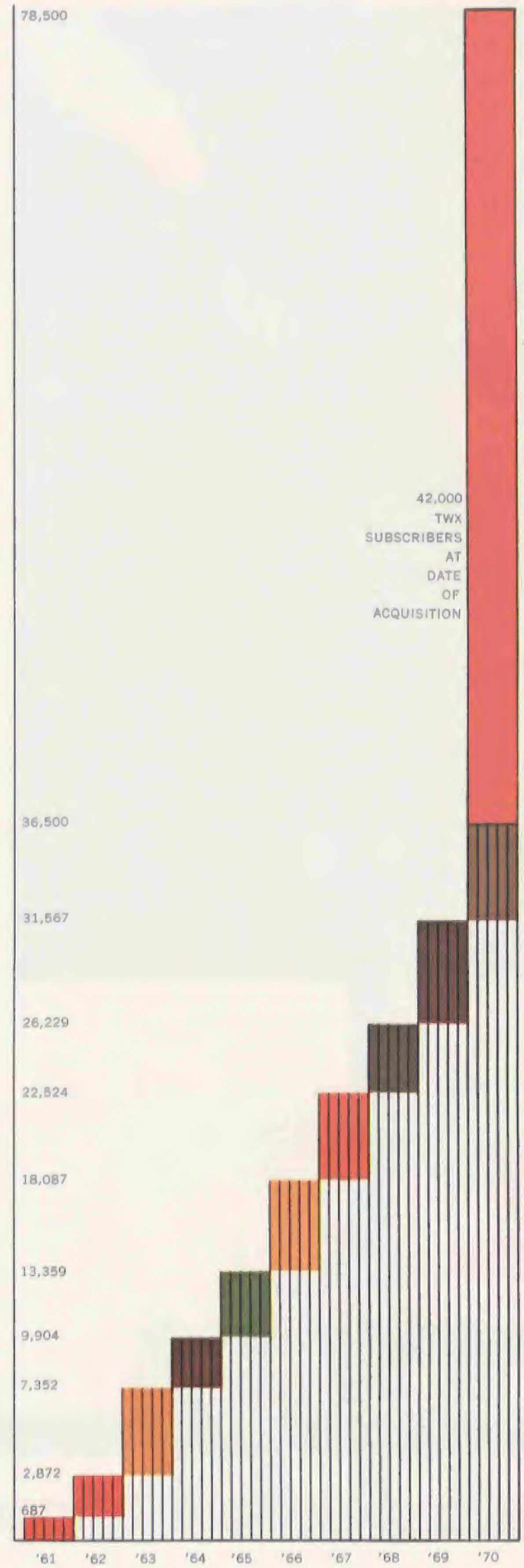
Late in 1970, a notice was filed with the Federal Communications Commission proposing that SICOM be freed from regulation to permit even greater flexibility in meeting the needs of the securities industry. Under this proposal, SICOM service would be provided by a corporate subsidiary. On December 23, the Commission suspended the proposed effective date for detariffing this service, pending hearings on the Telegraph Company's application.

DATACOM service was introduced in the fourth quarter of 1970, in response to the evident need of large data-communications users for low-cost transmission facilities. It provides for private use of a data channel between 45 major cities along the route of Western Union's transcontinental microwave system. Through new methods of channel subdivision that increase the information-carrying capacity of a given bandwidth, DATACOM can save bulk users as much as 80 per cent on their transmission costs. Customer acceptance was immediate and enthusiastic, and initial orders were cut over to revenue-producing service by year-end.

The teleprinter exchange business

The accelerated growth of the nation's economy during the past decade and the long-term expansion of business activity have produced a broad and growing market for the kind of

The addition of the 42,000 station TWX system to Western Union's growing Telex network will create a unified teleprinter exchange system of nearly 80,000 terminals.

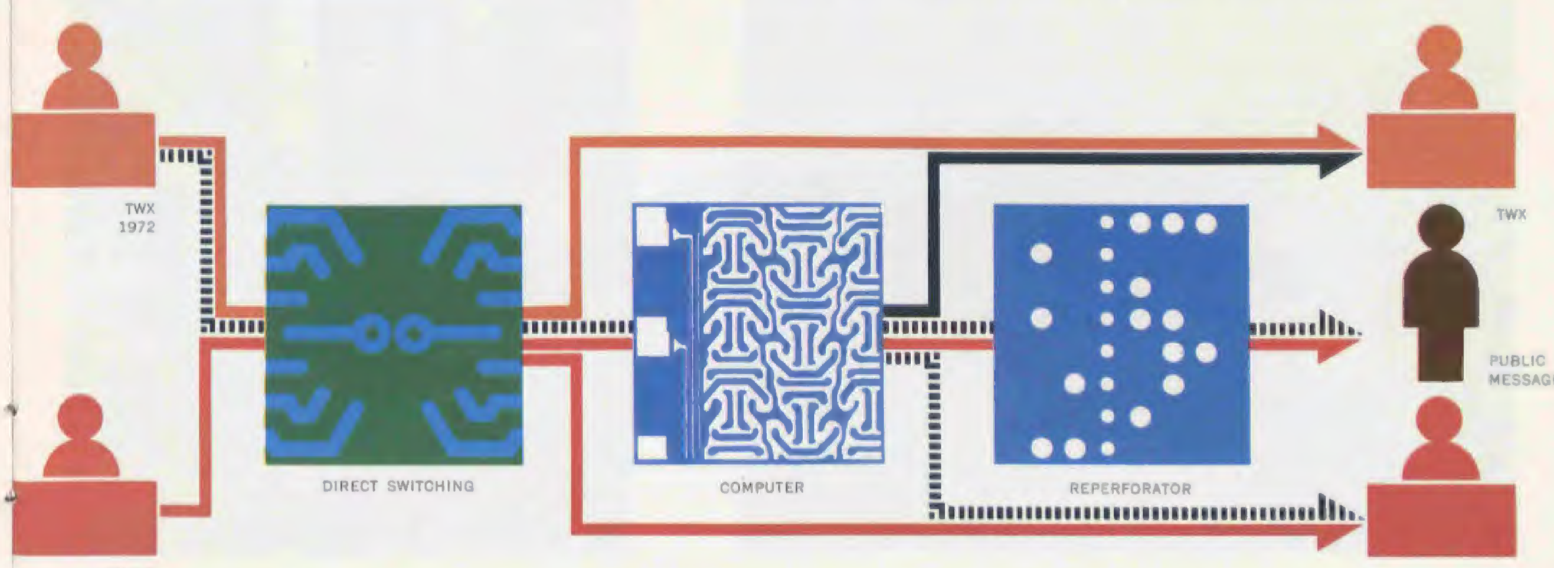


A major recruiting effort and the training of more than 2,400 technicians have been undertaken to assure continuity of TWX service. Three new technical training centers give courses ranging up to 16 weeks in length.

(left) Instructor compares a punched tape against the hard copy on a TWX teleprinter. This is part of the procedure to insure correctness of transmitted text. (right) Class learning about the data set which converts teleprinter signals for transmission.

machine-to-machine, record-message information handling that permits business firms to communicate rapidly and directly with each other. This sector of the telecommunications market is known either as the teleprinter exchange or the low-speed record-message exchange business. More familiarly to users, perhaps, it is two services—Western Union Telex, and the Teletypewriter Exchange (TWX) Service provided for many years by the Bell System and independent telephone companies. These services are roughly to the written word what the telephone is to the spoken word.

Ten years ago Western Union had barely begun to penetrate this market with Telex, a service then in its infancy and comprising fewer than 700 subscriber terminals. Today the Telex network numbers more than 36,500 terminals. It accounted



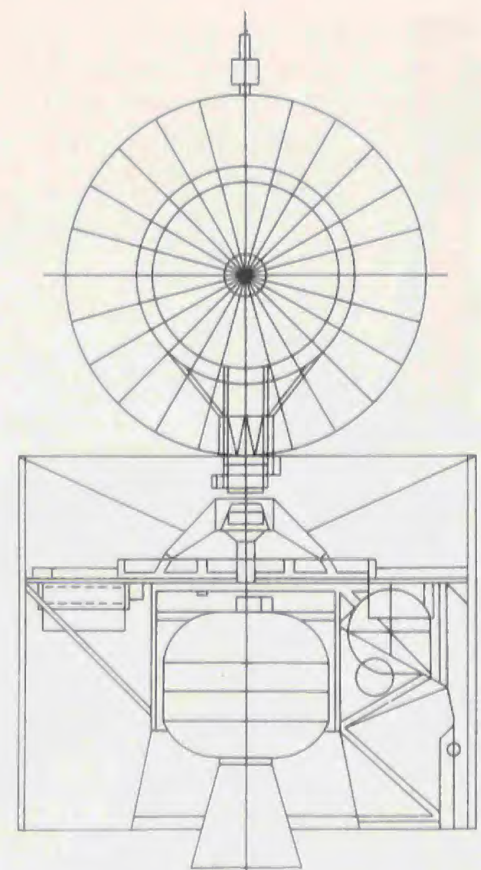
Telex, TWX, and the Public Message Services are combined into an Integrated Message/Record Service by the three kinds of switching shown above.

for $57 million of Western Union's revenues in 1970. Telex was the first service to benefit from computer enhancement through TCCS; it will be the key to our fully integrated system.

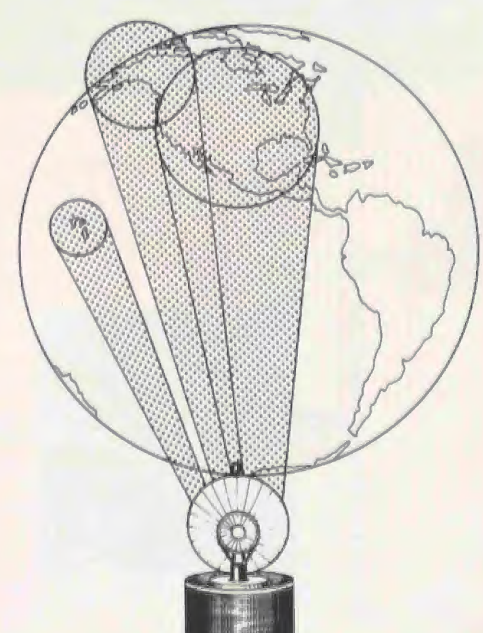
Through the company's four computer centers, Telex customers can now reach not only other Telex subscribers, but TWX customers, MAILGRAM serving post offices and public message offices.

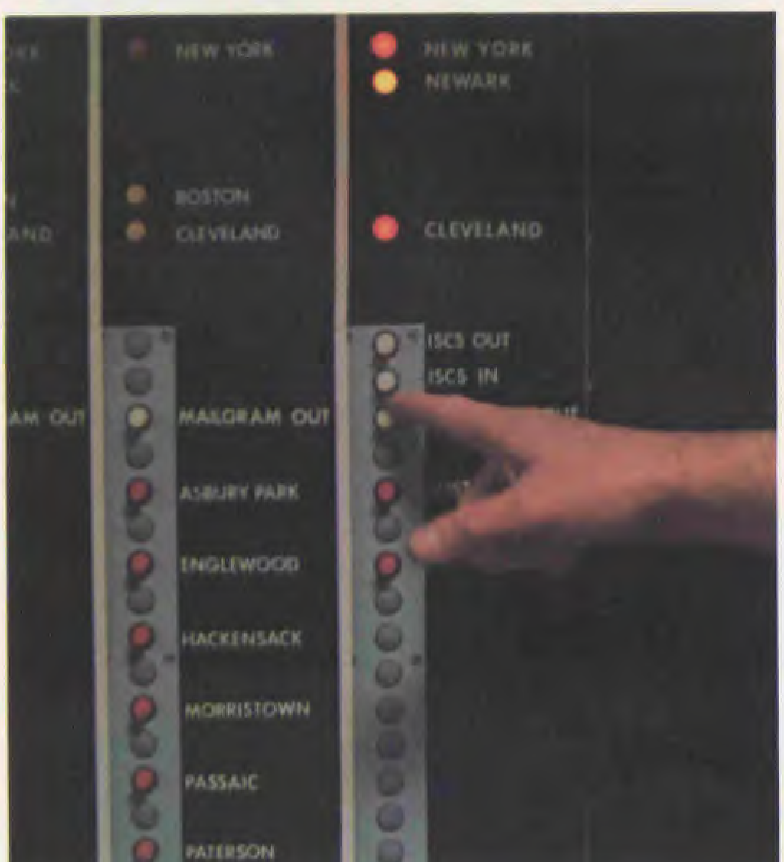
After the Telegraph Company's scheduled acquisition of the 42,000-station TWX system, the nation's business communications users will have the benefits of a unified teleprinter exchange system, including interconnection with Western Union's computer system and a greatly expanded universe of terminals within which direct communication can be established in seconds. For Western Union's stockholders and employees it means leadership in a business that is healthy and growing.

When the acquisition is completed, the Telex/TWX system will generate annual revenues of about $140 million. That is almost equal to the revenue derived in 1970 from Western Union's traditional telegram message service. Moreover, independent market studies project sustained annual growth in the demand for teleprinter exchange services over the next ten years.

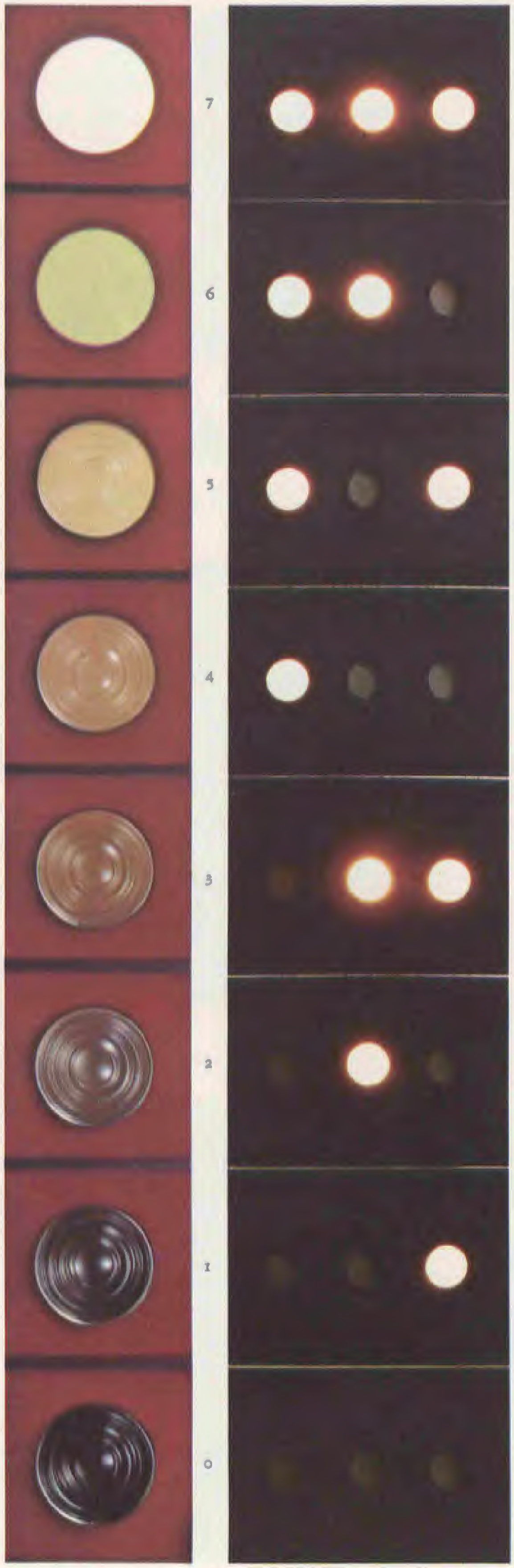


Western Union was the first company with a proposal for a domestic communications satellite system. These sketches depict a cross section of the satellite and the coverage of its radio beams.





At the company's National Systems Management Center, Western Union's long-distance transmission plant is monitored on a real-time basis. Telemetered information displayed on illuminated panels provides status indications for Telex, Hot/Line and the microwave network. Fluctuations in traffic load, facility outages and restorals are observed, recorded and utilized for service protection.



The two modes of transmission—analog and digital—are represented above. In the analog mode (left) information is transmitted by varying the intensity of the signal (simulated here by a light beam on a rheostat). In the digital mode (right) the information is coded into a basic on/off signal, the so-called binary code.

It is apparent that this type of service will represent a substantial portion of Western Union's record communications business in the years ahead, and will require continuing capital investment to satisfy the expanding needs of communications users.

New facilities for electronic data communications

During the 1960s the electronic computer came of age. By the end of the decade, computers were being installed at the rate of 10,000 a year to handle most traditional clerical functions for businesses.

While this was going on, practical methods became available for connecting computers with remote terminals by communications lines. In the late Sixties, the growth of computer-linked terminal installations began to outstrip even the proliferation of data-processing units themselves. By 1975, the number of data terminals installed is expected to exceed two million.

The existence of these two million terminals, combined with the growth of other electronic data communications services, will increase the demand for compatible transmission facilities. In 1970, Western Union took several steps to anticipate these needs.

On July 30, Western Union became the first company to file with the Federal Communications Commission a proposal to build, launch and operate a high-capacity, multipurpose domestic communications satellite system to serve all 50 states. The proposed satellite system will permit point-to-point record, data and voice communications in the 48 contiguous states and between these states and Alaska and Hawaii. In addition, it will provide channels for the transmission of television broadcasts.

Western Union's existing 7,900-mile transcontinental microwave network is projected to be completely filled in major sections by early 1973 because of the continued growth of traffic and the acquisition of TWX. Accordingly, Western Union has filed applications to construct two additional microwave systems.

The first of these will be a "hybrid" digital/analog link between Cincinnati and Atlanta for providing Western Union services to southeastern cities. The second system will be overbuilt on the company's existing microwave network to connect eastern and midwestern cities with a digital transmission facility.

Presently, 67 per cent of Western Union's traffic on the existing microwave system is digital in nature even though the microwave system itself is analog (voice oriented). The construction of these new microwave systems will provide transmission facilities having growth capacity in both the digital mode for handling Telex, private wire, public messages and computer data and the analog mode for TWX, voice and voice-coordinated data traffic.

R. W. McFALL
Chairman of the Board and President

The quality of a company's management bears significantly on performance. Western Union's management team on both the corporate level and in its major subsidiary, the Telegraph Company, is an important asset that does not show up on our balance sheets.

G. A. HOYT
Vice President

HARRY J. YOUNG
Treasurer

CHARLES O. JOHNSTON
Vice President—Finance

ZAKAR V. ZAKARIAN
President, Western Union Data Services Company

JOHN M. EVANS
Vice President, Secretary and General Counsel

AIDEN J. REDMOND
President, Western Union Realty Corporation

BURTON G. MENDELSON
Vice President—Corporate Development

HERBERT MUSCHEL
President, PR Newswire Association, Inc.

EARL D. HILBURN
President: Elected fifteenth president of The Western Union Telegraph Company in 1970. Previously was executive vice president. Joined the company in 1966 as vice president and special assistant to the president. Has also served as deputy associate administrator of NASA; vice president and general manager of Curtiss-Wright's electronics division; vice president–Link Division of General Precision, Inc.; and vice president–government contracts for Westinghouse Air Brake Co.

JAMES S. RICE
Executive Vice President: Came to Western Union in 1969 as vice president and special assistant. Previously at IT&T corporate vice president and group executive of North America Telecommunications, director of staff; corporate vice president and general manager Curtiss Div., Curtiss-Wright Corp.; vice president Rohr Corp. B.S. from University of Detroit, LL.B and J.D. degrees, Georgetown University; M.B.A. from University of Southern California.

HERBERT E. SALTER
Vice President–Resources: Came to Western Union as vice president–material management in 1967 from White Motor Corp. where he served as director–corporate purchasing. Previously employed at American Airlines as director–central purchasing, and in other managerial positions. Graduate of United States Naval Academy with B.S.E.

WILLIAM G. H. ACHESON
Secretary: Before becoming secretary in 1957 served as Western Union's assistant general attorney following several years of private law practice. A graduate of Williams College, with an LL.B from Harvard Law School.

ROBERT G. FINNEY
Vice President–Planning and Engineering: Joined W.U. in 1968 as assistant vice president-shared information system projects. Previously was manager –systems engineering in G.E.'s Heavy Military Electronics Dept. Received B.S.E.E. from Notre Dame University.

CLARE K. FULTON
Vice President–Marketing: Before joining Western Union in 1970, was vice president engineering and a director of Anaren Microwave, Inc. Held marketing and engineering assignments with General Electric Co. including marketing responsibility for BMEWS Surveillance Radar System, project management for Nike-X Phased Array Radar System. Degrees in mechanical and electrical engineering from Universities of Maine, Washington.

One of the most significant achievements of the last few years was the creation of a strong new management team for the Telegraph Company. These men, a blend of talents drawn from within and outside the company, represent a major resource of experience and ability.

GERALD P. KENT
Vice President—Employee Relations: Before joining Western Union in 1970, was vice president and director of personnel for The May Company. Headed his own public relations and personnel consulting firm in Detroit for four years. Has also been with J. L. Hudson Company.

CHARLES R. MACDONALD
Vice President—Business Planning: Came to Western Union in 1970 from IT&T where he served as director—North American business planning. Also was chairman of IT&T's North American economic advisory panel. Has held other planning, operations analysis and management positions with IT&T, Continental Can Co., and Federal Telephone and Radio. Holds B.A. from Colby College.

RICHARD L. CALLAGHAN
Vice President—Government Relations: Previously served as NASA assistant administrator for legislative affairs; staff director of Senate Committee on Interior and Insular Affairs; minority staff director of Senate Committee on Labor and Public Welfare. Holds B.S. degree from Georgetown University,LL.B from George Washington University Law School.

DELMAR HARMON
Vice President—Business Relations: Previously served as vice president and special assistant for TWX acquisition. Western Union experience covers assignments as assistant vice president—stores and installation; division superintendent—Plant & Engineering, and other technical and management positions. Received B.S.E.E. degree from Iowa State.

J. WILLIAM HARRINGTON
Vice President—Revenue Requirements: Has served Western Union as assistant vice president—rates and tariffs; director—planning and budgets, and in other financial and planning positions. Graduate of Northeastern University with B.S. in industrial engineering.

EDGAR C. CHAMBERLIN
Vice President—Customer Services: Thirty-four years' operating and marketing experience with Western Union includes assignments as division traffic superintendent, and as assistant vice president—operations. Has served as vice president—Eastern Division; vice president—marketing; and vice president—service quality. Received B.S.E.E. from University of Illinois.

WALTER E. GIRARDIN
Vice President—Field Support: More than 30 years' Western Union experience includes service as Los Angeles area vice president, area general manager, regional manager and district manager. Rose through ranks in various public office management positions.

RUSSELL H. McCONNELL
Vice President—National Systems Operation: Formerly assistant vice president—equipment planning and engineering. Also served as manager—inertial guidance engineering in General Electric Ordnance Department. Graduated from University of Michigan with B.S.E.E.

PETER J. SCHENK
Vice President—Federal Operations: Formerly vice president—government communications systems. Before joining Western Union, was executive vice president—Mitre Corp.; assistant to president and director—government marketing of Raytheon Co. Served as secretary—Air Force Scientific Advisory Board; deputy commander—Air Force Cambridge Research Center. Bachelor's degree in physics Lafayette College.

ROBERT F. GARBARINI
Vice President—Program Management: Before joining Western Union in 1967, was deputy associate administrator (engineering) NASA Office of Space Science and Applications, also chairman of Unmanned Spacecraft Panel of NASA/Department of Defense Aeronautics and Coordination Board. Previously chief engineer of Sperry Gyroscope's air armament division. B.S.M.E., M.S. from Stevens Institute of Technology.

Western Union Corporation
Consolidated Ten-Year Financial Summary

Results for Year: (Amounts in thousands, except per share figures)	1970	1969	1968	1967
Revenues and other income:				
Telegram message services	$151,092	$159,337	$156,423	$156,031
Telex service	57,089	47,227	39,019	32,004
	208,181	206,564	195,442	188,035
Leased systems and related services	119,920	123,519	117,903	109,055
Money order services	45,543	39,092	33,138	29,175
Other services	19,212	17,330	13,612	10,559
Total revenues	392,856	386,505	360,095	336,824
Other income	6,664	7,189	8,567	6,695
Total	399,520	393,694	368,662	343,519
Expenses:				
Salaries, wages, social security taxes, pensions and other employee benefits (1)	198,358	198,349	186,019	175,484
Other operating and maintenance expenses (2)	94,123	91,113	88,914	83,626
Depreciation and amortization	60,842	59,320	54,861	50,398
Other taxes	9,603	8,756	7,852	7,653
Interest (3)	11,013	10,380	9,447	8,823
Total	373,939	367,918	347,093	325,984
Income before federal income tax	25,581	25,776	21,569	17,535
Federal income tax—current	—	—	—	—
—deferred	(950)	(250)	(500)	1,900
	26,531	26,026	22,069	15,635
Preferred dividends of subsidiary company	3,181	3,252	3,297	2,837
Income before extraordinary items	23,350	22,774	18,772	12,798
Extraordinary items	—	—	—	5,944
Net income	23,350	22,774	18,772	18,742
Dividends on preferred stock	2,700	2,787	2,897	2,543
Net income applicable to shares of common stock	$ 20,650	$ 19,987	$ 15,875	$ 16,199
Per share of common stock: (4)				
Income before extraordinary items	$ 2.28	$ 2.37	$ 2.10	$ 1.36
Extraordinary items	—	—	—	.79
Net income	2.28	2.37	2.10	2.15
Dividends	1.40	1.40	1.40	1.40
Year-end Position:				
(Amounts in thousands)				
Net plant investment	$713,363	$674,234	$643,470	$603,904
Working capital	49,840	84,082	418	73,245
Funded debt and other long-term obligations	257,208	243,919	191,172	225,125
Stockholders' equity, including preferred shares of subsidiary company (net worth)	504,378	497,327	427,634	423,130
Employment:				
Number of employees—(December 31)	23,735	25,681	26,269	26,355
Number of pensioners—(December 31)	11,714	11,471	11,190	10,728
Salaries, wages, social security taxes, pensions and other employee benefits in relation to operating revenues	50.5%	51.3%	51.7%	52.1%
Average earnings of employees: (5)				
Hourly	$ 3.70	$ 3.48	$ 3.25	$ 3.11
Weekly	152.91	145.01	133.80	132.50

See notes beginning on page 27

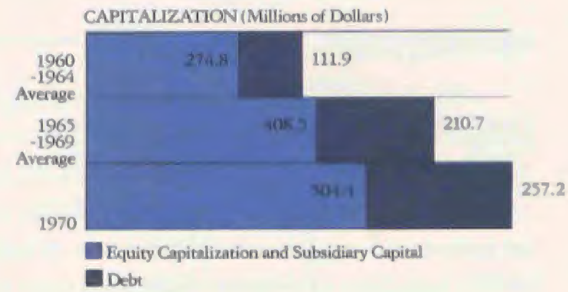
(1) In 1963, the Telegraph Company commenced the practice of capitalizing the portion of social security taxes, pensions and other employee benefits associable with plant under construction.
(2) Includes operating and maintenance, rentals of space and facilities, payments for use of circuits, materials and supplies, electric power, light, heat, telephone service, agents' commissions, postage, advertising, traveling, insurance, etc.
(3) Chiefly on bonds and notes, less

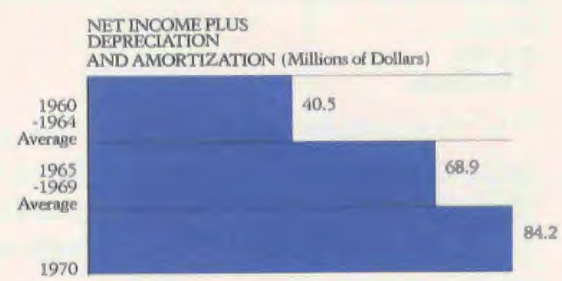
1966	1965	1964	1963	1962	1961
$ 162,252	$ 160,782	$ 163,203	$ 164,396	$ 169,769	$ 176,265
25,033	18,435	13,477	7,652	2,570	726
187,285	179,217	176,680	172,048	172,339	176,991
96,389	93,838	92,449	85,699	63,225	60,414
27,135	23,853	22,482	21,110	20,508	20,147
9,600	8,777	7,799	7,965	8,046	8,175
320,409	305,685	299,410	286,822	264,118	265,727
7,237	4,771	4,243	5,337	2,814	2,519
327,646	310,456	303,653	292,159	266,932	268,246
171,276	164,800	163,764	164,009	167,909	167,861
76,893	72,937	71,668	68,165	63,659	60,312
43,674	41,657	39,261	32,853	22,895	21,759
6,843	6,203	6,121	5,707	5,110	5,088
7,068	7,026	6,878	3,971	482	1,005
305,754	292,623	287,692	274,705	260,055	256,025
21,892	17,833	15,961	17,454	6,877	12,221
—	—	(1,200)	586	(3,730)	2,400
1,425	1,575	1,500	1,000	1,600	—
20,467	16,258	15,661	15,868	9,007	9,821
1,820	566	—	—	—	—
18,647	15,692	15,661	15,868	9,007	9,821
—	—	—	—	—	3,659
18,647	15,692	15,661	15,868	9,007	13,480
1,581	—	—	—	—	—
$ 17,066	$ 15,692	$ 15,661	$ 15,868	$ 9,007	$ 13,480
$ 2.27	$ 2.09	$ 2.09	$ 2.12	$ 1.20	$ 1.46
—	—	—	—	—	.54
2.27	2.09	2.09	2.12	1.20	2.00
1.40	1.40	1.40	1.40	1.40	1.40
$ 526,192	$ 450,262	$ 417,154	$ 401,300	$ 378,569	$ 278,282
67,133	88,874	54,814	64,463	66,091	43,491
200,366	192,970	169,083	170,241	147,837	33,002
368,763	325,676	285,074	279,932	283,911	285,346
27,348	26,485	26,520	27,891	29,953	31,398
10,087	9,781	9,217	8,641	8,158	7,654
53.5%	53.9%	54.7%	57.2%	63.6%	63.2%
$ 2.98	$ 2.88	$ 2.77	$ 2.69	$ 2.57	$ 2.49
127.28	124.53	115.36	111.69	105.78	103.25

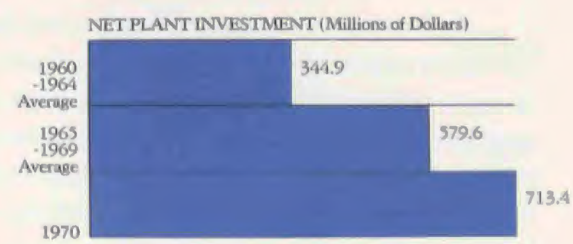
interest charged to plant under construction.

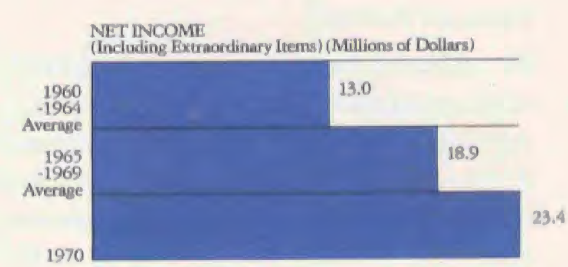
(4) Based on the weighted average number of common shares outstanding during each year.

(5) Relates to nonsupervisory employees, except messengers, in mid-December each year.









Operating Results

Total revenues in 1970 were $392,856,000, compared with $386,505,000 in 1969, an increase of 1.6 per cent. Net income in 1970 of $23,350,000 compares with net income in 1969 of $22,774,000, an increase of 2.5 per cent. Net income in both years is after a reduction of deferred federal income taxes and provision for preferred dividends of subsidiary company. The net income per share of common stock in 1970 was $2.28, compared with $2.37 in 1969. Total expenses rose to $373,939,000 in 1970 from $367,918,000 in 1969, an increase of 1.6 per cent. The increase was due principally to rising labor, pension and employee benefit costs, and to higher interest rates on borrowings.

Provision for federal income tax was not required in either year. The company's 1970 net income was not subject to federal income tax liability, principally due to the use of accelerated depreciation methods for tax purposes and other items as more fully discussed in Note E.

Dividends

Dividends declared in 1970 were $15,340,000, consisting of $2,700,000 for preferred stock (equivalent to 30 cents a share of common stock), and $12,640,000 for common stock declared at the quarterly rate of 35 cents a share.

Tax Status of Dividends

In January 1971, the corporation and the Telegraph Company advised stockholders who received dividends in 1970 that an estimated 100 per cent of all dividends paid were a return of capital and not taxable as dividend income. The nontaxable dividends reduce the holder's cost basis for the shares on which the dividends were paid. This estimate is subject to a review and final determination by the Internal Revenue Service.

Financial Position

Gross charges for construction and installation of plant and equipment in 1970 totaled $142,780,000. After deducting depreciation and amortization of $60,842,000 charged against earnings and other net credits of $42,809,000, the net investment in plant and equipment increased by $39,129,000. At December 31, 1970, the net investment amounted to $713,363,000 of which $112,444,000, or 16 per cent, represented plant under construction. Total capitalization at the end of 1970 was $761,586,000. Funded debt and other long-term obligations amounted to $257,208,000, or 34 per cent of total capitalization.

Financing

On October 1, 1970 in its first public offering of securities, Western Union Corporation sold $85,000,000 of convertible subordinated debentures due October 1, 1995. The debentures carry an interest rate of 7¼ per cent and are convertible into common stock at any time before maturity at $37.25 a share. $71,000,000 of the proceeds were made available to the Telegraph Company for prepayment of its outstanding bank loans, a preparatory step to subsequent financings for expansion of its services and facilities, including the acquisition from the Bell System and independent telephone companies of their Teletypewriter Exchange (TWX) Service.

The Telegraph Company is negotiating a bank loan agreement with 17 participating banks for a maximum of $110,000,000. On January 15, 1971 Western Union Overseas N.V. entered into a five-year Eurodollar bank loan agreement with a group of overseas banks and foreign affiliates of U.S. banks for a maximum loan of $33,000,000. Capitalization for the new subsidiary was obtained by the corporation through a $6,700,000 bank loan. The recently organized Western Union Realty Corporation has negotiated a $16,000,000 loan for construction of new facilities in Upper Saddle River, New Jersey. During the year, the corporation was active in the commercial paper market. The amount of these notes payable outstanding as of December 31, 1970 was $13,000,000.

Tariffs

During 1970 the Telegraph Company introduced a new service offering, DATACOM, and sought rate revisions for inter- and intrastate public message service, for U.S.-Canada public message service, and for Telpak. These new tariffs, which were filed or became effective during the year, should produce additional revenues of more than $25,000,000 annually.

Western Union Corporation
Consolidated Statement of Income and Retained Earnings

	Year Ended December 31, 1970	1969
	(Thousands)	
Revenues and other income		
Telegram message services	$ 151,092	$ 159,337
Telex service	57,089	47,227
	208,181	206,564
Leased systems and related services	119,920	123,519
Money order services	45,543	39,092
Other services	19,212	17,330
Total revenues	392,856	386,505
Other income	6,664	7,189
Total	399,520	393,694
Expenses		
Operating, administrative and general	202,780	202,307
Maintenance	50,223	51,933
Depreciation and amortization	60,842	59,320
Pensions	20,773	18,362
Employees' disability, death and other benefits	11,297	9,045
Social security taxes	7,408	7,815
Other taxes	9,603	8,756
Interest	16,179	14,554
Interest charged to construction—(credit)	(5,166)	(4,174)
Total	373,939	367,918
Income before federal income tax	25,581	25,776
Federal income tax—current	—	—
—deferred	(950)	(250)
	26,531	26,026
Preferred dividends of subsidiary company	3,181	3,252
Net income	23,350	22,774
Retained earnings at beginning of year	128,664	123,765
January 1, 1970 retained earnings balance of acquired subsidiary	268	—
	152,282	146,539
Less:		
Dividends declared:		
Preferred stock	2,700	2,787
Common stock—$1.40 per share	12,640	12,037
Expenses of issuing common stock	—	3,051
	15,340	17,875
Retained earnings at end of year	$ 136,942	$ 128,664
Net income per share of common stock (based on the weighted average number of shares of common stock and common stock equivalents—9,054,818 and 8,426,079)	$ 2.28	$ 2.37

There would be no dilution in net income per share of common stock in 1970, assuming that outstanding convertible preferred stock and convertible subordinated debentures had been converted into common stock.

See notes beginning on page 27

Western Union Corporation
Consolidated Statement of Financial Position

Assets	December 31, 1970	1969
	(Thousands)	
Plant and equipment, at original cost:		
Outside communications plant and real estate	$ 116,017	$ 116,960
Equipment furnished customers	361,577	354,128
Inside communications plant	362,626	335,078
Research and development	32,386	29,613
Other operating plant	64,470	57,592
Plant under construction	112,444	93,176
Gross plant investment	1,049,520	986,547
Allowance for depreciation and amortization	336,157	312,313
	713,363	674,234
Current assets:		
Cash	21,085	25,973
Marketable securities, at cost, which approximates market	2,983	13,300
Receivables, less $1,540,000 and $1,322,000 allowance for uncollectible accounts	62,174	63,497
Materials and supplies for construction, maintenance and operation, at average cost or salvage value	48,291	43,464
Prepaid rents, insurance and taxes	1,064	539
	135,597	146,773
Other assets, including deferred TWX preacquisition costs	19,099	8,284
	$ 868,059	$ 829,291

See notes beginning on page 27

Capital and Liabilities	1970	December 31, 1969
	(Thousands)	
Capital:		
Convertible preferred stock	$ 57,105	$ 58,037
Common stock	22,579	22,374
Capital surplus	230,877	230,002
Retained earnings	136,942	128,664
	447,503	439,077
Preferred shares of subsidiary company	56,875	58,250
Funded debt and other long-term obligations:		
Convertible subordinated debentures	85,000	–
Other debentures	169,095	178,900
Notes payable to banks	–	62,800
Other obligations	3,113	2,219
	257,208	243,919
Current liabilities:		
Notes payable	14,646	–
Accounts payable and accrued liabilities	49,485	41,677
Money orders payable	15,900	15,291
Sinking fund payments on funded debt, due within one year	1,100	1,100
Dividends payable	4,626	4,623
	85,757	62,691
Deferred credits and reserves:		
Federal income taxes	7,300	8,250
Other (principally installation fees)	13,416	17,104
	20,716	25,354
	$ 868,059	$ 829,291

See notes beginning on page 27

Western Union Corporation
Consolidated Statement of Source of Funds for Plant Expansion

Funds required	Year Ended December 31, 1970	1969
	(Thousands)	
Gross plant charges	$142,780	$127,571
Less:		
Credits, principally for equipment removed from service and transferred to inventory for reinstallation or other disposition, including $19,100,000 in 1970 and $12,100,000 in 1969 realized from termination charges to customers and from sale of scrap copper wire	42,809	37,487
Funds required for plant expansion	$ 99,971	$ 90,084

Funds provided	Year Ended December 31, 1970	1969
	(Thousands)	
By operations:		
Net income	$ 23,350	$ 22,774
Dividends	(15,340)	(14,824)
Earnings retained in the business	8,010	7,950
Depreciation and amortization	60,842	59,320
	68,852	67,270
By financing:		
Sales of stock:		
Shares of common stock, less expenses of issuance	—	61,925
Shares of common stock issued under options	56	695
Debentures	85,000	—
Sinking fund payments		
—on long-term debt	(9,805)	(9,957)
—on preferred stock	(1,375)	(875)
Increase (decrease) in notes payable	(48,154)	(5,000)
	25,722	46,788
Other:		
(Increase) decrease in cash and marketable securities	15,205	(10,881)
Net change in other assets and liabilities	(9,808)	(13,093)
	5,397	(23,974)
Funds provided for plant expansion	$ 99,971	$ 90,084

Notes to Consolidated Financial Statements

NOTE A—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Western Union Corporation, hereinafter referred to as the Corporation, and its subsidiaries. The principal subsidiary is The Western Union Telegraph Company, hereinafter referred to as the Telegraph Company.

On March 12, 1970, the Corporation acquired 81% of PR Newswire Association, Inc. in an exchange for 60,000 shares (which number is subject to increase by a maximum of 4,500 shares) of its common stock. The Corporation has the option to acquire the remaining 19% for a maximum of 55,499 shares of its common stock. This transaction has been accounted for as a pooling of interests. The financial statements for prior years have not been restated for the above acquisition, as the amounts are not significant.

NOTE B—DEPRECIATION AND AMORTIZATION

The Corporation and its subsidiaries employ the straight-line method of providing for depreciation. In the case of the Telegraph Company, depreciation rates are applied to the total investment in the respective classes of property and as properties are replaced, abandoned, or otherwise retired, the cost thereof less salvage (net of the cost of removal), is charged against the allowance for depreciation.

Research and development expenditures ($5,198,000 in 1970 and $4,051,000 in 1969) are capitalized and amortized to expense on a straight-line basis over a period of eight years commencing in the year the project is completed. Amortization of research and development expenditures capitalized aggregated $2,550,000 in 1970 compared with $2,109,000 in 1969.

NOTE C—EMPLOYEES' PENSIONS AND BENEFITS

The Telegraph Company's General Plan was amended in 1966 to provide for an increase in pension benefits by the elimination of deductions, equaling one-third of a pensioner's social security benefits, and the reduction of the mandatory retirement age for non-supervisory employees to age 67. The last steps of this amendment were implemented in 1970.

From 1955 to July 1, 1969, the Telegraph Company paid into a Trust Fund held by a trustee 50% of normal (current service) costs and an amount representing interest on approximately 50% of the present value of the unfunded prior service costs. Presently the Telegraph Company is paying into the Trust Fund 100% of normal (current service) costs and an amount representing interest on 100% of the present value of unfunded prior service costs as determined by independent consulting actuaries. All pension payments are made from the Trust Fund.

Pension expense shown in the Statement of Income for 1970 is net of $4,546,000 charged to plant and equipment and deferred TWX preacquisition costs as compared with $2,810,000 for 1969.

The Telegraph Company's independent consulting actuaries have estimated the amount of unfunded prior service pension costs to aggregate approximately $364,000,000 as of June 30, 1969, the date of the latest actuarial study, including $258,000,000 relating to pensioners at that date and employees then entitled to retire on pension. For rate-making purposes, the Federal Communications Commission limits charges for pensions to amounts paid directly to pensioners or into a trust fund established solely for such purpose.

NOTE D—LEASE AND OTHER CONTRACTUAL OBLIGATIONS

The Telegraph Company leases its headquarters, certain office buildings, branch offices and warehouses. Minimum annual rentals under these leases amount to approximately $9,500,000 of which approximately $4,300,000 is payable under leases expiring within five years and an additional $2,200,000 is payable under leases expiring between five and ten years. Certain portions of these buildings are subleased at an annual rental of $1,900,000. Several long-term leases contain renewal options ranging from 25 to 65 years with substantial rental reductions.

Payments for facilities leased under contracts with telephone companies currently aggregate approximately $20,300,000 per annum. Such agreements are subject to termination by either party on five years notice.

NOTE E—FEDERAL INCOME TAX

The Corporation and its subsidiaries plan to file a consolidated federal income tax return for 1970. In prior years the Telegraph Company filed its own federal income tax return.

The Telegraph Company records federal income taxes in its accounts in accordance with the accounting regulations of the Federal Communications Commission which for rate-making purposes limits the provision for federal income taxes to taxes actually paid. No taxes are currently payable principally because the Telegraph Company uses accelerated depreciation methods for tax purposes only and takes as current deductions for tax purposes interest, social security taxes, and employee benefits charged to construction accounts, and TWX preacquisition costs which have been deferred for financial accounting purposes. Accordingly, except for the AUTODIN installation mentioned below, no provision for deferred income taxes is required in the accounts of the Telegraph Company for the difference between financial statement income and taxable income. This is in accordance with generally accepted accounting principles for the

Telegraph Company in that if the Company pays taxes in the future, such taxes will be reflected in the rates to be allowed by the Federal Communications Commission.

In the case of the AUTODIN installation, generally accepted accounting principles require provision for deferred income taxes, inasmuch as the tariff rates with respect to AUTODIN were developed without regard to the effects of accelerated depreciation for tax purposes on AUTODIN plant and equipment. On this basis, provision for deferred income taxes during the early years with counterbalancing treatment in the later years more fairly reflects the income for each year during the life of the system. However, the Federal Communications Commission denied the Telegraph Company's request to provide for deferred income taxes in its accounts, and accordingly, no provision for deferred taxes has been made in the accounts of the Telegraph Company; however, such provisions have been made in the accompanying consolidated statements. Such provision, after AUTODIN investment tax credits, amounted to $8,500,000 through December 31, 1968 and was reduced by credits of $250,000 in 1969 and $950,000 in 1970. The net cumulative deferred tax liability at December 31, 1970 aggregated $7,300,000.

The Telegraph Company has a $6,500,000 net operating loss carryover for tax purposes only which expires in 1975. In addition the Telegraph Company's investment tax credits applicable to eligible plant additions including AUTODIN, were not used in 1970 nor in prior years due to the absence of tax liability against which to apply the credits. The estimated unused investment tax credit carryover from all sources, available for Telegraph Company tax reduction in subsequent years, amounted to $11,700,000 at December 31, 1970, including $2,700,000 applicable to AUTODIN.

The Telegraph Company's federal income tax returns have been audited for all years through 1963 and all tax liability has been settled through 1958. The Internal Revenue Service has proposed adjustments for the years 1959 through 1963 and is asserting additional tax liability of approximately $13,500,000, with interest from various dates. With respect to the principal proposed adjustments aggregating approximately $11,700,000, the Telegraph Company and its counsel believe that, as to $8,200,000, the claim is without merit, and as to $3,500,000, the Telegraph Company should prevail. With respect to the remaining proposed adjustments, the Telegraph Company and its counsel believe that any tax deficiency which may ultimately be assessed will not be material.

NOTE F—CAPITAL

	Outstanding at December 31, 1970		1969	
	Shares	Amount (Thousands)	Shares	Amount (Thousands)
Cumulative preferred, $100 par value, 1,500,000 shares authorized:				
4.6% convertible series	370,771	$37,077	370,831	$37,083
Cumulative second preferred, $100 par value, 500,000 shares authorized:				
4.9% convertible series	200,279	20,028	209,541	20,954
		$57,105		$58,037
Common, $2.50 par value, 20,000,000 shares authorized:	9,031,483	$22,579	8,949,694	$22,374

Transactions in the capital accounts for the year ended December 31, 1970 are summarized below:

	Cumulative Convertible Preferred Stock 4.6%	4.9%	Common Stock	Capital Surplus
	(Thousands)			
Balance January 1, 1970	$37,083	$20,954	$22,374	$230,002
Acquisition of PR Newswire Association, Inc.			150	(144)
Conversions	(6)	(926)	52	880
Purchase of fractional shares				(1)
Exercise of stock options			4	52
Capital stock reacquired			(1)	88
Balance December 31, 1970	$37,077	$20,028	$22,579	$230,877

At December 31, 1970 the 4.6% cumulative preferred stock and the 4.9% cumulative second preferred stock were convertible at $51.75 and $44.01 per share of common stock, respectively, and 1,171,544 shares of common stock were reserved for issue upon exercise of conversion rights. During 1970 60 shares of the 4.6% series and 9,262 shares of the 4.9% series were converted into a total of 20,693 shares of common stock.

The 4.6% and 4.9% convertible series, at the option of the Corporation, are redeemable at $104.50 and $104.75 a share, respectively. The redemption prices decline at future dates.

Dividends were declared on preferred stock outstanding as follows:

	1970	1969
	(Thousands)	
4.6%	$1,706	$1,718
4.9%	994	1,069
	$2,700	$2,787

The Corporation's certificate of incorporation relating to the cumulative preferred stocks imposes limitations on the issuance of prior and parity ranking shares of stock, the creation of liens and additional funded indebtedness, and the payment of cash dividends. The amount of retained earnings not restricted as to the payment of such dividends approximated $38,500,000 at December 31, 1970.

Transactions during the year ended December 31, 1970 under the Stock Option Plans of the Corporation are summarized below:

	Number of Shares	Price range (95% to 100% of market at date of grant)
Options outstanding at December 31, 1969 (36,563 shares exercisable)	56,350	$31.00 – $51.88
Options granted	96,400	$34.00 – $47.50
Options exercised (aggregate amount received $55,961)	(1,500)	$32.94 – $42.50
Options expired	(17,575)	$37.06 – $51.88
Options outstanding at December 31, 1970 (28,775 shares exercisable)	133,675	$31.00 – $50.50

A balance of 46,600 shares of common stock remain available for future options under the Corporation's plan.

On April 15, 1970 the stockholders adopted the Corporation's Employee Stock Purchase Plan for eligible employees of the Corporation and its subsidiaries. Under the Plan the Board of Directors is authorized to offer options to employees to purchase an aggregate of not more than 440,000 shares of common stock. The Board authorized an initial offering of 240,000 shares of the Corporation's common stock under the "Terms of 1970 Offering." Employees enrolled in the 1970 offering are paying for approximately 161,000 shares through weekly payroll deductions during the 24-month period from July 1970 through June 1972. The maximum purchase price is $38.3625 per share, 10% less than the market value of $42.6250 on May 1, 1970. Should the market value of the stock on June 30, 1972 be less than $42.6250, the purchase price will be 10% below the market value on that date.

NOTE G—PREFERRED SHARES OF SUBSIDIARY COMPANY

	Outstanding at December 31,			
	1970		1969	
Telegraph Company	Shares	Amount (Thousands)	Shares	Amount (Thousands)
Cumulative preferred, $100 par value, 1,100,000 shares authorized:				
5.2%	323,750	$32,375	332,500	$33,250
6.0%	245,000	24,500	250,000	25,000
		$56,875		$58,250

Sinking fund provisions require the Telegraph Company in the case of the 6.0% issue to retire $500,000 annually by redemption at par or by prior purchase and cancellation, and in the case of the 5.2% issue to retire $875,000 by redemption at par annually through 1977 and $1,050,000 annually thereafter.

The 6.0% and 5.2% series at the option of the Telegraph Company are redeemable immediately, other than for the sinking funds, at $106.00 and $105.20 a share, respectively, subject to certain restrictions if redeemed prior to July 1, 1977.

Dividends were declared on preferred shares outstanding as follows:

	1970	1969
	(Thousands)	
5.2%	$1,706	$1,752
6.0%	1,475	1,500
	$3,181	$3,252

The provisions of the certificate of incorporation of the Telegraph Company, as amended, relating to the cumulative preferred shares, impose limitations on the issuance of prior and parity ranking shares, the creation of liens and additional funded indebtedness, and the payment of cash dividends. The amount of retained earnings not restricted as to the payment of cash dividends on common shares approximated $26,500,000 at December 31, 1970.

The indentures impose certain limitations on the payment of dividends on both the preferred shares and the common shares of the Telegraph Company. The amount of retained earnings not so restricted as to the payment of such dividends approximated $31,000,000 at December 31, 1970.

NOTE H—FUNDED DEBT AND OTHER LONG-TERM OBLIGATIONS

Debentures	Outstanding at December 31, 1970	1969
	(Thousands)	
Corporation:		
7¼% Convertible Subordinated due October 1, 1995	$ 85,000	$ —
Telegraph Company:		
4⅝% due June 1, 1980	$ 20,900	$ 22,000
5¼% due February 1, 1987	37,262	40,000
6½% due December 15, 1989	46,841	50,000
5% due March 1, 1992	64,092	66,900
	$169,095	$178,900

The indentures contain optional redemption provisions and require sinking fund payments for annual retirement as follows:

Debentures	Annual Sinking Fund Requirements (Thousands)	Beginning	Due Within One Year At Dec. 31, 1970 (Thousands)
Corporation:			
7¼%	*	October 1, 1981	—
Telegraph Company:			
4⅝%	$1,100	June 1, 1956	$1,100
5¼%	2,000	February 1, 1967	**
6½%	2,500	December 14, 1971	**
5%	2,700	March 1, 1969	**

*6-2/3% of the aggregate principal amount outstanding as of October 1, 1980.
**Satisfied by purchases.

Telegraph Company purchases in 1970 for 1971, 1972 and 1973 sinking fund requirements compared with total 1969 purchases were as follows:

Debentures	1971	1972	1973	Total 1970 Purchases	Total 1969 Purchases
		(Thousands)			
5¼%	$ —	$2,000	$738	$2,738	$3,667
6½%	2,500	659	—	3,159	—
5%	—	2,700	108	2,808	5,190
	$2,500	$5,359	$846	$8,705	$8,857

Discounts on purchases to satisfy sinking fund requirements were credited to Other Income.

On October 1, 1970, the Corporation issued $85,000,000, 7¼% convertible subordinated debentures due October 1, 1995. The debentures are convertible into common stock at any time before maturity at $37.25 a share. The Corporation made available $71,000,000 to the Telegraph Company to prepay all of its bank notes then outstanding under the loan agreement, which was then terminated.

The Corporation's indenture imposes certain limitations on dividends and other stock payments. The amount of retained earnings not so restricted as to the payment of dividends on common stock approximated $45,700,000 at December 31, 1970.

The Telegraph Company's indentures impose certain limitations on the Telegraph Company (but not the Corporation) including the creation of liens and additional indebtedness. Under the most restrictive of these limitations, the Telegraph Company was permitted to incur additional funded indebtedness (other than indebtedness in connection with the acquisition of a communications system such as TWX) in the amount of approximately $81,000,000 at December 31, 1970. Short-term indebtedness is not subject to the limitations on additional funded indebtedness, but may not exceed $75,000,000.

The Telegraph Company is negotiating a loan agreement with 17 participating banks under which a maximum of $110,000,000 will be available.

On January 15, 1971, Western Union Overseas N.V. entered into a Eurodollar loan agreement with a group of overseas banks and foreign affiliates of U.S. banks under which a maximum of $33,000,000 is available for five years from the initial advance date. The notes will bear interest at one per cent higher than either the three- or six-month Eurodollar rate in effect at each interest-fixing period. The borrower has the right to choose the basic rate on which interest will be calculated. Capitalization for the new subsidiary was obtained by the Corporation through a $6,700,000 bank loan at an interest rate of 1½% above the London interbank rate.

NOTE I—INCENTIVE COMPENSATION PLAN

The Telegraph Company's Incentive Compensation Plan provides that the Board of Directors may appropriate each year an amount to be available for payment of incentive compensation to officers and certain key employees of the Telegraph Company. The maximum amount of this appropriation is based on income before extraordinary items, as defined in the plan. The awards are payable in installments commencing in the year following that for which the award was made, or the recipient may elect to defer payment until after his retirement. The Board of Directors appropriated $650,000 and $600,000 in 1970 and 1969, respectively, which have been charged to operating expense.

NOTE J—CONTINGENT LIABILITIES

In connection with the AUTODIN system and the Emergency Message Automatic Transmission System and the Bomb Alarm system (which has since been cancelled), the Defense Communications Agency of the U.S. Department of Defense has for some time claimed that excessive rates have been collected by the Telegraph Company because of the inclusion in the construction of the applicable tariffs of estimated amounts for maintenance, general and administrative expense and federal income taxes which are asserted to have been in excess of actual cost therefore incurred by the Telegraph Company.

On February 28, 1969, the Department of Defense filed a complaint with the FCC alleging that the rates charged by the Telegraph Company in providing the AUTODIN service at five switching centers during the period November, 1962 through September, 1965 were excessive for the reasons mentioned above and requesting damages totaling $15,561,103. On April 21, 1970, a similar complaint was filed with the FCC requesting damages totaling $4,461,429, with respect to the Bomb Alarm service during the period February 10, 1961 through December 31, 1969. The Department of Defense has also filed with the FCC a third complaint alleging that tariff charges which became effective on November 16, 1969 with respect to an AUTODIN enhancement program are illegal for the reasons mentioned above, disputing certain proposed termination charges in connection therewith, and requesting that the FCC investigate such charges, determine just and reasonable rates and direct the Telegraph Company to repay any amounts ultimately determined to have been illegally collected. Hearings on the two complaints relating to AUTODIN have been postponed in order to afford the Telegraph Company and the Department of Defense an opportunity to hold settlement conferences. The complaint relating to Bomb Alarm has not yet been set for hearing. Similar complaints may be filed with respect to amounts collected by the Telegraph Company for the operation during the period January, 1963 to September, 1965 of that portion of the AUTODIN system not covered by the complaints referred to above, for the operation of the entire AUTODIN system during the period subsequent to September, 1965 and for the operation of the Emergency Message Automatic Transmission System. The aggregate amounts claimed in such complaints may be more or less than the amount claimed in the above described complaints. It is the opinion of the Telegraph Company and its counsel that the Department of Defense is entitled to receive payment only if and to the extent that the amounts collected by the Telegraph Company during the periods in question resulted in the Telegraph Company receiving an excessive rate of return. It is the position of the Telegraph Company that during all of such periods the Telegraph Company earned less than a fair rate of return on all of its services combined as well as on its leased private communications services, of which the AUTODIN, Bomb Alarm, and Emergency Message Automatic Transmission systems were parts. It is further the opinion of the Telegraph Company and its counsel that any liability resulting from claims in respect to all the above services from their inception to date will not be material in relation to the financial position or results of operations of the Telegraph Company.

By order released February 9, 1971, the FCC approved rate increases heretofore filed by the Telegraph Company, prescribed the present rates for Telex Service and Public Message Telegram Service as the maximum reasonable rates for said services and directed that no increase in such rates shall be made effective without prior permission of the Commission after due consideration of various factors, including quality of service with respect to the Public Message Telegram Service. The Order also, among other things, directed the Telegraph Company to file certain tariff revisions related to quality of service and to submit a report relating to proposed programs and policies as to accuracy of telegraphic transmission. Both such tariff revisions and programs and policies, when fully implemented, may involve provisions for refunds to individual subscribers in the event of errors in transmission or delays in delivery.

In November 1967, an action was commenced in the Supreme Court, New York County, New York by Law Research Service, Inc. against the Telegraph Company seeking specific performance of alleged contracts and damages in the amount of $37,785,000 for numerous alleged breaches thereof. The complaint alleges in substance that the Telegraph Company failed to perform properly the obligations allegedly undertaken by it in furnishing computer and communications network facilities for plaintiff's legal citation service. After a trial, on June 23, 1970, the Court entered a judgment finding in favor of the Telegraph Company as to a number of charges of default but awarding damages to the plaintiff in the amount of $894,099 plus interest and costs. Both parties have appealed from this judgment and it is expected that hearings in the appeals will be held by mid-1971. The Telegraph Company also has been joined with Law Research Service, Inc. as a party defendant in eleven suits in California, Iowa, Illinois, Michigan, Missouri, New York and Wisconsin instituted by certain of the parties who had entered into contractual arrangements with Law Research Service, Inc. relating to the furnishing of the legal citation service. The aggregate amount claimed against the Telegraph Company in these suits was $7,827,516 at December 31, 1970, including $4,300,000 for punitive damages, plus attorneys' fees and costs. Law Research Service, Inc. also has initiated seven additional actions against the Telegraph Company in New York and filed cross-claims against the Telegraph Company in the Illinois actions mentioned above requesting additional damages aggregating $12,881,608, including punitive damages of $2,000,000. These actions are in various stages of pretrial proceedings. The amount of ultimate liability, if any, which may result from the above-described actions is not presently determinable but, in the opinion of the Telegraph Company and its counsel, any liability resulting therefrom will not be material in the aggregate in relation to the financial position or results of operations of the Telegraph Company.

In June, 1970, the Bunker-Ramo Corporation filed a complaint with the FCC alleging that the Telegraph Company had discriminated against Bunker-Ramo in order to gain a competitive advantage for the Telegraph Company's SICOM service by intentionally failing to provide installation and maintenance service for communications facilities leased from the Telegraph Company by Bunker-Ramo for use in providing the latter's stockbroker-information systems. The complaint seeks actual and punitive damages aggregating $3,954,000 and an order enjoining the Telegraph Company from expanding its SICOM service. It is the opinion of the Telegraph Company and its counsel that the complaint is without merit.

In addition to the foregoing, the Telegraph Company is a party to other civil actions of a routine nature incident to its normal business. In connection with such litigation, any liability of the Telegraph Company is either covered by insurance or, in the opinion of its management, if the litigation were decided adversely to the Telegraph Company, would not be material in the aggregate in relation to its financial position.

NOTE K—TWX ACQUISITION

On July 28, 1970, the Federal Communications Commission gave its final approval for the Telegraph Company to purchase the TWX Service, subject to compliance with certain contractual conditions. The Telegraph Company plans to take over the service on or about March 31, 1971.

The estimated purchase price of the Bell System's TWX Service and associated equipment including that to be acquired from the independent telephone companies is approximately $88,700,000. The precise price of the transaction cannot be determined until after final inventory and valuation have been completed. The Telegraph Company has the option of paying up to one-half of the Bell System purchase price in the form of four-year promissory notes and the remainder in cash. Working capital requirements and certain initial non-recurring expenditures by the Telegraph Company are estimated to be $35,600,000.

In connection with the acquisition of TWX service, the Telegraph Company has entered into agreements with telephone companies for the lease of inter-city and local circuits necessary to provide TWX service and it has also entered into agreements calling for the telephone companies to furnish switching, transmission, and other services essential for the operation of TWX service. The expected annual cost to the Telegraph Company for the above mentioned facilities and services will be approximately $32,000,000, starting with date of acquisition.

Preacquisition costs are being deferred and will be amortized to expense commencing with the date of acquisition. The period of amortization is expected to be ten years, subject to FCC approval. Such costs amounting to $10,490,000 at December 31, 1970 and $2,302,000 at December 31, 1969 are included in Other Assets.

Opinion of Independent Accountants

PRICE WATERHOUSE & CO.

60 BROAD STREET

NEW YORK 10004

To the Board of Directors and the Stockholders
of Western Union Corporation

February 16, 1971

In our opinion, the consolidated financial statements appearing on pages 23 through 32 of this report present fairly the financial position of Western Union Corporation and its subsidiaries at December 31, 1970, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Directors—Western Union Corporation

Charles de Bretteville
Chairman of the Board
The Bank of California National Association

Harry E. Figgie, Jr.
Chairman of the Board
A-T-O Inc.

Eugene M. Geddes
Chairman of the Board
Clark, Dodge & Co., Inc.

Theodore W. Kheel
Partner
Battle, Fowler, Stokes & Kheel

Clarence H. Linder
Consultant

Russell W. McFall
Chairman of the Board and

A. J. McMullen
President
Garlock Inc.

Donald H. Putnam
President
Conrac Corporation

John F. Rich
President
New England Gas and
Electric Association

Harper Sibley, Jr.
Investments

Equity Securities

WESTERN UNION CORPORATION

	Stock Exchange Listings	Transfer Agents
Common Stock	New York Midwest Pacific Coast Philadelphia-Baltimore-Washington	Manufacturers Hanover Trust Comp Continental Illinois National Bank and Trust Company of Chicago
4.6% Convertible Cumulative Preferred Stock	New York	(Same)
4.9% Convertible Cumulative Second Preferred Stock	New York	(Same)
7¼% Convertible Subordinated Debentures	New York	

THE WESTERN UNION TELEGRAPH COMPANY

5.2% Cumulative Preferred Shares	Not Listed	Treasurer, The Western Union Telegraph Company
6.0% Cumulative Preferred Shares	New York	Manufacturers Hanover Trust Comp

Glossary of Electronic Data
◁ Communications Services

Annual Meeting Notice—

Stockholders are cordially invited to attend the Corporation's 1971 Annual Meeting on April 13, in Dallas, Texas. The meeting will convene at 10:30 a.m., Central Standard Time, in the eighth floor auditorium at the Republic National Bank of Dallas.

Stockholders who cannot attend the meeting are urged to vote by proxy. A proxy statement and form of proxy will be mailed early in March.

Directors—Western Union Corporation

Charles de Bretteville
Chairman of the Board
The Bank of California National Association

Harry E. Figgie, Jr.
Chairman of the Board
A-T-O Inc.

Eugene M. Geddes
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President
Garlock Inc.

Donald H. Putnam
President
Conrac Corporation

John F. Rich
President
New England Gas and Electric Association

Harper Sibley, Jr.
Investments

Equity Securities

WESTERN UNION CORPORATION

	Stock Exchange Listings	Transfer Agents	Registrars
Common Stock	New York Midwest Pacific Coast Philadelphia-Baltimore-Washington	Manufacturers Hanover Trust Company Continental Illinois National Bank and Trust Company of Chicago	The Chase Manhattan Bank, N.A. The First National Bank of Chicago
4.6% Convertible Cumulative Preferred Stock	New York	(Same)	(Same)
4.9% Convertible Cumulative Second Preferred Stock	New York	(Same)	(Same)
7¼% Convertible Subordinated Debentures	New York		The Chase Manhattan Bank, N.A. (Trustee and Registrar)

THE WESTERN UNION TELEGRAPH COMPANY

	Stock Exchange Listings	Transfer Agents	Registrars
5.2% Cumulative Preferred Shares	Not Listed	Treasurer, The Western Union Telegraph Company	(None)
6.0% Cumulative Preferred Shares	New York	Manufacturers Hanover Trust Company	The Chase Manhattan Bank, N.A.

Glossary of Electronic Data Communications Services

SICOM

Like INFO-COM is a shared-use computer-controlled information network. SICOM is specially designed for the securities industry. It interconnects brokerage firm headquarters, branch offices and the trading floors of the New York and American Stock Exchanges, and provides computerized order-matching that pairs execution reports with buy and sell orders.

Hot/Line

A private point-to-point telephone voice communications service between customer offices in major cities.

Public Message Services

Include telegrams, money orders, and specialized services such as Instant Gifts, Public Opinion Messages and commercial news services.

MAILGRAM

Developed jointly by Western Union and the Post Office, this service combines intercity electronic message transmission with next-day postal delivery.

western union

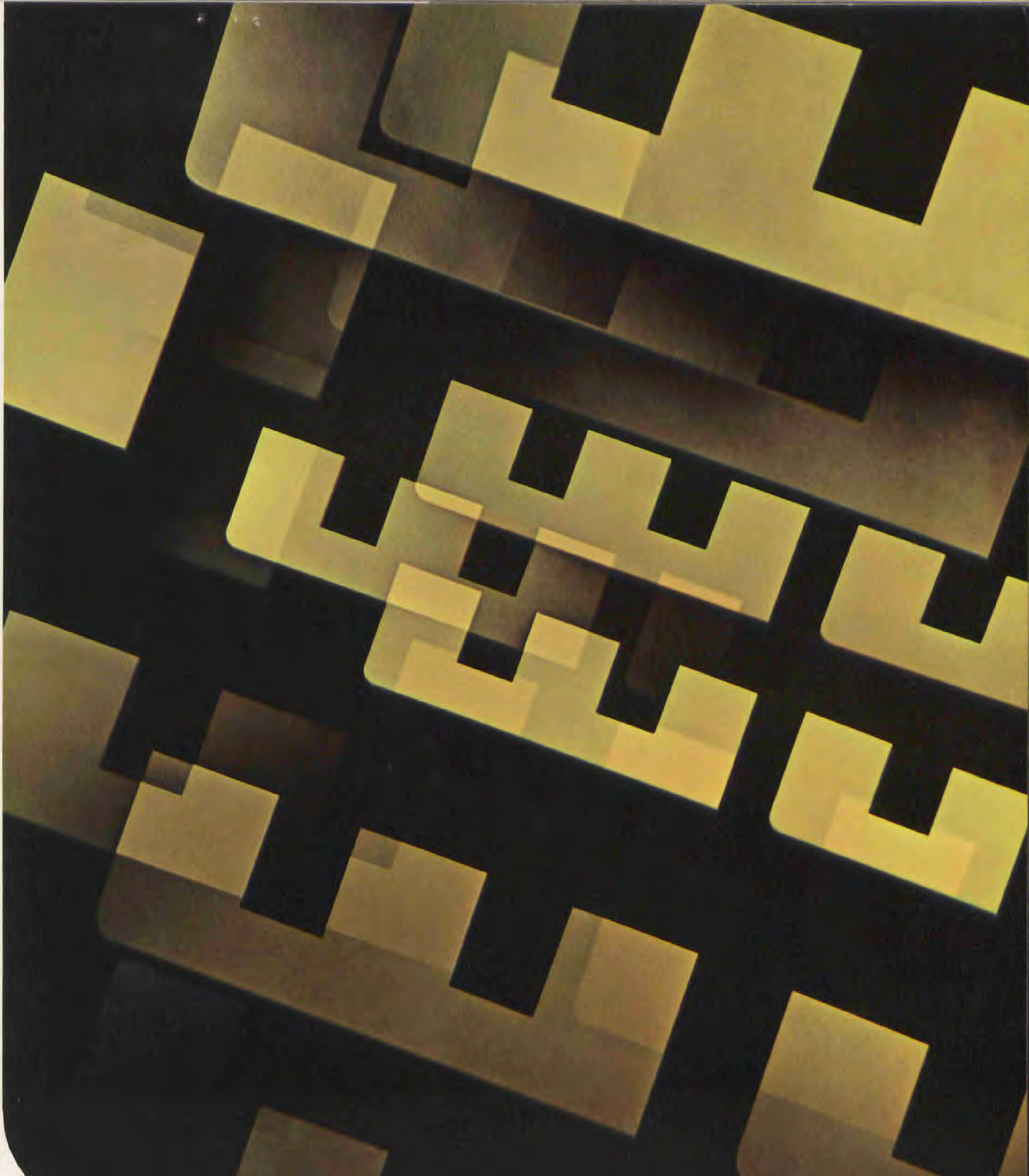
60 Hudson Street, New York, N.Y. 10013
An Equal Opportunity Employer

western union

I am pleased
to send you this
copy of our
ANNUAL REPORT

No acknowledgment
is necessary

R. W. McFall,
Chairman of the Board
and President



WESTERN UNION CORPORATION
First Annual Report-1969

Introducing EDC . . . A new dimension
in nationwide data communications

CONTENTS

ANNUAL MEETING

All stockholders of Western Union Corporation are cordially invited to attend the Corporation's first Annual Meeting at 10:30 a.m. Eastern Standard Time on Wednesday, April 15, 1970, in the Sheraton-Four Ambassadors Hotel at Miami, Florida. A formal notice, together with a proxy statement and form of proxy, will be mailed to stockholders in advance of the meeting.

NOTE

Western Union Corporation was formed in 1969 and on January 30, 1970 acquired all the outstanding common shares of The Western Union Telegraph Company. Although the Corporation did not itself engage in any operations during 1969, the consolidated financial statements contained in this Report have been prepared as if the restructuring had taken place prior to year end. This is particularly appropriate since at present the Telegraph Company is the only subsidiary of the Corporation.

WESTERN UNION CORPORATION 60 Hudson Street, New York, New York 10013

WESTERN UNION CORPORATION FINANCIAL HIGHLIGHTS

	1969	1968*
	(Millions)	
TOTAL REVENUES AND OTHER INCOME	$393.7	$368.7
NET INCOME	22.8	18.8
NET INCOME PER SHARE OF COMMON STOCK	$ 2.37	$ 2.10
DIVIDENDS DECLARED PER SHARE:		
Preferred stock†		
4.6%	$ 4.60	$ 4.60
4.9%	4.90	4.90
Common stock	1.40	1.40
BOOK VALUE PER SHARE OF COMMON STOCK	$42.58	$40.65
SHARES OF COMMON STOCK OUTSTANDING (DECEMBER 31)	8,949,694	7,588,609
NUMBER OF COMMON STOCKHOLDERS (DECEMBER 31)	43,254	43,398
NUMBER OF EMPLOYEES AT YEAR END	25,681	26,269

*Restated (see note above)
†See Note G on page 22 for 5.2% and 6.0% series of subsidiary company

TO OUR STOCKHOLDERS

This is the first Annual Report of Western Union Corporation. For The Western Union Telegraph Company, now a subsidiary of Western Union Corporation, 1969 was a year of record revenues and earnings; it was also a year of major management achievements. With the formation of Western Union Corporation, we obtained the flexibility needed to meet the challenges of the Seventies. With a broad corporate charter, our new company can engage in a diversity of businesses, including regulated and nonregulated activities, either directly or through subsidiaries. We expect this diversification to be in communications and information-related fields.

In addition to preparing for future growth opportunities, Western Union completed decentralizing its operating field management organization in 1969 in order to become more responsive to existing customer needs and to establish clear gains in revenues and profits. To further improve operating performance, a high priority has been given to efforts aimed at compressing the variations in profitability the company periodically experiences when significant rate changes follow increases in labor costs. We plan to develop steadier earnings growth in two ways: First, by aggressively expanding lower-labor-content services, such as Telex, INFO-COM®, SICOM and various government systems; second, by pursuing equitable rates of return on invested capital. Our intention here is to systematically improve Western Union's overall rate of return—which, historically, has been less than adequate.

Considerable progress has been made toward the long-term goal of creating a single integrated electronic data communications (EDC) system for the nation. During 1969, we began operating our electronic data communications system on a truly nationwide basis. By expanding the Telex Computer Communications Services to nationwide availability during the year we also began computer-interconnection of some public services on a scale never before available.

Present plans call for increased integration of services—including all of the Public Message System—into our national EDC system. We also plan to add larger computers to increase the EDC system's data handling capacity tenfold by 1975. These developments and others have enabled Western Union® to enter the Seventies as a new-type communications company and a leader in one of the fastest-growing markets in industry—electronic data communications.

R.W. McFALL
Chairman of the Board and President
March 4, 1970

Late in 1969, the new regional data and message switching center in Atlanta became linked to three similar computer-communications complexes in New York City, Chicago and San Francisco. The link-up marked a major technical milestone in the history of Western Union: it created a nationwide system for integrating the company's electronic data communications services. The event provided Western Union with a strong technical entry into the Seventies. It also dramatized the fact that this is a changing company within a rapidly changing industry. Western Union has spent the past ten years preparing for the next ten. Meanwhile, our industry has moved from century-old reliance on the telephone and telegraph toward the concept of integrated electronic data communications—one nationwide system capable of accepting, handling, transmitting, processing and disseminating messages and data.

Principal force behind these recent dramatic changes at Western Union has been technological progress, particularly growth in the use of computers in business and government—and at Western Union (A). The application of computers to communications has produced prospects for potential growth unimagined ten years ago. Today, only about 25% of the computers in use are connected to communications lines; within five years, the percentage could be as high as 75%. This has led to predictions that use of electronic data communications may increase as much

A

25,681 employees, with technical and professional percentage on the increase

3.8 million additional circuit miles obtained from phone company voice-grade lines

B

as a thousand times during the Seventies.

To accommodate this explosive growth, large-capacity computer systems have been developed to control complex high-speed data communications on a scale of sophistication never before possible. As a result, the computer has become a basic and growing part of Western Union's expanding facilities plant, and an integral component in our growth.

Completion of Western Union's national multi-computer-linked electronic data communications system has added a new dimension to the nation's ability to communicate messages and data. Initially, the new EDC system is being used principally as an additional service for the company's general-purpose Teleprinter Exchange Service (Telex) and by the growing list of customers using shared-use computer-controlled INFO-COM data communications networks. Eventually, other services—including all of the Public Message System—will be integrated into the national system. Acquisition of Bell System's Teletypewriter Exchange Service (TWX) would expand our capability in this field and provide a combined domestic Telex/TWX network of over 75,000 terminal stations.

Estimates are that at the time of acquisition Telex and TWX would generate total revenues of about $132 million a year. Assuming FCC approval by mid-year, Western Union could begin operating TWX by early 1971.

834,000 additional circuit miles obtained from leased wideband channels

Transcontinental microwave radio beam network covers 7,395 route miles

C

Currently, Telex, with more than 32,000 teleprinter stations interconnected through 294 Exchange cities, is the biggest user of the national EDC system. It provides one of the most versatile and economic means of general-purpose electronic data communications available. Telex permits direct-dialing to any network subscriber in the U.S., Canada or Mexico; by dialing an international carrier, a Telex customer also can communicate directly with any of the more than 200,000 Telex stations in 154 other countries. Business subscribers use Telex to communicate a broad spectrum of data and other information throughout the country and around the world. Bechtel Corporation (B,C), for example, uses Telex principally for fast and up-to-date reports

Microwave network has broadband capability of 80 million circuit miles

D

E

about its construction activities, such as San Francisco's Bay Area Rapid Transit project. Telex revenues have grown by about $7 million a year since 1964.

Western Union's INFO-COM customers also use the national EDC system. When introduced about a year and a half ago, INFO-COM presented a wholly-new concept in private general-business communications: a shared-use computer network designed for fast, flexible and economical data communications. These computer-controlled, store-and-forward information networks are especially suitable for a broad cross-section of commercial and industrial applications. Available nationally, INFO-COM networks are readily expandable and easily engineered for light, medium or heavy volume. A typical installation is at Kaiser Aluminum & Chemical Corporation, where a Western Union INFO-COM network connects that corporation's new Center for Technology (D) in California with 101 other Kaiser locations throughout the U.S. Chicago-based Montgomery Ward (E), on the other hand, uses INFO-COM to flash order information and administrative data to key out-of-town locations via a 23-station network. Initial capacity of Western Union's multi-computer INFO-COM service is approximately 1,200 stations spread over 25 subscriber networks.

Market projections for our shared-use, computer-controlled INFO-COM networks indicate the number of annual transactions

11 major store-and-forward reperforator switching centers operated by Western Union

Four interconnected regional computers provide heart of national EDC system

handled by this service could increase seven-fold during the next few years. Additional computer centers are being planned to expand present INFO-COM capacity. We also are considering broadening the service to include access to the various international carriers, higher-speed transmission facilities and terminals, and a network interface with subscriber computers. When Western Union began offering Telex Computer Communications Services (TCCS) on a nationwide basis late last year, the company began the computer-interconnection of some of its public services on a scale never before available. Using a TCCS computer center (F) any Telex or INFO-COM customer can send a message—or a multiple-address message—to Telex outlets in the U.S., Canada or Mexico; to

F

Message-handling capacity of national EDC system to increase 10-fold by 1975

G

the Public Message System; and to most Bell System TWX stations. TCCS also provides an automatic storing-and-forwarding service.

In the original planning for an integrated electronic data communications system, Western Union recognized that certain businesses—such as the securities industry—have some specialized communications requirements. Thus, in 1968, Western Union introduced the Securities Industry Communications System (SICOM) for shared-use transmission and computer-directed switching of the thousands of buy-and-sell orders and administrative messages generated daily by brokerage firms. This unique system provides a subscriber with all the advantages of a private computerized communications network without a major investment in equipment, space, programming, training, and maintenance. By the end of 1969, SICOM networks were operating at 10 major brokerage firms such as Shields & Company, Blair & Co. Inc. (G), and Smith, Barney & Co., Inc.; and six others had contracted for network installation.

Basically, SICOM interconnects a subscriber's wire and order room to any number of branch offices and correspondents, the trading floors of the New York Stock Exchange (H) and the American Stock Exchange, and to other desired terminal points. Networks can be expanded or contracted quickly to conform to changing business requirements. At the heart of SICOM is a multi-computer switching and

32,000 Telex stations are interconnected through a network of 294 Exchange cities

National EDC system connects Telex, TWX and public message services

H

I

processing complex located at Western Union's Technology Center (I) at Mahwah, New Jersey. Presently, Western Union employs three computers in its Securities Industry Communications System; and customer demand has been such that a second SICOM system will soon be added to double the service's capability.

While the great majority of data communications requirements of business and government can be handled effectively by Western Union's general-purpose Telex service and shared-use computer-controlled data networks, customers with extremely heavy data requirements frequently need private, custom-tailored electronic data communications networks. Many of these are

International carriers extend Telex to more than 200,000 stations in 154 countries

J

L

K

controlled by computers supplied either by Western Union or the customer. One of the largest of Western Union's private business networks is leased to ITT Aetna Management Company. This network covers 18,000 miles and connects 340 offices to a central computer in St. Louis. Another major network links 239 members of the Bank Wire Association. Western Union's Bank Wire Centers in New York City (J) and Chicago transmit almost 45,000 transactions a day. For those customers requiring high-quality circuits for fast and interchangeable transmission of digital data, voice and facsimile communications, Western Union constructed a transcontinental microwave system covering 7,395 route miles. This system, in addition to providing long-distance circuitry for most of the company's services, has enabled Western Union to introduce its versatile Broadband Exchange® Service. At the end of 1969, there were 550 Broadband Exchange stations in operation in 48 U. S. cities. Principal subscribers include news media and firms in the electronics, insurance, investment and television industries. One such Broadband installation helps maintain inventory control at John Sexton & Co. (K) in Chicago. The microwave system also permitted the introduction of our economical Hot/Line, a private point-to-point voice communications service connecting distant cities. The system currently is available in 20 major cities. Western Union also designs, installs and maintains leased communications networks for federal, state and local

Telex/TWX systems include more than 75,000 terminals throughout U. S.

Tel(T)ex routes messages to non-Telex subscribers in 87cities in U.S. and 105 in Canada

government. Customers include the various branches of the armed forces, NASA, the Federal Aviation Administration, the Air Weather Service, and other agencies. One of the most extensive networks is the FBI's Federal Crime Information Center which links state and local police (L) to the federal agency in Washington, D.C. The largest of the leased systems, however, is the Automatic Digital Network (AUTODIN) for the Department of Defense. AUTODIN (M) provides the Defense Department with high-speed computer-controlled interchange of vital defense information throughout the U.S. The network, an integral part of the worldwide Defense Communications System, is currently being modernized by Western Union. By 1971, AUTODIN will be able to transmit 36 million messages a month, with each domestic switching center capable of storing 72 million bits of data.

M

Another major data communications system designed and built by Western Union for the government is the Advanced Record System (ARS). Designed for the General Services Administration, ARS services the data communications requirements of more than 50 civilian agencies of the federal government and has an operating capacity of more than 3,700 terminal locations throughout the country, each with access to AUTODIN, Telex, TWX and the Public Message System.

Western Union's Public Message System continues to undergo service innovations and improvements. Once virtually the only

TCCS permits computer interconnection of Telex and other public services

Three Univac computers in Mahwah, N.J., serve Western Union's SICOM customers

communications service offered by Western Union, the PMS today represents less than 40% of total revenues. This stems more from rapid growth in Telex and our other more automated services than from any serious decline in telegraph revenues. Despite an anticipated continuation of the trend, there remains continuing demand for this type of communications service by business firms, government and the general public.

A particularly promising innovation in the Public Message Service is MAILGRAM (N,O). Developed jointly with the U.S. Post Office Department, MAILGRAM combines the best features of both: fast point-to-point electronic transmission of messages; priority handling plus first-class postal delivery.

This is an entirely new kind of communications service providing faster than Air Mail speed at less than telegram cost. A two-year test of MAILGRAM began in January. Initially, MAILGRAM transmission will be limited to Telex and INFO-COM subscribers in 12 selected cities. Subscribers will be able to electronically transmit messages direct to teleprinters at 110 strategically located postal centers. Eventually the service will be extended to all Telex and INFO-COM subscribers, and the general public.

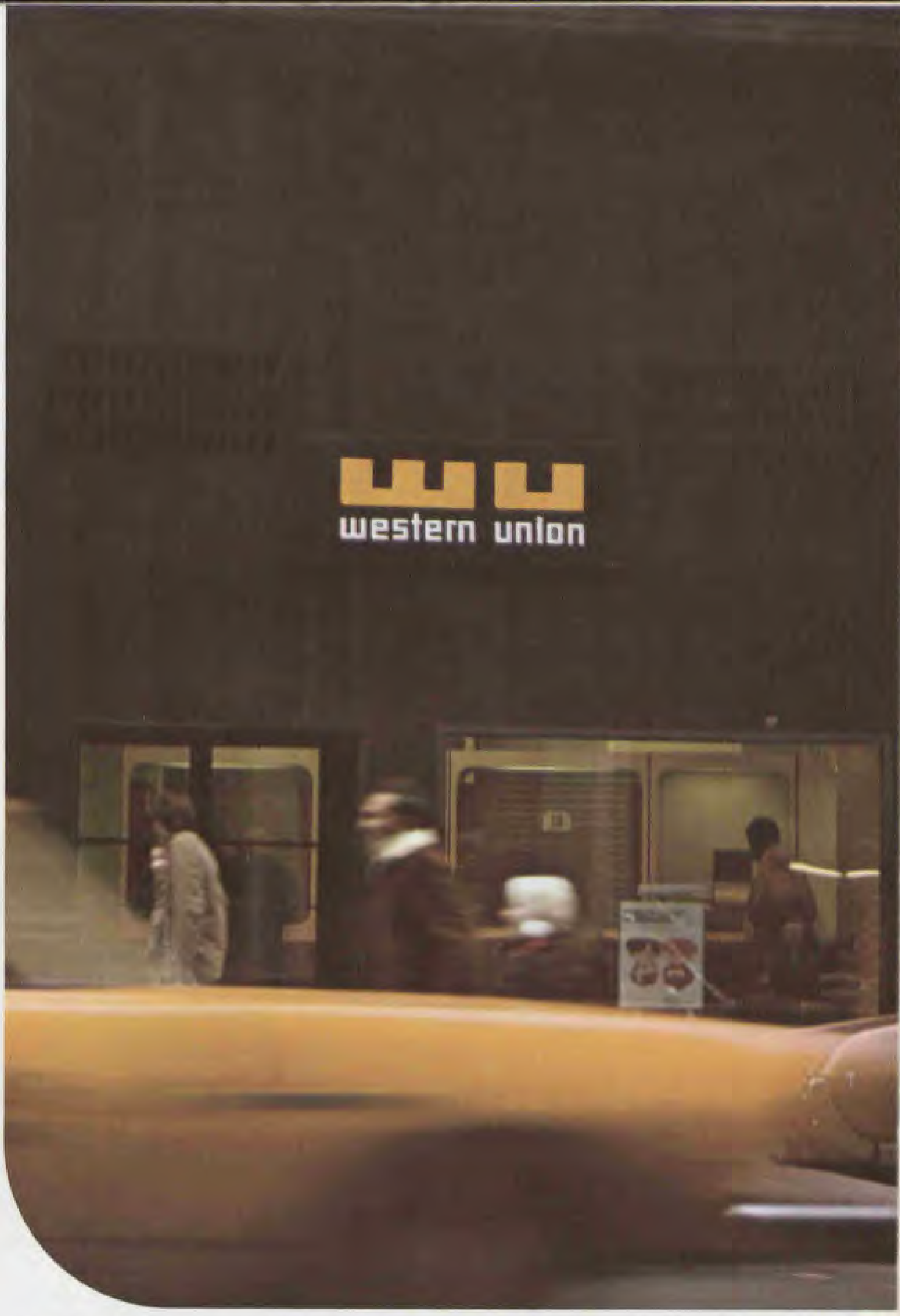
Present plans call for the continued modernization of Public Message facilities (P) and the eventual integration of all of PMS into the newly-created national EDC system. A major step in this direction came when the

N

546 circuits of SICOM System can accommodate up to 952 terminal stations

Computer centers in New York and Chicago link 239 banks in Bank Wire network

O



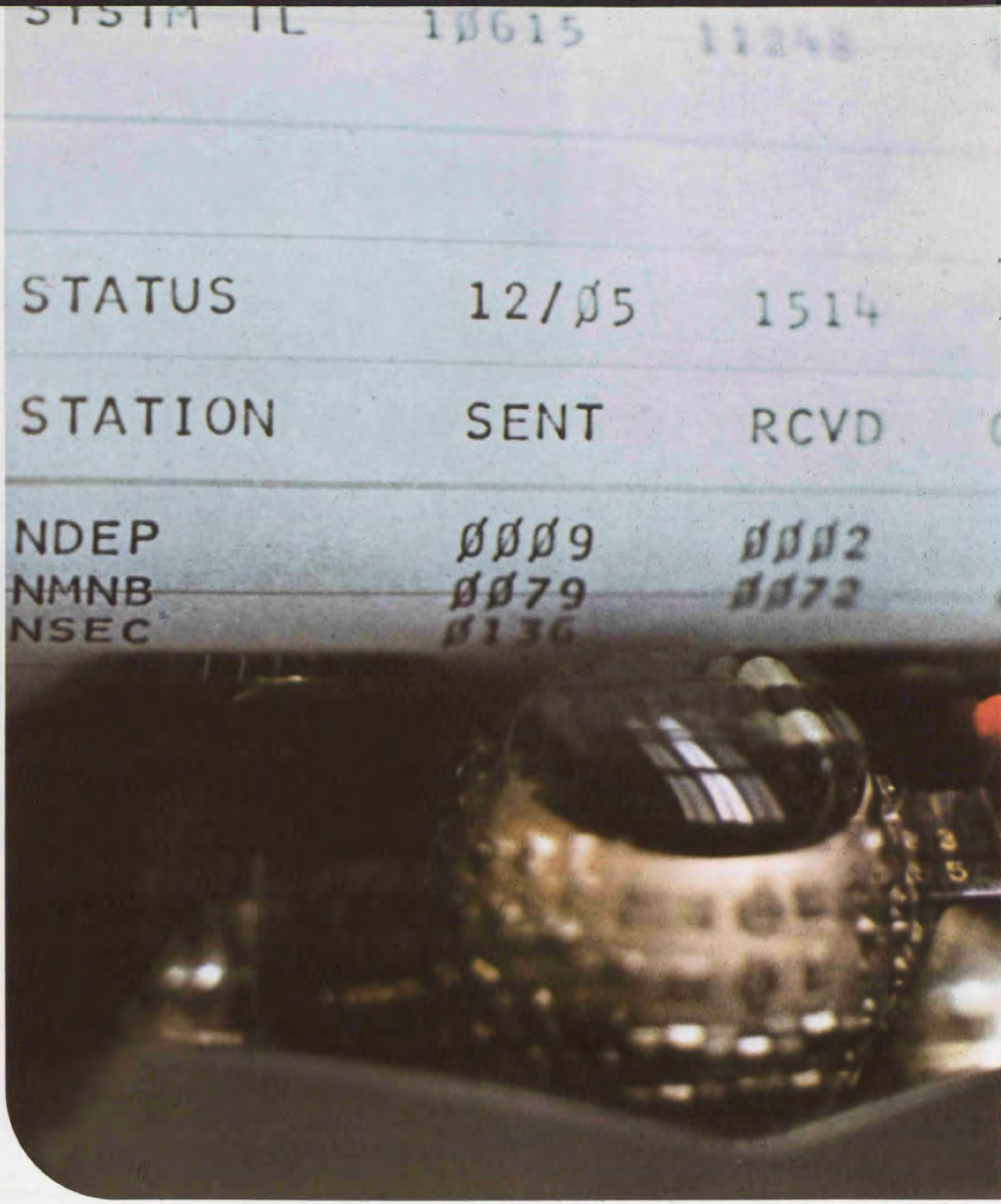
P

company introduced new computerized service features which permitted Telex and INFO-COM customers to have direct access to the entire Public Message System.

In summary, Western Union is entering the Seventies as a far different company from the one that moved into the Sixties. We have assembled a strong, new management team, trained in the skills needed to meet our new goals and objectives. Almost all of our advanced data communications systems and services have been planned, designed, developed, installed and integrated during the past decade; and most have been available commercially for less than three years. Plans call for even larger computers, greater integration of services, and increased diversification in the fast-growing communications and information-related fields — both in regulated and non-regulated businesses. In line with this, we plan a ten-fold expansion of the computer capacity of the EDC system by 1975. In addition, Western Union has made an investment in Western Union Computer Utilities, Inc. of Ft. Lauderdale, Fla. Formed late in 1968, WUCU is developing a nationwide system of licensed computer service bureaus equipped to offer small and medium sized firms a wide variety of data processing services. As of December 31,1969, WUCU had granted 25 licenses and 21 were in operation. In short, Western Union is entering the Seventies as a leader in computerized general-purpose and specialized electronic data communications systems and services (Q)—a market of unique scope and opportunity for your company.

More than 550 Broadband Exchange stations are operating in 48 cities coast to coast

Microwave-based HOT/LINE voice communications are available in 20 major cities



Q

AUTODIN has 9 major switching centers now serving the Defense Department

110 Post Offices linked to Western Union's experimental MAILGRAM network

OPERATING RESULTS

Total revenues in 1969 were $386,505,000 compared with $360,095,000 in 1968, an increase of 7.3%. Net income in 1969 of $22,774,000 compares with net income in 1968 of $18,772,000, an increase of 21.3%. Net income in both years is after a reduction of deferred federal income taxes and provision for preferred dividends of the subsidiary company. The net income per share of common stock in 1969 was $2.37 compared with $2.10 in 1968. Total expenses rose to $367,918,000 in 1969 from $347,093,000 in 1968, an increase of 6.0%. The increase was due principally to rising labor and pension costs, increased depreciation and amortization charges, and higher interest rates on bank borrowings.

DIVIDENDS

Dividends declared in 1969 (excluding preferred shares of the Telegraph Company which are reflected as charges to net income) were $14,824,000, consisting of $2,787,000 for preferred stock (equivalent to 33 cents per share of common stock); and $12,037,000 for common stock declared at the quarterly rate of 35 cents per share.

TAX STATUS OF DIVIDENDS

In January 1970, the Telegraph Company advised shareholders who received dividends in 1969 that an estimated 100 percent of all dividends paid on common and 4.9% series convertible preferred stock and 11.8 percent of the dividends paid on the 4.6% series convertible preferred stock and the preferred shares (5.2% and 6.0% series) of the Telegraph Company were a return of capital and not taxable as dividend income. The nontaxable portion of dividends, however, reduces the holder's cost basis for the shares on which the dividends were paid. This estimate is subject to a review and final determination by the Internal Revenue Service.

FINANCIAL POSITION

Gross charges for construction and installation of plant and equipment in 1969 totaled $127,571,000. After deducting depreciation and amortization of $59,320,000 charged against earnings and other net credits of $37,487,000, the net investment in plant and equipment increased by $30,764,000. At December 31, 1969, the net investment amounted to $674,234,000 of which $93,176,000, or 14%, represented plant under construction. Total capitalization at the end of 1969 was $741,246,000. Funded debt and other long-term obligations amounted to $243,919,000, or 33% of total capitalization.

FINANCING

Under the bank loan agreement described in Note H on page 22, the Telegraph Company in 1969 issued an additional $5,000,000 in short-term notes raising the amount outstanding to $40,000,000. On May 14, 1969 the Telegraph Company sold 1,300,000 of its common shares at $50 a share. After underwriting commissions, proceeds of $62,075,000 were used to repay the $40,000,000 of short-term borrowings while the remaining portion was used for modernization and expansion programs. The Telegraph Company also issued $30,000,000 of long-term notes in 1969 under the bank loan agreement. As of December 31, 1969, such borrowings amounted to $62,800,000. Notes evidencing such indebtedness mature June 30, 1971. The commitment period for the unused $12,200,000 available credit has been extended until June 29, 1970. On November 6, 1969, the Telegraph Company entered the commercial paper market for the first time, issuing $5,000,000 of promissory notes which matured December 22, 1969 and were paid. It is intended to sell commercial paper from time to time when conditions are favorable for this type of short-term financing. Additional financing will be necessary in the future, including the refinancing of borrowings under the bank loan agreement. This will be done apart from the financing that may be required to conclude the purchase of the Teletypewriter Exchange Service from the Bell System.

TARIFFS

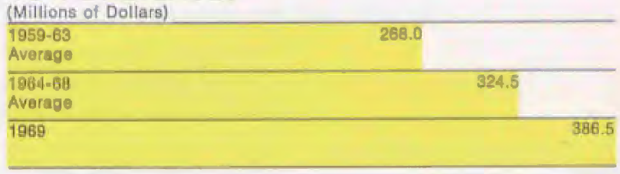
Revised Telex and TCCS rates in effect since October 7, 1969, should increase revenues by almost $4.5 million annually. Additional revenues of about $2.6 million a year are expected from revised interstate rates increasing telegraphic money order fees, and the Tel(T)ex service charge (effective October 23) and from similar intrastate rate changes being filed with state commissions. The Telegraph Company has been directed by the FCC to keep records of revenues derived from these changes; any portion ultimately disallowed by the Commission is subject to refund. The Telegraph Company filed an increase in the 15-word interstate telegram rate to become effective December 1, 1969. The Commission suspended the effectiveness of this change for the statutory 3 month period. The intrastate rate for similar telegrams also is being increased and, together with the interstate portion, should increase revenues by about $14 million in 1970.

	1969	1968	1967	1966	1965
RESULTS FOR YEAR:					
(Amounts in thousands, except per share figures)					
Revenues And Other Income:					
Telegram message services	$159,337	$156,423	$156,031	$162,252	$160,782
Telex service	47,227	39,019	32,004	25,033	18,435
	206,564	195,442	188,035	187,285	179,217
Leased systems and related services	123,519	117,903	109,055	96,389	93,838
Money order services	39,092	33,138	29,175	27,135	23,853
Other services	17,330	13,612	10,559	9,600	8,777
Total revenues	386,505	360,095	336,824	320,409	305,685
Other income	7,189	8,567	6,695	7,237	4,771
Total	393,694	368,662	343,519	327,646	310,456
Expenses:					
Salaries, wages, social security taxes, pensions and other employee benefits (1)	198,349	186,019	175,484	171,276	164,800
Other operating and maintenance expenses (2)	91,113	88,914	83,626	76,893	72,937
Depreciation and amortization	59,320	54,861	50,398	43,674	41,657
Other taxes	8,756	7,852	7,653	6,843	6,203
Interest on debt (3)	10,380	9,447	8,823	7,068	7,026
Total	367,918	347,093	325,984	305,754	292,623
Income before federal income tax	25,776	21,569	17,535	21,892	17,833
Federal income tax—current	—	—	—	—	—
—deferred	(250)	(500)	1,900	1,425	1,575
	26,026	22,069	15,635	20,467	16,258
Preferred dividends of subsidiary company	3,252	3,297	2,837	1,820	566
Income before extraordinary items	22,774	18,772	12,798	18,647	15,692
Extraordinary items	—	—	5,944	—	—
Net income	22,774	18,772	18,742	18,647	15,692
Dividends on preferred stock	2,787	2,897	2,543	1,581	—
Net income applicable to shares of common stock	$ 19,987	$ 15,875	$ 16,199	$ 17,066	$ 15,692
Per share of common stock: (4)					
Income before extraordinary items	$ 2.37	$ 2.10	$ 1.36	$ 2.27	$ 2.09
Extraordinary items	—	—	.79	—	—
Net income	2.37	2.10	2.15	2.27	2.09
Dividends	1.40	1.40	1.40	1.40	1.40
YEAR-END POSITION:					
(Amounts in thousands)					
Net plant investment	$674,234	$643,470	$603,904	$526,192	$450,262
Working capital	84,082	418	73,245	67,133	88,874
Funded debt and other long-term obligations	243,919	191,172	225,125	200,366	192,970
Stockholders' equity, including preferred shares of subsidiary company (net worth)	497,327	427,634	423,130	368,763	325,676
EMPLOYMENT:					
Number of employees—(December 31)	25,681	26,269	26,355	27,348	26,485
Number of pensioners—(December 31)	11,471	11,190	10,728	10,087	9,781
Salaries, wages, social security taxes, pensions and other employee benefits in relation to operating revenues	50.8%	51.7%	52.1%	53.5%	53.9%
Average earnings of employees: (5)					
Hourly	$ 3.48	$ 3.25	$ 3.11	$ 2.98	$ 2.88
Weekly	145.01	133.80	132.50	127.28	124.53

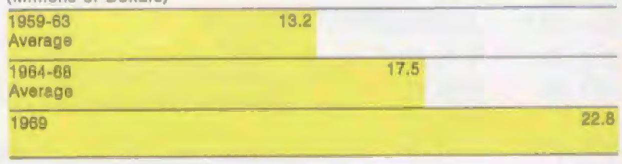
*Restated (Note A)

1964	1963	1962	1961	1960
$163,203	$164,396	$169,769	$176,265	$178,184
13,477	7,652	2,570	726	315
176,680	172,048	172,339	176,991	178,499
92,449	85,699	63,225	60,414	56,263
22,482	21,110	20,508	20,147	19,877
7,799	7,965	8,046	8,175	7,726
299,410	286,822	264,118	265,727	262,365
4,243	5,337	2,814	2,519	3,792
303,653	292,159	266,932	268,246	266,157
163,764	164,009	167,909	167,861	164,578
71,668	68,165	63,659	60,312	58,852
39,261	32,853	22,895	21,759	20,727
6,121	5,707	5,110	5,088	4,865
6,878	3,971	482	1,005	1,769
287,692	274,705	260,055	256,025	250,791
15,961	17,454	6,877	12,221	15,366
(1,200)	586	(3,730)	2,400	4,350
1,500	1,000	1,600	—	—
15,661	15,868	9,007	9,821	11,016
—	—	—	—	—
15,661	15,868	9,007	9,821	11,016
—	—	—	3,659	—
15,661	15,868	9,007	13,480	11,016
—	—	—	—	—
$ 15,661	$ 15,868	$ 9,007	$ 13,480	$ 11,016
$ 2.09	$ 2.12	$ 1.20	$ 1.46	$ 1.72
—	—	—	.54	—
2.09	2.12	1.20	2.00	1.72
1.40	1.40	1.40	1.40	1.40
$417,154	$401,300	$378,569	$278,282	$249,348
54,814	64,463	66,091	43,491	32,824
169,083	170,241	147,837	33,002	39,181
285,074	279,932	283,911	285,346	239,596
26,520	27,891	29,953	31,398	32,397
9,217	8,641	8,158	7,654	7,113
54.7%	57.2%	63.6%	63.2%	62.7%
$ 2.77	$ 2.69	$ 2.57	$ 2.49	$ 2.43
115.36	111.69	105.78	103.25	100.27

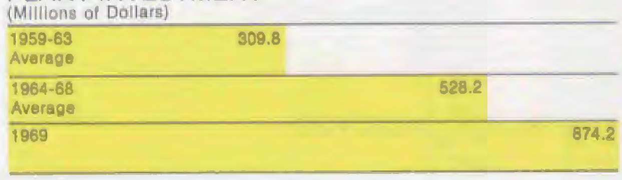
TOTAL REVENUES
(Millions of Dollars)



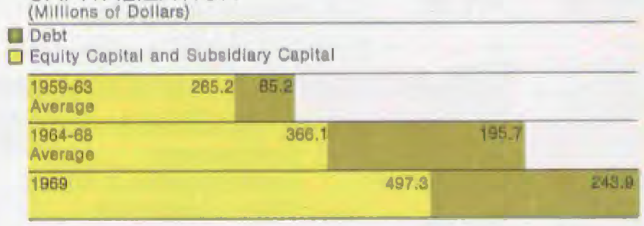
NET INCOME (Including Extraordinary Items)
(Millions of Dollars)



PLANT INVESTMENT
(Millions of Dollars)



CAPITALIZATION
(Millions of Dollars)



(1) In 1963, the Telegraph Company commenced the practice of capitalizing the portion of social security taxes, pensions and other employee benefits associable with plant under construction.

(2) Includes operating and maintenance, rentals of space and facilities, payments for use of circuits, materials and supplies, electric power, light, heat, telephone service, agents' commissions, postage, advertising, traveling, insurance, etc.

(3) Chiefly on bonds and notes, less interest charged to plant under construction, effective with 1961.

(4) Based on the average number of shares outstanding during each year.

(5) Relates to nonsupervisory employees, except messengers, in mid-December each year.

ASSETS

	Year Ended December 31, 1969	1968*
	(Thousands)	
PLANT AND EQUIPMENT, at original cost:		
Outside communication plant and real estate	$116,960	$124,420
Equipment furnished customers	354,128	349,006
Inside communication plant	335,078	301,472
Research and development	29,613	27,355
Other operating plant	57,592	52,917
Plant under construction	93,176	75,936
Gross plant investment	986,547	931,106
Allowance for depreciation and amortization	312,313	287,636
	674,234	643,470
CURRENT ASSETS:		
Cash	25,973	23,610
Marketable securities, at cost, which approximates market	13,300	4,782
Receivables, less $1,322,000 and $1,060,000 allowance for uncollectible accounts	63,497	53,666
Materials and supplies for construction, maintenance and operation, at average cost or salvage value	43,464	45,282
Prepaid rents, insurance and taxes	539	496
	146,773	127,836
OTHER ASSETS	8,284	3,772
	$829,291	$775,078

CAPITAL AND LIABILITIES

	1969	1968*
CAPITAL:		
Preferred stock	$ 58,037	$ 60,030
Common stock	22,374	18,972
Capital surplus	230,002	165,742
Retained earnings	128,664	123,765
	439,077	368,509
PREFERRED SHARES OF SUBSIDIARY COMPANY	58,250	59,125
FUNDED DEBT AND OTHER LONG-TERM OBLIGATIONS:		
Debentures	178,900	188,857
Notes payable to banks	62,800	—
Other obligations	2,219	2,315
	243,919	191,172
CURRENT LIABILITIES:		
Notes payable to banks	—	67,800
Accounts payable and accrued liabilities	41,677	40,242
Money orders payable	15,291	14,095
Sinking fund payments on funded debt, due within one year	1,100	1,100
Dividends payable	4,623	4,181
	62,691	127,418
DEFERRED CREDITS AND RESERVES:		
Federal income taxes	8,250	8,500
Other (principally installation fees)	17,104	20,354
	25,354	28,854
	$829,291	$775,078

*Restated (Note A)

See notes beginning on page 20

	Year Ended December 31, 1969 (Thousands)	1968*
REVENUES AND OTHER INCOME		
Telegram message services	$159,337	$156,423
Telex service	47,227	39,019
	206,564	195,442
Leased systems and related services	123,519	117,903
Money order services	39,092	33,138
Other services	17,330	13,612
Total revenues	386,505	360,095
Other income	7,189	8,567
Total	393,694	368,662
EXPENSES		
Operating, administrative and general	202,307	198,013
Maintenance	51,933	47,475
Depreciation and amortization	59,320	54,861
Pensions	18,362	15,250
Employees' disability, death and other benefits	9,045	6,947
Social security taxes	7,815	7,248
Other taxes	8,756	7,852
Interest	14,554	13,489
Interest charged to construction—(credit)	(4,174)	(4,042)
Total	367,918	347,093
INCOME BEFORE FEDERAL INCOME TAX	25,776	21,569
FEDERAL INCOME TAX —current	—	—
—deferred	(250)	(500)
	26,026	22,069
PREFERRED DIVIDENDS OF SUBSIDIARY COMPANY	3,252	3,297
NET INCOME	22,774	18,772
RETAINED EARNINGS AT BEGINNING OF YEAR	123,765	118,472
	146,539	137,244
Less:		
Dividends declared:		
Preferred stock	2,787	2,897
Common stock—$1.40 per share	12,037	10,582
Expenses of issuing common stock	3,051	—
	17,875	13,479
RETAINED EARNINGS AT END OF YEAR	$128,664	$123,765
EARNINGS PER SHARE OF COMMON STOCK	$ 2.37	$ 2.10

Note: There would be no dilution in earnings per share of common stock in 1969 resulting from the assumed issuance of common stock upon exercise of outstanding stock options and conversion of preferred stock.

*Restated (Note A)

See notes beginning on page 20

NOTE A—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Western Union Corporation, hereinafter referred to as Corporation, and its subsidiary, The Western Union Telegraph Company, hereinafter referred to as the Telegraph Company. Pursuant to the Agreement and Plan of Merger approved on November 5, 1969 by the stockholders of The Western Union Telegraph Company and effective January 30, 1970 (after approval from the various government authorities) each share of The Western Union Telegraph Company Common became one share of Western Union Corporation Common; each share of The Western Union Telegraph Company 4.60% and 4.90% Convertible Preferred became one share of Western Union Corporation 4.60% and 4.90% Convertible Preferred, respectively, and The Western Union Telegraph Company became a subsidiary of Western Union Corporation. This transaction has been accounted for as a pooling of interests, and the 1968 financial statements have been restated. The 5.20% and 6.0% cumulative preferred shares of the Telegraph Company remain outstanding and are shown as Preferred Shares of Subsidiary Company, and the respective dividends are shown as a deduction from income.

NOTE B—DEPRECIATION AND AMORTIZATION

The Telegraph Company employs the straight-line method of providing for depreciation, based upon the estimated useful lives of the various classes of properties as determined by the Telegraph Company's engineers and the Federal Communications Commission. The annual rates thus determined are applied to the total investment in the respective classes of properties.

Research and development expenditures of the Telegraph Company associable with specific installations are capitalized and depreciated at the rates prescribed by the Federal Communications Commission for such installations. Development expenditures ($4,051,000 in 1969 and $3,237,000 in 1968) not associable with specific projects are capitalized and amortized to expense on a straight-line basis over a period of eight years commencing in the year the project is completed. Amortization of non-specific research and development expenditures capitalized aggregated $2,109,000 in 1969, compared with $1,887,000 for 1968.

NOTE C—EMPLOYEES' PENSIONS AND BENEFITS

Effective June 1, 1966, the Telegraph Company's General Plan was amended to provide for an increase in pension benefits commencing in 1968 through the lowering, in steps, of deductions from pensions of amounts initially equal to one-third of a pensioner's social security benefits, until such deductions are eliminated in 1970. Also on June 1, 1966, the mandatory retirement age for non-supervisory employees was reduced, in steps, to age 67 in 1970.

From January 1, 1955 through June 30, 1969, the Telegraph Company paid into a Trust Fund held by a trustee 50% of normal (current service) costs and an amount representing interest on approximately 50% of the present balance of the unfunded prior service costs. Effective July 1, 1969, the Telegraph Company is paying into the Trust Fund 100% of normal (current service) costs and an amount representing interest on 100% of the present balance of unfunded prior service costs as determined by the Telegraph Company's independent consulting actuaries. Until July 1, 1969 approximately 50% of current payments to retired employees were made from the Trust Fund and the balance of such pension payments, as well as benefit payments provided by the General Plan, were made from the general funds of the Telegraph Company.

For rate-making purposes, the Federal Communications Commission limits charges for pensions to amounts paid directly to pensioners or into a trust fund established solely for such purpose. Pension expense shown in the Statement of Income for 1969 is net of $2,810,000 charged to plant and equipment.

Based on the present level of employment and wage rates provided under current labor contracts and considering the changes described in this note, the Telegraph Company's independent consulting actuaries estimate that annual pension trust fund contributions will amount to about $28 million in 1971—such amount being gross before deduction for related federal income tax, with an indeterminate portion to be charged to plant and equipment. The Telegraph Company's independent consulting actuaries have also estimated the amount of unfunded prior service pension costs to aggregate approximately $331,000,000 as of June 30, 1968, the date of the latest actuarial study, including $223,000,000 relating to pensioners at that date and employees then entitled to retire on pension.

NOTE D—LEASE AND OTHER CONTRACTUAL OBLIGATIONS

The Telegraph Company leases its headquarters, certain office buildings, branch offices and warehouses. Minimum annual rentals under these leases amount to approximately $8,900,000 of which approximately $3,900,000 is payable under leases expiring within five years and an additional $2,300,000 is payable under leases expiring between five and ten years. Certain portions of these buildings are subleased at an annual income of $1,748,000. Several long-term leases contain renewal options ranging from 25 to 65 years with substantial rental reductions.

Payments for facilities leased under contracts with telephone companies currently aggregate $22,600,000 per annum. Such agreements are subject to termination by either party on three- to ten-years notice.

NOTE E—FEDERAL INCOME TAX

Federal income taxes are based upon taxable income or loss which in recent years has differed substantially from income reported in the Statement of Income. This difference results principally from the use of accelerated depreciation methods for tax purposes by the Telegraph Company, whereas straight-line depreciation is recorded in the accounts.

The Telegraph Company records depreciation and federal income taxes in its accounts in accordance with the accounting regulations of the Federal Communications Commission which give effect to the Commission's practice of recognizing for rate-making purposes (except in the case of the AUTODIN installation mentioned below) the amount of tax reductions resulting from accelerated depreciation as current reductions in federal income taxes rather than as deferred income taxes.

This "flow-through" method of accounting is in accordance with generally accepted accounting principles applicable to the Telegraph Company, except as stated below with respect to the AUTODIN installation. The "flow-through" method recognizes that continuing replacements and additions to the general plant and the continuing use of accelerated depreciation methods for tax purposes will cause the benefits from the tax reductions to be enjoyed indefinitely or that, if and to the extent that such tax reductions require the Telegraph Company to pay increased taxes in the future, such increases will be reflected in the rates to be allowed by the regulatory authority.

In the case of the AUTODIN installation, generally accepted accounting principles require provision for deferred income taxes, inasmuch as the tariff rates with respect to AUTODIN were developed without regard to the effects of accelerated depreciation. On this basis, provision for deferred income taxes during the early years with counterbalancing treatment in the later years more fairly reflects the income for each year during the life of the system. However, the Federal Communications Commission denied the Telegraph Company's request to provide for deferred income taxes in its accounts, and, accordingly, no provision for deferred taxes has been made in the accounts of the Telegraph Company; however, such provision has been made in the accompanying consolidated accounts of the Corporation. Such provision, after AUTODIN investment tax credits, amounted to $9,000,000 through December 31, 1967 and was reduced by $500,000 in 1968 and $250,000 in 1969. The net cumulative deferred tax liability at December 31, 1969 aggregated $8,250,000.

Investment tax credits applicable to eligible plant additions under the Revenue Act of 1962, including AUTODIN, were not used in 1969 nor in prior years due to the absence of tax liability against which to apply the credits. The estimated unused investment tax credit carryover from all sources, available for tax reduction in subsequent years, amounted to $13,500,000 at December 31, 1969, including $3,500,000 applicable to AUTODIN.

The Telegraph Company's federal income tax returns have been audited for all years through 1963 and all tax liability has been settled through 1958. The Internal Revenue Service has proposed adjustments for the years 1959 through 1963 asserting additional tax liability of approximately $13,500,000, with interest from various dates. The Telegraph Company and its counsel believe that the two principal proposed adjustments aggregating $11,700,000 in additional tax are without merit and that any tax deficiency which may ultimately be assessed by reason of the other proposed adjustments will not be material.

NOTE F—CAPITAL

	Outstanding at December 31, 1969 Shares	1969 Amount (Thousands)	1968 Shares	1968 Amount (Thousands)
Cumulative preferred, $100 par value, 1,500,000 shares authorized: 4.6% convertible series	370,831	$ 37,083	375,961	$ 37,596
Cumulative second preferred, $100 par value, 500,000 shares authorized: 4.9% convertible series	209,541	20,954	224,336	22,434
		$ 58,037		$ 60,030
Common, $2.50 par value, 20,000,000 shares authorized	8,949,694	$ 22,374	7,588,609	$ 18,972

Transactions in the capital accounts for the year ended December 31, 1969 are summarized below. Incident to the reorganization described in Note A, Capital Surplus includes stated capital in excess of par value, previously included in the Common Stock account, leaving the capital represented by common stock equal to the par value of common stock outstanding.

	Cumulative Convertible Preferred Stock 4.6%	Cumulative Convertible Preferred Stock 4.9%	Common Stock	Capital Surplus
	(Thousands)			
Balance January 1, 1969	$37,596	$22,434	$ 18,972	$165,742
Conversions	(513)	(1,480)	105	1,888
Purchase of fractional shares				(2)
Sale to the public in May 1969 of 1,300,000 shares			3,250	61,750
Exercise of stock options			49	646
Capital stock reacquired			(2)	(22)
Balance December 31, 1969	$37,083	$20,954	$ 22,374	$230,002

At December 31, 1969 the 4.6% cumulative preferred stock and the 4.9% cumulative second preferred stock were convertible at $55.32 and $45.00 per share of common stock, respectively, and 1,136,030 shares of common stock were reserved for issue upon exercise of conversion rights. During 1969, 5,130 shares of the 4.6% series and 14,795 shares of the 4.9% series were converted into a total of 42,116 full shares of common stock (fractional shares not being issued and such fractional share interests being purchased by the Telegraph Company).

The 4.9% and 4.6% convertible series, at the option of the Corporation, are redeemable at $104.75 and $104.50 a share, respectively. The redemption prices decline at future dates.

Dividends were declared on preferred stock outstanding as follows:

	1969	1968
4.6%	$1,718,000	$1,730,000
4.9%	1,069,000	1,167,000
	$2,787,000	$2,897,000

Transactions during the year ended December 31, 1969 under the Officer and Key Employee Stock Option Plan of the Telegraph Company are summarized below:

	Number of Shares	Price range (95% to 100% of market at date of grant)
Options outstanding at December 31, 1968 (47,533 shares exercisable)	68,670	$31.00 — $51.88
Options granted	10,000	$42.75 — $50.25
Options exercised (aggregate amount received $695,053)	(19,570)	$31.00 — $45.25
Options expired	(2,750)	$32.94 — $45.25
Options outstanding at December 31, 1969 (36,563 shares exercisable)	56,350	$31.00 — $51.88

The 1969 Incentive Stock Option Plan was terminated and an identical plan was adopted by the Corporation. The obligations of the Telegraph Company with respect to options outstanding were assumed by the Corporation. There are 141,000 shares of common stock available for option under the Corporation's plan.

NOTE G—PREFERRED SHARES OF SUBSIDIARY COMPANY

	Outstanding at December 31, 1969		1968	
	Shares	Amount (Thousands)	Shares	Amount (Thousands)
Cumulative preferred, $100 par value, 1,100,000 shares authorized:				
5.2%	332,500	$ 33,250	341,250	$ 34,125
6.0%	250,000	25,000	250,000	25,000
		$ 58,250		$ 59,125

Sinking fund provisions require the Telegraph Company in the case of the 6.0% issue to retire, by redemption at par or by prior purchase and cancellation, $500,000 on each October 1 beginning 1970, and in the case of the 5.2% issue to retire, by redemption at par, $875,000 on each July 1 through 1977 and $1,050,000 on each July 1 thereafter.

The 6.0% and 5.2% series at the option of the Telegraph Company, are redeemable immediately, other than for the sinking funds, at $106.00 and $105.20 a share, respectively, subject to certain restrictions if redeemed prior to July 1, 1977.

Dividends were declared on preferred shares outstanding as follows:

	1969	1968
5.2%	$1,752,000	$1,797,000
6.0%	1,500,000	1,500,000
	$3,252,000	$3,297,000

The provisions of the certificate of incorporation of the Telegraph Company, as amended, relating to the cumulative preferred shares, impose limitations on the issuance of prior and parity ranking shares, the creation of liens and additional funded indebtedness, and the payment of cash dividends. The amount of retained earnings not restricted as to the payment of cash dividends on common shares approximated $23,600,000 at December 31, 1969.

The indentures and bank loan agreement impose certain limitations on the payment of dividends on both the preferred shares and the common shares of the Telegraph Company. The amount of retained earnings not so restricted as to the payment of such dividends approximated $28,100,000 at December 31, 1969.

NOTE H—FUNDED DEBT AND OTHER LONG-TERM OBLIGATIONS OF SUBSIDIARY COMPANY

	December 31, 1969	1968
	(Thousands)	
Debentures:		
4⅝% due June 1, 1980	$ 22,000	$ 23,100
5¼% due February 1, 1987	40,000	43,667
6½% due December 15,1989	50,000	50,000
5% due March 1, 1992	66,900	72,090
	$178,900	$188,857

The indentures relating to the debentures contain optional redemption provisions and require sinking fund payments for annual retirement as follows:

Debentures	Annual Sinking Fund Requirement	Beginning	Due Within One Year At December 31, 1969
4⅝%	$1,100,000	June 1, 1956	$1,100,000
5¼%	2,000,000	February 1, 1967	*
6½%	2,500,000	December 14, 1971	—
5%	2,700,000	March 1, 1969	*
			$1,100,000

*Satisfied by purchases in 1969

As of December 31, 1969, the Telegraph Company had purchased $2,000,000 principal of the 5¼% issue and $2,700,000 principal of the 5% issue in advance of the 1971 sinking fund payment dates. The discounts on purchases to satisfy sinking fund requirements were credited to Other Income.

Effective as of December 15, 1969, the Telegraph Company's bank loan agreement was modified to make $75 million available until June 29, 1970 and extended the maturity date from December 31, 1970 to June 30, 1971. The notes ($62,800,000 outstanding at December 31, 1969) bear interest at ¼% above the prime rate of The Chase Manhattan Bank N.A. from time to time in effect through December 31, 1969 and thereafter at ½% above such prime rate.

The indentures and the bank loan agreement impose certain limitations on the Telegraph Company (but not the Corporation) on the creation of liens and additional indebtedness, on the incurring of certain rental obligations, on the payment of dividends and on certain investments. Under the most restrictive of these limitations, the Telegraph Company was not permitted to incur any additional funded indebtedness at December 31, 1969. Short-term indebtedness is not subject to the limitations on additional funded indebtedness, but may not exceed $20,000,000 under the bank loan agreement.

NOTE I—INCENTIVE COMPENSATION PLAN

The Telegraph Company's Incentive Compensation Plan, approved by the shareholders on April 10, 1968, provides that the Board of Directors may appropriate each year an amount to be available for payment of incentive compensation to officers and certain key employees of the Telegraph Company. The maximum amount of this appropriation is based on the income before extraordinary items applicable to common shares, subject to limitations described in the plan. The amounts awarded to individuals are determined by committees of directors or officers who are not eligible to receive any portion of the awards which they determine. The awards are payable in installments following the year for which the award was made, or the recipient may elect to defer payment until after his retirement.

The Board of Directors appropriated $600,000 and $300,500 in 1969 and 1968, respectively, which have been charged to operating expense.

NOTE J—CONTINGENT LIABILITIES

On February 28, 1969 the Department of Defense filed a complaint with the FCC alleging, among other things, that "Western Union has, during the period November 1962 through September

1965, collected a total of $15,561,103 for maintenance, general and administrative, and federal income tax expenses, which expenses were not in fact incurred in providing services" at five AUTODIN switching centers and that, therefore, "Western Union's tariffs of charges for services for AUTODIN were, during the period in question, unjust and unreasonable, and therefore unlawful, and in violation of Section 201(b) of the Communications Act of 1934, as amended." The complaint requests that the FCC issue an order directing the Telegraph Company to pay to the Complainant the above sum, together with interest thereon. The Telegraph Company is contesting the complaint. Similar complaints may be filed with respect to amounts collected by the Telegraph Company for the operation of AUTODIN terminals during the period January 1963 to September 1965 and of the entire AUTODIN system during the period subsequent to September 1965 and with respect to amounts collected by the Telegraph Company for the operation of the Bomb Alarm and Emergency Message Automatic Transmission systems. The aggregate amounts claimed in such possible complaints might be more or less than the amount claimed in the above-described complaint. In the opinion of the Telegraph Company and its counsel, the Department of Defense is entitled to receive payment only if and to the extent that amounts collected by the Telegraph Company during the periods in question resulted in the Telegraph Company receiving a rate of return which was so excessive as to be illegal. It is the position of the Telegraph Company that during the periods in question the Telegraph Company earned less than a fair rate of return on all of its services combined as well as on its private wire service, of which the AUTODIN, Bomb Alarm and Emergency Message Automatic Transmission systems are parts. In the opinion of the Telegraph Company and its counsel, any liability resulting from claims in respect of all the above services from their inception to date will not be material in relation to the financial position or results of operations of the Telegraph Company.

The FCC is holding hearings on a number of questions related to new interstate tariffs filed by the Telegraph Company, including rate revisions effective November 1, 1968, increased rates filed in 1969 for Telex, TCCS, Money Order Fees, Tel(T)ex, and a further interstate telegram service rate increase which was filed in 1969 to be effective March 1, 1970. These increases are subject to an accounting order by the FCC which could result in the Telegraph Company being required to make refunds to the extent that such increases are ultimately determined to have been unlawful. The Telegraph Company estimates the increase in its revenues from interstate traffic, under the new tariffs was approximately $20,400,000 in 1969.

In November 1967 an action was commenced in the Supreme Court, New York County, New York by Law Research Service, Inc. against the Telegraph Company seeking specific performance of alleged contracts and damages in the amount of $37,785,000 for numerous alleged breaches thereof. The complaint alleged in substance that the Telegraph Company failed to perform properly the obligations allegedly undertaken by it with respect to the use of the Telegraph Company's computer facilities and communications network in connection with the furnishing by LRS of its legal citation service to its customers. In addition, a number of the persons whom LRS had franchised to sell the legal citation service in various parts of the country brought suit seeking to recover the franchise fees they had paid LRS, plus damages, attorneys' fees and costs. The Telegraph Company was joined as a defendent in some of these suits, and the aggregate amount claimed against the Telegraph Company was $4,664,000, including $2,300,000 in punitive damages, plus attorneys' fees and costs. These suits are in various stages of pre-trial proceedings.

In the New York action, on May 27, 1968 the Court rendered a decision finding in favor of the Telegraph Company as to a number of charges of default. The Court found, however, that the Telegraph Company had failed to perform certain of its obligations and referred the question of damages to a referee to take testimony and report to the Court. On December 30, 1969 the referee filed his report recommending to the Court that the Telegraph Company be required to pay to LRS the sum of $1,152,292 with interest as damages and that the Court incorporate in its judgment a provision holding the Telegraph Company liable for any damages and legal fees LRS may be directed to pay in any suits by its franchisees, provided such damages are proven to be directly attributable to the Telegraph Company's breach of its contract with LRS. The referee's recommendations may be adopted by the Court in whole or in part, or modified in any respect. The Telegraph Company has urged the Court to reject these recommendations of the referee and to enter judgment in the Telegraph Company's favor.

The amount of ultimate liability, if any, which may result from the suits described in the two immediately preceding paragraphs is not presently determinable but, in the opinion of the Telegraph Company and its counsel, any liability resulting therefrom will not be material in relation to the financial position of the Telegraph Company.

In addition to the foregoing, the Telegraph Company is a party to other civil actions of a routine nature incident to its normal business. In connection with such litigation, any liability of the Telegraph Company is either covered by insurance or, in the opinion of its management, if the litigation were decided adversely to the Telegraph Company, would not be material in relation to the financial position of the Telegraph Company.

NOTE K—TWX ACQUISITION

The Telegraph Company is in the process of negotiating the purchase of Bell System's Teletypewriter Exchange (TWX) Service.

The estimated price of Bell System's TWX Service and associated equipment is in the neighborhood of $80 million. The precise price of the transaction cannot be determined until after final inventory and valuation have been completed. The Telegraph Company has the option of paying up to one-half of the purchase price in the form of four-year promissory notes and the remainder in cash.

The purchase price of approximately $80 million for the Bell System's TWX Service does not include the cost of acquisition of TWX service from independent telephone companies, or additional working capital requirements and certain initial nonrecurring expenditures by the Telegraph Company. These will involve additional outlays, and the total initial investment in connection with the acquisition of the TWX service is estimated at about $118 million.

The acquisition is subject to regulatory approvals and other conditions. On July 28, 1969 the FCC began hearings into the acquisition of TWX by the Telegraph Company. The acquisition date is targeted for eight months after a final decision is received from the FCC.

Preacquisition costs incurred in connection with this acquisition are being deferred and will be amortized to income over a period yet to be determined commencing with date of acquisition. Such costs amounting to $2,300,000 in 1969 are included in Other Assets.

WESTERN UNION CORPORATION CONSOLIDATED STATEMENT OF SOURCE OF FUNDS FOR PLANT EXPANSION

	Year Ended December 31, 1969	1968*	Five years ended Dec.31,1969*
	(Thousands)		
FUNDS REQUIRED:			
Gross plant charges	$127,571	$120,720	$647,028
Less:			
Credits, principally for equipment removed from service and transferred to inventory for reinstallation or other disposition, including $4,888,000 in 1969 and $3,468,000 in 1968 realized from sale of scrap copper wire	37,487	26,292	140,037
Funds required for plant expansion	$ 90,084	$ 94,428	$506,991
FUNDS PROVIDED:			
By operations:			
Net income	$ 22,774	$ 18,772	$ 94,627
Dividends	(14,824)	(13,479)	(64,016)
Earnings retained in the business	7,950	5,293	30,611
Depreciation and amortization	59,320	54,861	249,910
	67,270	60,154	280,521
By financing:			
Sales of stock:			
Shares of preferred and common stock, less expenses of issuance	61,925	—	182,020
Shares of common stock issued under options	695	86	1,374
Debentures	—	—	50,000
Sinking fund payments			
—on long-term debt	(9,957)	(5,797)	(23,600)
—on preferred stock	(875)	(875)	(1,750)
Increase (decrease) in notes payable to banks	(5,000)	39,800	47,800
	46,788	33,214	255,844
Other:			
(Increase) decrease in cash and marketable securities	(10,881)	8,897	(1,574)
Net change in other assets and liabilities	(13,093)	(7,837)	(27,800)
	(23,974)	1,060	(29,374)
Funds provided for plant expansion	$ 90,084	$ 94,428	$506,991

*Restated (Note A)

OPINION OF INDEPENDENT ACCOUNTANTS

PRICE WATERHOUSE & CO.

60 BROAD STREET
NEW YORK 10004

To the Board of Directors and the Stockholders
of Western Union Corporation

February 9, 1970

In our opinion, the consolidated financial statements appearing on pages 18 through 24 of this report present fairly the financial position of Western Union Corporation and its subsidiary at December 31, 1969 and the results of operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the inclusion, which we approve, of deferred income taxes as explained in Note E. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

OFFICERS—WESTERN UNION CORPORATION

R. W. McFALL, Chairman of the Board and President

G. A. HOYT, Vice President

J. M. EVANS, Vice President, Secretary and General Counsel

C. O. JOHNSTON, Treasurer

DIRECTORS—WESTERN UNION CORPORATION and THE WESTERN UNION TELEGRAPH COMPANY

CHARLES de BRETTEVILLE
Chairman of the Board,
The Bank of California National Association

HARRY E. FIGGIE, JR.
Chairman of the Board, A-T-O Inc.

WM. D. GAILLARD
Partner, Milbank, Tweed, Hadley & McCloy

EUGENE M. GEDDES
Chairman of the Board, Clark, Dodge & Co., Incorporated

THEODORE W. KHEEL
Partner, Battle, Fowler, Stokes & Kheel

CLARENCE H. LINDER, Consultant

RUSSELL W. McFALL
Chairman of the Board and President

THOMAS F. McMAINS
Vice President, The Western Union Telegraph Company

A. J. McMULLEN, President, Garlock, Inc.

DONALD H. PUTNAM
President, Conrac Corporation

JOHN F. RICH
President, New England Gas and Electric Association

HARPER SIBLEY, JR.
President, Sibley Corporation

LOUIS YAEGER, Investments

OFFICERS—THE WESTERN UNION TELEGRAPH COMPANY

R. W. McFALL, Chairman of the Board and President

E. D. HILBURN, Executive Vice President

E. C. CHAMBERLIN, Vice President—Customer Services

R. F. GARBARINI, Vice President—Program Management

W. E. GIRARDIN, Vice President—Field Support

R. H. McCONNELL, Vice President—National Systems Operation

J. S. RICE, Vice President and Special Assistant

H. E. SALTER, Vice President—Resources

P. J. SCHENK, Vice President—Federal Operations

G. A. HOYT, Executive Vice President

R. G. FINNEY, Vice President—Planning and Engineering

J. W. HARRINGTON, Vice President—Revenue Requirements

Z. V. ZAKARIAN, Vice President—Marketing

R. L. CALLAGHAN, Vice President—Government Relations

F. P. DOYLE, Vice President—Public and Employee Relations

J. M. EVANS, Vice President and General Counsel

W. G. H. ACHESON, Secretary

D. HARMON, Vice President—Business Relations

C. O. JOHNSTON, Vice President and Comptroller

H. J. YOUNG, Treasurer

T. F. McMAINS, Vice President and Special Assistant to the Chairman

EQUITY SECURITIES

WESTERN UNION CORPORATION

	Stock Exchange Listings	Transfer Agents	Registrars
Common Stock	New York Midwest Pacific Coast Philadelphia-Baltimore-Washington	Manufacturers Hanover Trust Company Continental Illinois National Bank and Trust Company of Chicago	The Chase Manhattan Bank, N.A. The First National Bank of Chicago
4.6% Convertible Cumulative Preferred Stock	New York	(Same)	(Same)
4.9% Convertible Cumulative Second Preferred Stock	New York	(Same)	(Same)

THE WESTERN UNION TELEGRAPH COMPANY

5.2% Cumulative Preferred Shares	Not Listed	Treasurer, The Western Union Telegraph Company	(None)
6.0% Cumulative Preferred Shares	New York	Manufacturers Hanover Trust Company	The Chase Manhattan Bank, N.A.

western union
60 Hudson Street, New York, N.Y. 10013
An Equal Opportunity Employer

WESTERN UNION CORPORATION
First Annual Report-1969

Introducing EDC . . . A new dimension
in nationwide data communications

wu

October 9, 1970

Mr. Earl Hilburn
President
Western Union Telegraph Company
60 Hudson Street
New York, New York 10013

Dear Earl:

Congratulations! I was pleased to hear of your new responsibilities as President of Western Union. I know the corporate confidence is well founded.

I look forward to working with you and to seeing you again soon.

Sincerely,

Clay T. Whitehead

CTWhitehead:ed/jm

OFFICE OF TELECOMMUNICATIONS POLICY

ROUTE SLIP

TO Dr. Lyons

ACTION	☐
Concurrence	☐
Signature	☐
Comments	☐
For reply	☐
Information	☐
Per conversation	☐
Discuss with me	☐

FROM Tom Whitehead DATE 10/6/70

REMARKS

Draft a letter of congratulations to Earl Hilburn from me, including any other info that might be appropriate.

WESTERN UNION (continued):

2) WU's convertible debentures at 7¼% for $85 million were sold out immediately. High finance, this! $71 million will repay bank loans. Thus banks will be more amenable to the request for a $100 million loan. This is the Onassis principle recently enunciated by Mrs. Kennedy's husband - "Borrow big, repay on time."

* * *

3) Earl D. Hilburn, formerly executive vice president, became president of WU last week.

* * *

4) WU wants to extend its SICOM (securities information communications) service to Canadian customers.

* * *

5) You would never know WU and WUI are "first cousins". Maybe that is why there is such a "running feud". On 18 September - page 18 - I reported WUI's protest over WU's Telex rates. Now, the international crowd wants the FCC to give partial reconsideration to its decision to permit WU to purchase AT&T's TWX system.

* * *

6) WU's low-speed data communications service, "Datacom," picked up its first customer - American Express Reservations, Inc. After my experience in New York, American Express needs better hotels, not necessarily an improved reservation service.

* * *

7) When the FCC told WU it could buy AT&T's TWX, it required that the carrier provide customers with direct access to international messages. WU says it can't afford it at this time. The Commission stayed the requirement.

* * *

western union

COMMUNICATION FOR THE RECORD • WU ANNUAL REPORT 1968

ANNUAL MEETING NOTICE . . . A cordial invitation is extended to all shareholders who can attend the Company's 1969 Annual Meeting, which will be held on April 9 at the Fairmont Hotel and Tower in San Francisco, beginning at 10:00 a.m.

Shareholders unable to attend the meeting are urged to vote by proxy. A proxy statement and proxy form will be sent to shareholders early in March.

annual report for the year 1968

contents

The Western Union Telegraph Company
Executive Office: 60 Hudson Street, New York, N. Y. 10013

to the shareholders:

This has been a year in which our expectations have matured into achievements, in which much preparation and effort have begun to yield significant returns.

After several years of negotiation, we have concluded an agreement with the American Telephone and Telegraph Company and the Associated Bell Telephone Companies to purchase their TWX network. By itself, this would constitute a most important achievement. TWX is a profitable, thriving and expanding business which will contribute substantially to our future earnings.

More important, this acquisition will allow Western Union to establish for the first time an integrated teletypewriter exchange that will be an important part of our nation-wide RECORD COMMUNICATION SYSTEM.

The combination of TWX with our own Telex network will substantially further the development of many new shared-use, computer-controlled services. When the integrated system is completed, it will provide a common network for most of our systems and services, including our public message service. The potential for creative application of this new resource is enormous. It is the foundation upon which the future of Western Union will rest.

Even without the TWX agreement, we have reached a turning point. Our investment of

capital, talent and energy began yielding new revenue-producing services in 1968.

When Western Union made the decision to commit substantial resources to the development of an advanced engineering facility in our technology center at Mahwah, New Jersey, it was done with the full realization that years of intensive development effort would precede tangible returns. With the investment development stage nearing its end, we are steadily generating new revenue-producing services.

The concept of the shared-use data/communications system — such a natural development that its revolutionary implications are sometimes overlooked — has taken form in our twin SICOM and INFO-COM services. Both are advanced state-of-the-art, shared-time offerings that have been enthusiastically received by customers.

Our sustained rise in traffic volume, revenues and profitability has been achieved in the face of a consistent decline in what was once our basic business, the public message service. With creative management and the benefits of improved technology, we expect the telegraph portion of our business to continue to make a substantial contribution to our earnings. At the same time, the growth of our new services — now well launched — will have an important positive effect on earnings.

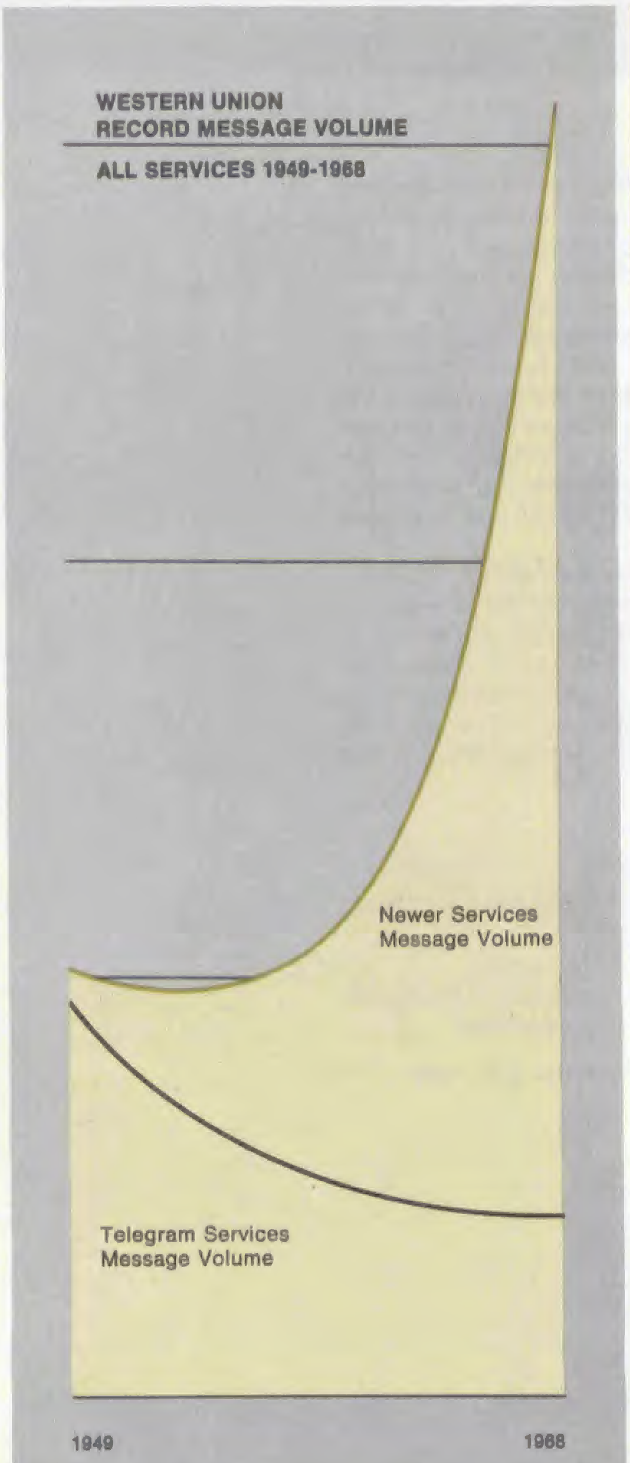
This dramatic change in what Western Union is and does has occurred because we changed the way in which the Company itself is directed and managed. By concentrating on the development of resourceful and adaptive management talent, we are moving away from traditional centralized management to a more independent and flexible decentralized field organization. Nor have we neglected to adopt, ourselves, the same computer-based management techniques we offer to our customers. This combination of talent and technique is the heart of the emerging Western Union. Our aim has been both to create a technologically advanced communication system and to manage that system in a sophisticated and innovative way.

I think of our new offerings as "indicator services," because they point the direction of Western Union's future growth. We expect to expand, refine and further exploit these offerings and, through them, our participation in the vast record communications market. In 1968, the first — and longest — steps towards that future were taken.

R. W. McFall,
Chairman of the Board
and President

February 28, 1969

The trends of message volume depicted in this chart show that more and more customers are using Western Union's newer services, some instead of telegrams, and that their total use of the Company's services is expanding at an accelerating rate.



financial highlights

	1968	1967
	(in millions)	
TOTAL REVENUES AND OTHER INCOME	$368.7	$343.5
INCOME BEFORE EXTRAORDINARY ITEMS	21.6	17.5
EXTRAORDINARY ITEMS	—	5.9
NET INCOME (provision for federal income tax not required)	21.6	23.4

	1968	1967
PER COMMON SHARE:		
INCOME BEFORE EXTRAORDINARY ITEMS	$ 2.04	$ 1.61
EXTRAORDINARY ITEMS	—	.79
NET INCOME (See footnote on page 24)	$ 2.04	$ 2.40
DIVIDENDS DECLARED PER SHARE:		
Preferred shares:		
5.2%	$ 5.20	$ 5.20
4.6%	4.60	4.60
6.0% (issued in April 1967)	6.00	4.08 1/3
4.9% (issued in May 1967)	4.90	3.24
Common shares	1.40	1.40

	1968	1967
Your Revenue Dollar Was Derived From:		
Telegram message services	$ .42	$ .46
Telex service	.11	.09
	.53	.55
Money order services	.09	.08
Other services	.04	.03
Leased systems and related services	.32	.32
Other income	.02	.02
	$ 1.00	$ 1.00
Your Revenue Dollar Was Applied To:		
Salaries, wages, social security taxes, pensions and other employee benefits	$ .50	$ .51
Other operating and maintenance expenses	.24	.24
Other taxes	.02	.02
Interest	.03	.03
	.79	.80
Depreciation and amortization	.15	.14
	.94	.94
Dividends	.05	.05
Reinvestment in the business	.01	.01
	$ 1.00	$ 1.00

	1968	1967
NUMBER OF COMMON SHARES OUTSTANDING (DECEMBER 31)	7,588,609	7,527,218
NUMBER OF COMMON SHAREHOLDERS (DECEMBER 31)	43,398	48,451
AVERAGE EARNINGS OF NONSUPERVISORY EMPLOYEES, OTHER THAN MESSENGERS (DECEMBER):		
Per hour	$ 3.25	$ 3.11
Per week	$133.80	$132.50
NUMBER OF EMPLOYEES AT YEAR END	26,269	26,355

communications for the record . .

Ever since early man painted the walls of his cave with scenes of the daily hunt, mankind has sought to retain a permanent record of his activities. Many of man's most important inventions down through history — the alphabet, the printing press, the telegraph, the camera — evolved from this basic need to communicate efficiently, *and* for the *record*. Today, business is responding to constantly changing conditions with computer-like speed. Making decisions in micro-seconds requires micro-second capacity for gathering, recording, sorting and evaluating data. Furthermore, permanent, accurate records must still be kept at all levels of this Computer Age decision-making process.

High-speed *record* communications have always been Western Union's business. We have evolved a full line of services, including those in typed, printed, handwritten, data and graphic form. We also offer some selected kinds of voice communication.

These services are provided to a much wider range of customers than most people realize. Here are just a few examples of our steady customers:

. . . The father who wires money to his short-of-cash son.

. . . Smaller business firms that depend on telegrams to track down errant orders.

. . . Larger business, press and government organizations that require immediate, direct-dial, two-way telegraph service—WESTERN UNION TELEX.

. . . Companies that need constantly available private, leased communication networks to transmit numerous messages, data, facsimile and other communications between key plant and office locations.

. . . Government agencies with special needs for nation-wide record communication networks.

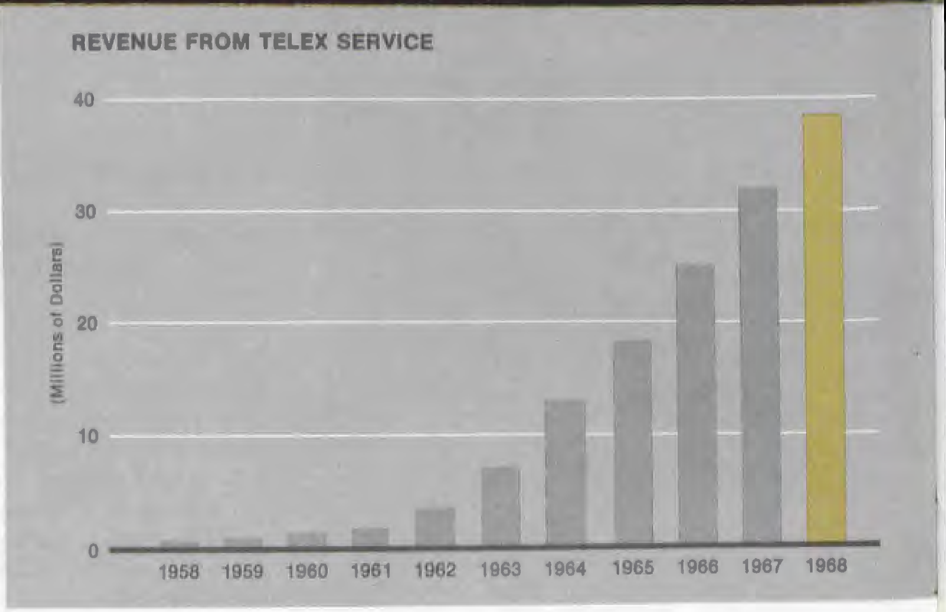
. . . And now, financial and business concerns that need an effective, computer-controlled system to route heavy volumes of messages and data to several terminal points simultaneously. In 1968, we began serving such customers with shared-computer systems that offer all the advantages of leased communication networks at economical rates.

Western Union is the nation's primary *record* communication network, the largest and most modern of its kind in the world. Until recent years, we have met the expanding requirements of industry and government primarily by adding new communication systems to those already in existence. Now, we are also mobilizing new technology and new equipment, including computers, to meet demands for more efficient, more flexible services.

Western Union is engaged in a long-range program aimed at creating a single, integrated Record Communication System for the entire nation. The system will serve all kinds of customers, and users of any one of our services will be able to utilize other services as well. For example, a subscriber to our INFO-COM service can now send messages and data through the Telex, Bell System's TWX and our telegram message networks, as well as through his private network. Such an integrated system provides improved service, greater versatility, reliability and lower overall costs — and the means of introducing new services.

Substantial progress in our long-term program for an integrated system was made in 1968. This progress is described in the following review of the various Western Union services.

. . Record Communication System™



Western Union Telex®

WESTERN UNION TELEX service is ideally suited to the communication needs of a broad spectrum of American businesses. The growth of this direct-dial telegraph service since its inception in 1958 mirrors the growth of your Company's commitment to servicing the record communication requirements of modern business.

During the first year of Telex service, there were fewer than 50 subscribers. Five years later, Telex had some 7,300 users, and by the end of 1968, the subscriber list had reached the 26,000 mark, with 2,500 more on order.

Another yardstick of the growth of Telex is revenue. In 1963, Telex contributed $7,652,000, or less than three percent of your Company's overall revenues. In 1968, however, Telex accounted for $39,019,000 in revenue, more than ten percent of our total service revenues.

Each Telex subscriber uses a typewriter-like machine, called a "teleprinter," with an associated dialing unit to dial direct connections with other subscribers throughout the United States, Canada and Mexico. Once the connection is made, messages typed on the teleprinter are instantly transmitted to the target subscriber.

By dialing one of the international record communication companies, a subscriber in this country can also communicate directly with more than 275,000 Telex subscribers in 146 countries throughout the world.

Telex teleprinters accept messages and data full time, even when unattended. They turn themselves on automatically when called, and "answer-back" automatically with an identification that is unique for each subscriber and location.

An exclusive feature of Western Union Telex is TEL(T)EX®. Every Telex subscriber may send Tel (T)ex messages to non-subscribers in major cities in the United States and Canada by transmitting them to the central telegraph offices in those cities. The messages are then delivered as telegrams.

A number of firms use Telex instead of leased private networks to link headquarters, plants, branches and other offices. Others use their Telex teleprinters as on-line, input-output stations for centrally located computers.

Subscribers pay a monthly rental for their station equipment. Usage charges are determined by the time and distance of transmission, with no minimum charge per connection.

Telex Computer Communications Services . . TCCS™

Corporations cannot exist today without rapid response to fast-changing conditions throughout the nation. Often, the inputs behind a businessman's decisions — including messages, data and reports — must be gathered and sorted from hundreds of locations. Computers able to switch an avalanche of important data, accurately and instantly, between numerous services and locations have therefore become the core of the modern communication network.

As part of our plan to build a totally integrated record communication network, Western Union is now operating computer centers in Chicago, New York and Mahwah, N. J. These centers are already helping to facilitate message-switching operations for Western Union services throughout the nation. A fourth center has recently been installed in San Francisco and is ready for operation.

Through a series of new Western Union Telex Computer Communications Services, called "TCCS," Telex subscribers can now utilize the message switching capabilities of our computers by simply dialing a special code number, thereby stepping up the basic capacities of their Telex exchange service.

Among the new TCCS services available now throughout the nation are:

TCCS-TELEX — The subscriber dials the computer to send as many messages as desired to Telex subscribers in the United States, Canada and Mexico. There is no need to disconnect and re-dial to send more than one message. This service is frequently used to send messages to Telex subscribers when their machines are busy; the computer will store a message and transmit it when the addressee's machine is free.

TCCS-Collect Telex — Any Telex subscriber in the United States can dial the computer, which will relay the "collect" message and automatically bill the addressee.

TCCS-TWX — A Telex subscriber wishing to send messages to subscribers of the Bell System's Teletypewriter Exchange (TWX) Service can now have those messages automatically relayed to that service by dialing the computer.

TCCS-MS — Telex subscribers can dial the computer to send telegrams and overnight telegrams to anyone in the United States. They are automatically relayed by the computer to Western Union's telegram message network.

TCCS-Multiple Address — To send the same message to as many as 100 addressees at the same time, a subscriber simply sends one copy of the basic text and addresses to the computer. The computer accepts combinations of messages to Telex and TWX subscribers, and telegrams to non-subscribers.

These TCCS services add substantially to the scope and convenience of the basic Telex service, and represent an important step toward the planned inter-connection of other Western Union services in a single, integrated RECORD COMMUNICATION SYSTEM.

A SICOM terminal on the floor of the New York Stock Exchange.

The SICOM computer center at Mahwah, N. J.

securities industry communications . . SICOM™

The securities industry is a prime example of a modern, complex industry that cannot function today without the most efficient record communication service available. Every business day, brokerage firms receive, execute and confirm thousands of buy and sell orders, each of which must be carefully and permanently recorded. Consistently mounting market activity during recent years has made the use of computers essential for the message-switching, sorting and record-keeping functions essential to this business.

Western Union has responded to the demands of the securities industry with a specially-designed, shared-computer system for private communication networks — SICOM. This system offers brokerage firms all the advantages of a private, computerized communication network without major investment in equipment, space, programming, training or maintenance.

The heart of the shared-system is the multi-computer message switching and processing center, located at your Company's Technology Center in Mahwah, N.J. The computers at the Center provide subscribers with automatic message switching, delivery, storage and retrieval services. The only equipment located on the premises of a subscriber are the automatic teleprinters installed by Western Union at each location on a SICOM network.

SICOM interconnects a subscribing brokerage firm's headquarters wire and order rooms, its branches and correspondents, the trading floors of the New York and American Stock Exchanges, and other special points desired by the subscriber. It provides fast transmission of buy and sell orders, execution reports, market news reports, administrative messages and other information. An additional advantage to subscribers is that their individual networks can be expanded or contracted quickly and conveniently, to conform with changing business requirements.

In a typical SICOM transaction, an order for a stock traded on the New York Stock Exchange is punched into paper tape at a West Coast branch of a subscriber, inserted in an automatic transmitter and flashed directly to a special wall-mounted teleprinter located in the member firm's booth on the Exchange floor. It takes only about 20 seconds from the start of transmission of an order to its reception at destination.

At the same time the order is received at the Exchange, a copy is received at the firm's headquarters for record keeping. As soon as the order is executed, a confirmation is flashed back to both the originating office and the firm's headquarters office.

SICOM networks, with a total of 107 stations, have been installed for Shields & Company, First Hanover Corporation, and Hirsch & Company. Networks for additional brokerage firms are currently scheduled to be installed at the rate of one a month.

A demonstration of INFO-COM service at the annual meeting of Sunkist Growers, Inc.

An INFO-COM teleprinter at Montgomery Ward & Company.

INFO-COM®

Many firms today feel a pressing need for a fast and reliable means of collecting, at a central point, the information essential to such functions as shipping orders, inventory control, billing and payroll processing. Responding to this growing demand, your Company placed a second shared-computer system in service late in 1968, specifically designed to provide private, record communication networks for general business operations. Called "INFO-COM," this service is now available through our new computer center in Chicago. As the service expands, the New York and San Francisco centers will also be used.

An INFO-COM subscriber needs only to provide space on his premises for the necessary teleprinters. The shared computers are located in a Western Union computer center, and Western Union furnishes the computer programming, communication circuits, and the operation and maintenance of the system.

As in the case of SICOM, INFO-COM offers subscribers all of the advantages of a leased, private, computer-controlled communication network without major investment in equipment, space, programming, training or maintenance. It offers the kind of computerized communication network that many business firms have long needed but could not previously justify because of cost.

INFO-COM network operation is designed to be flexible, fast and automatic. It is engineered, for instance, to serve customers' branch offices with varying requirements for light, medium or heavy volumes of message and data traffic. Recognizing that a subscriber's needs may change, the option of changing the type of equipment at any branch is provided. Thus, a subscriber may, at any time, step up an outstation equipped for a medium or low volume of messages and data to one equipped for a higher volume.

The basic INFO-COM service provides private networks permitting subscribers to transmit messages and data between stations on their networks. It also permits them to send messages and data through the Telex, TWX and telegram message networks. This is an additional step forward in the Company's long-term program to interconnect Western Union services in a single RECORD COMMUNICATION SYSTEM. In addition, arrangements have been completed with the Canadian telegraph companies to offer INFO-COM outstations in Canada, an important advantage to business firms with operations in that country.

INFO-COM networks have been placed in service for Montgomery Ward & Company, Celotex Corporation, Kaiser Aluminum & Sales Corporation, and Sunkist Growers, Inc. Additional networks are scheduled for installation in 1969.

Vickers Division of Sperry Rand Corporation uses Broadband Exchange Service for the high-speed transmission of data.

Hot/Line voice instruments at E. F. Hutton & Company, Inc.

Broadband Exchange® Service

Western Union's BROADBAND EXCHANGE is a nation-wide, alternate record/voice service designed for firms requiring high-quality circuits for high-speed transmission of messages or data, facsimile or other record communications, in combination with voice. To obtain a connection, a subscriber simply lifts a handset from the push-button voice instrument installed at each station to select the channel bandwidth desired and the station being called. The instrument is also used to switch transmission between voice and the machine being used for record transmission.

BROADBAND EXCHANGE Service is economical, too. Usage charges are based on distance, bandwidth and line time used — in units of one-tenth of a minute, with a one minute minimum.

Subscribers include communications-oriented firms in the press, electronics, insurance, investment and television fields. Some companies use BROADBAND EXCHANGE Service to transmit messages and data at speeds up to 1050 words per minute; others for facsimile transmission of engineering drawings and other graphic material; and others to collect a flood of important data from outlying branches for their computers to process.

The service is highly versatile and can be used for the specialized transmission of punched cards, paper tape and magnetic tape. Facsimile devices may also be connected to the system. Western Union introduced INFO-FAX 100™ in 1968 for BROADBAND EXCHANGE Service. It is a facsimile transmitter-receiver for drawings, maps, printed and other graphic material.

At the end of 1968, there were 515 BROADBAND EXCHANGE stations in service in 47 cities from coast to coast. Western Union's transcontinental microwave system is used to provide broadband circuitry for the service.

Hot/Line

The transcontinental microwave system is also used for Western Union's Hot/Line, an exclusive private voice communication service connecting two specific points in distant cities.

Hot/Line connections are made automatically. Instead of dialing a long-distance telephone number, the Hot/Line subscriber merely lifts the handset of his special voice instrument to ring the linked instrument in another city. High-quality circuits assure subscribers of top-notch voice transmissions through Hot/Line at all times. Moreover, extensions may be added at either or both of the subscriber's stations. Hot/Line charges are calculated in units of one-tenth of a minute.

Hot/Line is an ideal service for firms having need for frequent voice communication between offices in two distant cities. The service is now available between 29 pairs of major cities across the country. The system's capacity at the end of 1968 was 4,100 subscriber stations.

Recording a telegram on a cathode ray tube device.

The Newark, N. J. office.

A public office in mid-town New York.

telegrams

Telegrams, once almost the only record communication service offered by Western Union, contributed less than half of the Company's total revenues in 1968. This is due primarily to our introduction in recent years of a broad range of new, more efficient and economical record communication services. Many customers are using the newer services instead of telegrams, causing the revenues from these newer services to grow steadily.

There is, nonetheless, a substantial continuing demand for the telegram service on the part of business firms, government and individual customers. Furthermore, the integrated, computerized communication system planned by Western Union will significantly modernize and improve telegram message services. As pointed out earlier in this report, messages can now be routed between the Telex, INFO-COM and telegram message systems, as well as between the telegram message network and a number of leased private systems.

Substantial improvements in telegram transmission service are planned. The programming and testing of the large-capacity, multiple-access computers needed for total integration of our services is progressing at your Company's Technology Center. Two additional automatic communication centers featuring the latest model computers are planned as part of the Western Union integrated RECORD COMMUNICATION SYSTEM. These centers will, ultimately, replace the eleven semi-automatic centers that now perform switching and related functions in the telegram message service.

A simplified tariff for telegram services, which became effective on November 1, 1968, is an important step toward computerized routing and billing of telegrams, functions that will become fully automatic in the computer-controlled, integrated system your Company is building. The Federal Communications Commission scheduled hearings on a number of questions relating to the new tariff.

Under the simplified tariff, the full rate telegram and day letter are replaced by a new "telegram" service; the night letter is renamed "overnight telegram." The tariff also establishes a single, basic interstate rate for each of the two new classes of service — $2.25 for the telegram, and $1.70 for the overnight telegram. The new intrastate rates, now in effect in over 40 states, are $1.70 for a telegram, and $1.30 for an overnight telegram.

The word allowance for the basic overnight telegram is 100 words, twice that of the former night letter. The basic word allowance for the telegram remains unchanged at 15 words.

money orders

The fastest way to send or receive money is by Western Union telegraphic money order service. This service has grown steadily over the years as a result of its speed, convenience and safety. More than $870 million, a record amount, was transferred by telegraphic money orders during 1968 for business firms and the public. The number of money orders sent by wire also reached a new high of 9,754,673.

The new basic telegram charges of $2.25 interstate and $1.70 intrastate apply to money order messages. Money order charges for handling the money sent, varying with the amount to be telegraphed, were revised earlier in 1968. Overnight money order service has been discontinued, and all money orders are now handled on the same expedited basis as telegrams.

The trucking industry is a large user of telegraphic money orders, and of telegrams as well. A network of highway agencies was established in 1968 for the convenience of truck drivers en route. At year end, there were 375 agency offices operating at truck-stop service centers on major interstate highways from coast to coast, and it is planned to expand the network. Most of these strategically located agencies are directly connected with central Western Union offices in nearby cities.

Western Union Express Orders are available at the Company's public offices and selected agencies, except in California, for people who wish to convert cash into checks. They are among the safest and most convenient ways to mail money.

American Express Travelers Cheques, which offer protection against loss and are a convenient way to carry money, are also sold at Western Union offices.

special services

Many special services are available to the public through the Company's nation-wide network of transmission facilities and public offices. Some of the services have been offered for many years; others have been introduced recently. Collectively they contribute substantially to telegram message and other services revenues.

Among the special services which have been offered for a number of years are:

Survey Service — available nationally or locally to business firms wishing information about customer preferences for advertising, marketing methods or competitive products or services.

Dealer Inquiry (Operator 25®) Service — permits advertisers to announce that the names and addresses of dealers selling their products are available by telephoning Western Union's OPERATOR 25.

Messenger Errand Service — Western Union messengers are available at large offices to deliver or pick up letters, documents or packages; and to run other kinds of errands.

Commercial News (CND) — services which provide, by tickers and telegrams, security and commodity price quotations; the results of baseball, football and other sports events; and weather reports.

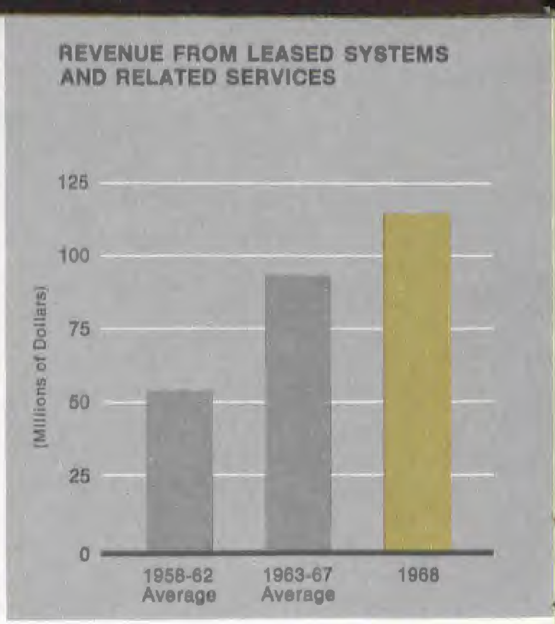
Time Service — subscribers are provided with clocks, which are accurately synchronized by hourly signals from master clocks located throughout the country. The master clocks in turn are synchronized by signals from the United States Naval Observatory at Washington, D. C.

The following services are among the more successful of those adopted in recent years to stimulate revenues at Western Union offices:

CandyGram — a one or two pound box of quality chocolates, delivered with a personal telegram attached.

DollyGram® — a dolls-by-wire greeting service which permits the sender to select a doll for delivery as a "Happy Birthday" or other greeting.

Flowers by Western Union — a floral order service for sending flowers by telegraph. Orders are placed with local florists at the destination cities, for delivery of flowers as specified by the senders.



systems leased to government

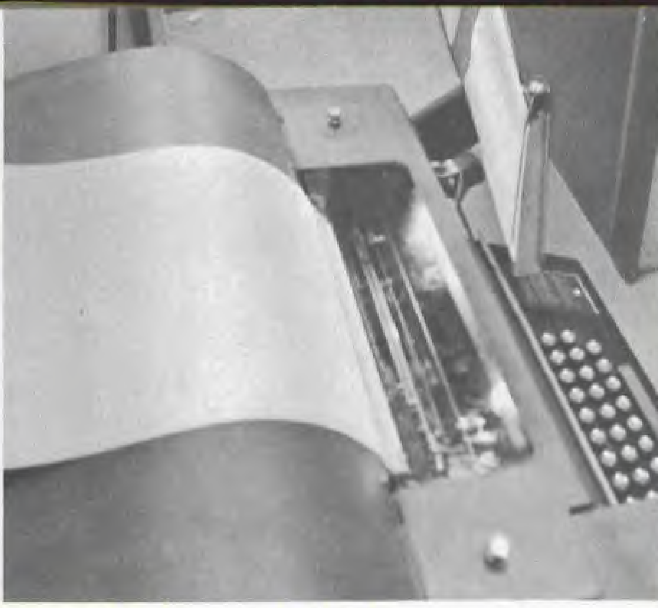
Western Union designs, installs and maintains leased record and record/voice systems to serve the exacting requirements of the federal government. The largest of these systems, each dedicated to the exclusive use of the governmental agency leasing it, are AUTODIN (Automatic Digital Network), leased to the Department of Defense, and the Advanced Record System, leased to the General Services Administration.

Other special-purpose systems serve various other governmental agencies — including the United States Air Force, Army and Navy; the Federal Bureau of Investigation; the National Aeronautics and Space Administration and the Federal Aviation Administration.

AUTODIN is a computer-controlled network providing message and data transmission services throughout the continental United States and Hawaii. It functions as an integral part of the world-wide Defense Communications System. The AUTODIN network has nine major switching centers, linking about 1,000 outstations for the high-speed transmission of data by magnetic tape, punched cards, automatic sending and receiving machines, and other devices.

Western Union uses the latest available technology and equipment, including computers, in designing new and expanded systems to meet government requirements. In the case of AUTODIN, for instance, the volume of messages and data transmitted over the network has doubled every two years since it was first placed in operation, and work is proceeding under a new contract calling for replacement, by 1971, of the computers now in the switching centers with faster and more versatile "third-generation" computers. Additional data storage capacity is also being installed at five of the centers.

The number of civilian agencies of the federal government served by the Advanced Record System (ARS) of the General Services Administration increased to 43 at year-end 1968, when the network interconnected 1,768 stations throughout the country. ARS stations can send messages into Telex, TWX and telegram message systems; and two-way interchange service has been established between the ARS and AUTODIN networks.



Sears, Roebuck and Co. uses a private network leased from Western Union to speed delivery of catalog orders.

systems leased to industry

Many larger firms have found that their need for gathering information and disseminating decisions rapidly and accurately requires that they have their own leased, private communication systems. Working directly with such individual customers, Western Union installs and maintains far-reaching networks for the exchange of heavy volumes of messages and data among several or hundreds of company locations. Your Company tailors each such leased system to the specific volume and speed demands of each respective customer.

As in the case of systems leased to government, the latest technology and equipment are used in designing private networks for new commercial customers, and in modernizing and expanding existing networks. Many of the newer systems are controlled by computers supplied either by Western Union or by the customer.

An 18,000-mile network, completed in 1968, connects almost 300 public offices of the ITT Aetna Management Company with a computer at St. Louis. This network enables the customer to handle loan and payment transactions in a fraction of the time formerly required, which frees personnel from desk work to give attention to more productive work.

Another nation-wide, computer-controlled network is nearing completion for Francis I. du Pont & Company. It will link computers at the firm's headquarters office at New York with more than 100 branch offices and its order booths at various stock exchanges across the country. Western Union is furnishing all communication engineering, circuitry and outstation equipment — including punched card transmitters and teleprinters.

The communication system leased to the Bank Wire Association has been modernized by replacing its three electro-mechanical switching centers with two fully automatic, computer switching centers. The modernized network interconnects the 279 member banks of the Bank Wire Association for the exchange of messages and data, often involving large sums of money.

The installation, modernization or expansion of a number of leased communication systems, in addition to those just described, was completed in 1968, or is now nearing completion. Included are new or expanded networks for such customers as Firestone Tire & Rubber Company; Midwest Stock Exchange; Ohio State Highway Patrol; Sears, Roebuck and Company; Southern Pacific Company; State of Illinois; and Travelers Insurance Company.

planning for the future

As the national record communication network, Western Union bases its plans for future service on the current and emerging trends of our customers' communications needs. These service demands of business, government and private customers indicate that Western Union services of the future should be characterized by a high degree of flexibility, convenience and innovation; and that is another way of describing the integrated RECORD COMMUNICATION SYSTEM that your Company is building.

Western Union has completed a number of essential steps in its program to consolidate its many record communication services into one unified system providing common switching facilities. Among those steps were the completion of four computer centers essential to our planned system integration; the expansion of Telex service; the expansion of the new TCCS services for Telex subscribers; successful introduction of the world's first shared-computer communications systems — SICOM and INFO-COM; and expanded message interchange capability among the Telex, TWX, INFO-COM, telegram and a number of leased systems.

The computer centers now in operation route messages, switch circuits, adjust transmission speeds and convert codes between systems, collect data and even handle billing functions. They are proving the value of the computerized "common switch" principle, resulting from the use of common switching equipment and of interchangeable terminal equipment. The "common switch" also facilitates the interchange of messages and data between services, and the interconnection of systems.

Your Company plans to extend the principle of common plant and equipment to include all Western Union systems, except those serving

customers who prefer their own leased systems dedicated to their private use. Another very important advantage of the "common switch" is that it makes modernization of the telegram message services possible at a reasonable investment, because the computer capacity in the planned integrated system can be used either for telegram services or for rapidly expanding services.

In another step looking toward modernization of the telegram message services, we have proposed to the United States Post Office that we join in studying the possibility of combining certain of our respective operations. Such a study would seek to make the best use of the respective capabilities of the Post Office and Western Union in meeting the total national need for record communications.

Among the possibilities that might be considered are:

... The connection of selected post offices by tielines with the Western Union central telegraph office nearest to each, combined with over-the-counter handling of telegrams in Post Offices.

... Combination of the physical delivery of telegrams with the special delivery service of the Post Office.

... Establishment of a new service for the transmission of messages over Western Union's telegram network for delivery at the destination city by mail service.

In planning for the national RECORD COMMUNICATION SYSTEM of the future, Western Union is very interested in the outcome of the Federal Communication Commission's Computer Inquiry which is addressed to "Regulatory and Policy Problems presented by the Interdependence of Computer and Communications Services and Facilities." Your Company's planning and its presentations of its position in the inquiry are being coordinated to insure compatibility.

Meanwhile, your Company and the Computer Utilities Corporation have formed a new company — Western Union Computer Utilities, Inc. (WUCU). The new corporation plans to establish a nation-wide franchising organization to furnish computerized data processing services for business firms and individuals. It will use an expanding library of more than a hundred proprietary programs for computerized information, record-keeping and bookkeeping functions.

Western Union's integrated system will, of course, require transmission facilities in a variety of bandwidths, and of a quality to meet the speed and accuracy requirements for the transmission of data. Today, eighty percent of the inter-city circuitry in your Company's service is derived from its own transcontinental microwave system. We will consider the feasibility of extending this system as the need for additional circuitry arises in the future. In most instances, however, your Company will probably lease additional inter-city transmission facilities from telephone companies, under inter-exchange contracts, or use communications satellite circuitry when a domestic satellite system becomes a reality.

Building an integrated RECORD COMMUNICATION SYSTEM is a long-term program because of the long lead time required for engineering, designing and testing. Nonetheless, substantial progress was made in 1968 and Western Union is well on its way toward consolidation of its many individual systems into one record communications "world." Before long, due to the vast switching capacities of our new computer centers, any customer will be able to "plug" into a broadly integrated system and obtain the particular service, or services, that he needs at any given time.

acquisition of TWX

The year 1969 started with a major event in your Company's long-term planning — one of the most significant in Western Union's history. On January 15, your board of directors approved agreements for the purchase by Western Union of the Bell System's Teletypewriter Exchange (TWX) Service. On the same day, A.T.&T.'s board of directors approved the terms of the agreements, subject to approval by the boards of the Associated Bell Telephone Companies, and the contracts were signed and delivered on January 31.

The Bell System's TWX and Western Union's competing Telex are telegraph exchange services. The Bell System has approximately 40,000 TWX stations in customer service, with revenues of about $72 million annually. Western Union's Telex service has more than 26,000 stations in customer service, with revenues running at a current annual rate of approximately $41 million.

Subscribers to each of the services dial connections with other subscribers of that service in the continental United States and Canada, and use directly connected machines to exchange typewritten messages and data. Additional services available to Telex subscribers are described on pages 6 and 7 of this report.

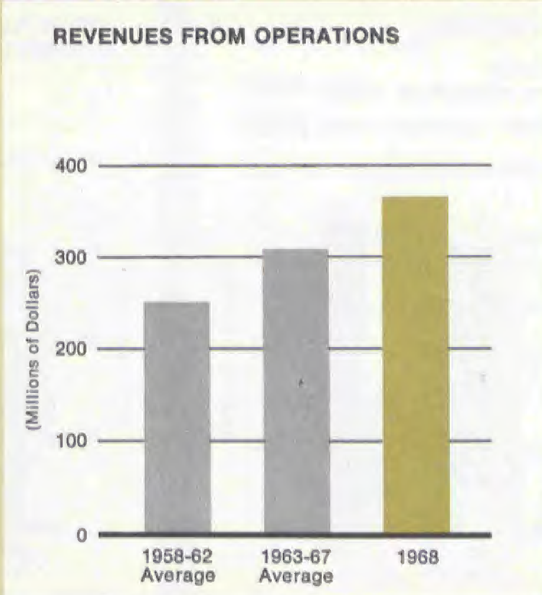
The acquisition of TWX will permit Western Union to combine it with Telex service in a unified telegraph exchange service offering subscribers the benefits of a substantially broadened scope of service, and of new computer-controlled services of the kind recently introduced by Western Union for Telex subscribers. It will also speed Western Union's program to build a single, integrated system to serve all types of customers.

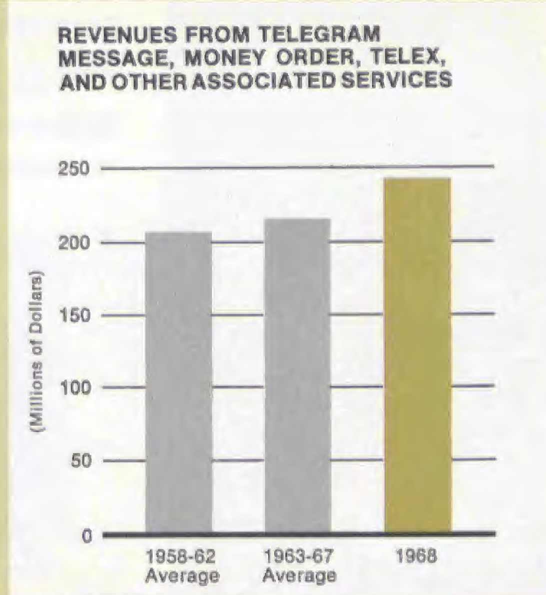
Western Union is buying TWX as a going business; and the purchase price will reflect the agreed upon value of that business. The equipment scheduled to change hands consists principally of teleprinters located on the premises of TWX subscribers plus some Bell System central office equipment used exclusively to provide TWX service. Not included in the sale are circuit facilities and certain switching facilities which will continue to be provided by the Bell System under contracts with Western Union.

The acquisition is subject to regulatory approvals and other conditions.

The estimated price of Bell System's TWX Service and associated equipment is in the neighborhood of $80 million. The precise price of the transaction cannot be determined until after final inventory and valuation have been completed. Western Union has the option of paying up to one-half of the purchase price in the form of four-year promissory notes. The remainder would be paid in cash when the transaction is closed.

The purchase price of approximately $80 million for the Bell System's TWX service does not include the cost of acquisition of TWX service from independent telephone companies, or additional working capital requirements and certain initial non-recurring expenditures by Western Union. These will involve additional outlays, and the total initial investment for acquiring TWX service is estimated at about $105 million.





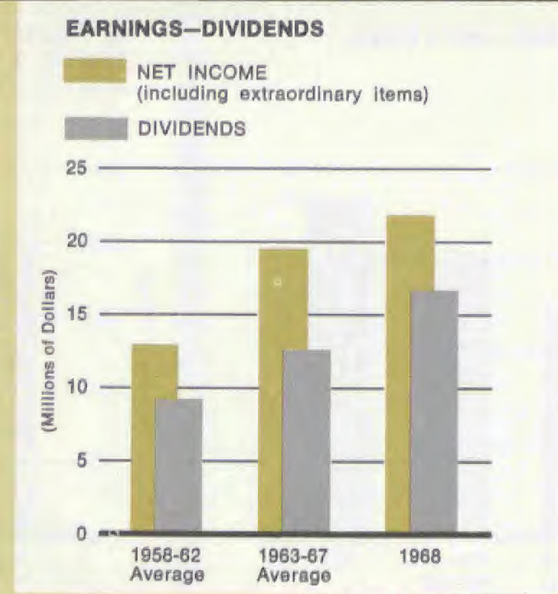
financial review

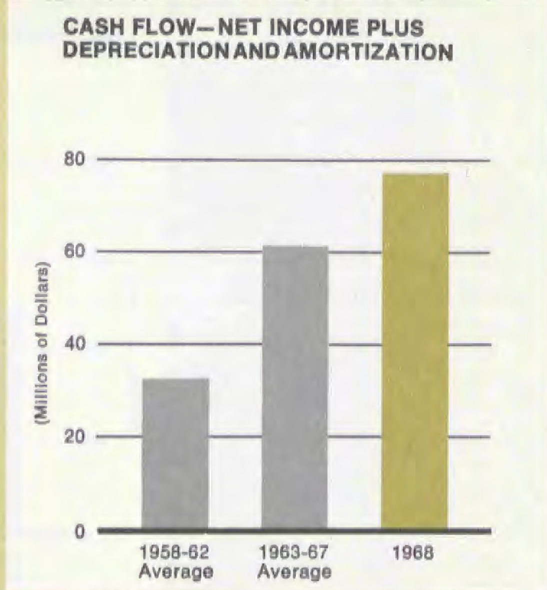
Operating Results

Net income for 1968 was $21,568,987. After deducting dividends of $6,193,547 declared on preferred shares, net income per common share amounted to $2.04. Income (before extraordinary items of $5,943,502) in 1967 amounted to $17,535,185, equivalent to $1.61 per common share after deducting preferred dividends of $5,380,040. Extraordinary items in 1967 added $.79 per common share.

Revenues increased in 1968 in all categories, with the largest increases being recorded by the newer services — Telex, and leased systems and related services. Gross revenues totaled $360,094,805 compared with $336,824,388 in 1967, an increase of 7 percent. Telex revenues rose $7,015,254, from $32,003,637 in 1967 to $39,018,891 in 1968. Leased systems and related services revenue amounted to $117,902,785 compared with $109,055,650 in 1967, higher by $8,847,135. Revenues from telegram message services of $156,423,600 reflected the full year effect of rate revisions that went into effect late in 1967, selective rate increases effective May 5, 1968 and the new simplified tariff that became effective on November 1, 1968. Revenues from money order services increased from $29,174,889 in 1967 to $33,137,512 in 1968.

Total expenses for 1968 were $347,092,785 as compared with $325,983,983 in 1967, an increase of $21,108,802. Labor costs and related





employee benefits continued their upward trend under new three-year labor contracts which went into effect June 1, 1968. Depreciation and amortization charges were $4,463,024 higher reflecting the increased investment in plant in service. Net pension expense was $1,620,241 higher than in 1967, due principally to the increased number of pensioners and the amount of the average pension. Interest expense increased $1,265,627 mainly due to additional borrowings under the bank loan agreement and increased interest rates related to the rise in the prime bank rate.

Dividends

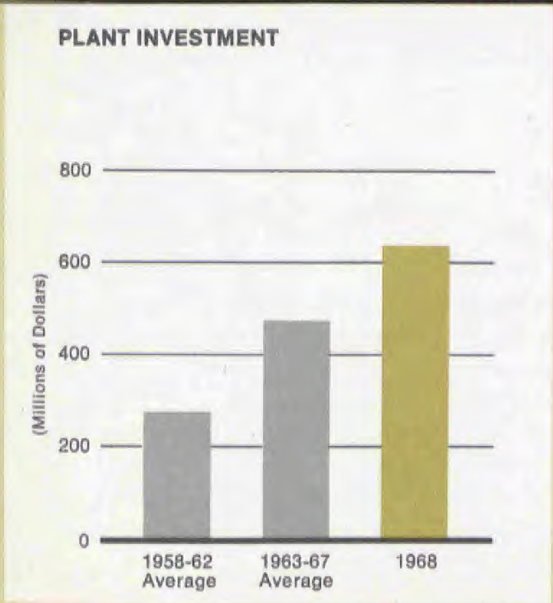
The year 1968 was the first in which full dividends were paid on all four issues of preferred shares. A total of $6,193,547 was declared on the preferred shares, equivalent to 82 cents per common share. In addition, dividends on common shares were declared at the quarterly rate of $.35 per share, amounting to $10,582,096. Total dividends declared in 1968 were $16,775,-643.

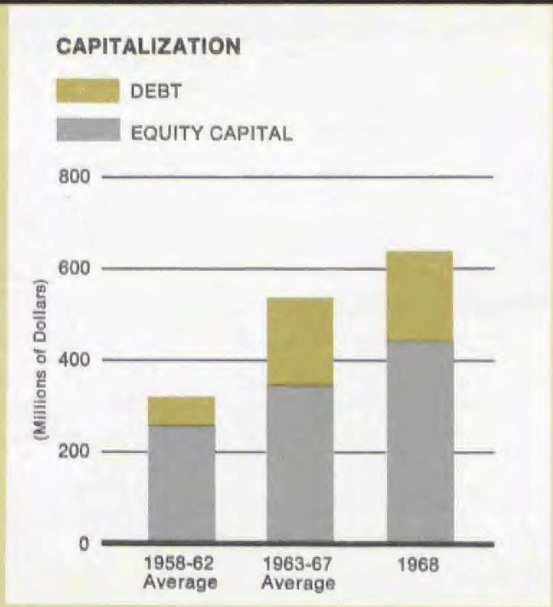
Tax Status of Dividends

In a special letter dated January 10, 1969, shareholders who received dividends in 1968 were advised that the Company had estimated that 100 percent of all dividends paid on common and 4.9% series preferred shares and 58 percent of the dividends paid on the 5.2%, 4.6% and 6.0% series preferred shares were a return of capital and therefore not taxable as dividend income. The nontaxable portion of dividends, however, reduces the holder's cost basis for the shares on which the dividends were paid. This estimate is subject to a review and final determination by the Internal Revenue Service.

Financial Position

Gross charges for plant and equipment construction and installation totaled $120,720,011 in 1968, mainly concentrated in the areas of modernized facilities, leased and shared-system installations, and the continued expansion of Telex. Net credits amounted to $26,292,313, largely for equipment removed from service and transferred to inventory, most of which was either reinstalled or is available for installation. After deducting depreciation and amortization of $54,861,366 charged against earnings, net





plant and equipment increased by $39,566,332, as further analyzed in the Statement of Investment in Plant and Equipment on page 28. At December 31, 1968, the Company's net investment in plant and equipment amounted to $643,-470,472, of which $75,935,982, or 12 percent, represented plant under construction. Net plant investment per operating revenue dollar amounted to $1.79 and net plant investment per employee was $24,495.

Investments in other companies at December 31, 1968 comprised 72,716 shares of Gray Manufacturing Co. at a book cost of $595,426 (market value $1,217,993) and 5,000 shares of Communications Satellite Corp. at a book cost of $100,000 (market value $263,750).

The Company's total capitalization — capital, funded debt, and other long-term obligations — was $627,306,283 at the end of 1968. Funded debt and other long-term obligations amounted to $191,172,318, or 30 percent of the total capitalization excluding $67,800,000 of notes due banks within one year shown under current liabilities.

Financing

The Company's bank loan agreement, as amended October 10, 1967, provided for a maximum of $75,000,000 to be available, of which up to $20,000,000 could be short-term, maturing not later than December 13, 1968. During the early part of 1968, the Company borrowed the entire available short-term portion. The loan agreement was amended August 1, 1968 to make an additional $20,000,000 available, on a short-term basis. On December 13, 1968, the Company issued notes for $20,000,000, maturing December 5, 1969, which replaced the matured notes. During 1968, the Company also borrowed an additional $15,000,000 short-term and $4,800,000 long-term. The total of $67,800,000 borrowed and outstanding at December 31, 1968, under the bank loan agreement, matures on or before December 31, 1969.

These funds have been used for the Company's modernization and expansion programs. Additional financing will be necessary in 1969, including the refinancing of borrowings under the bank loan agreement, apart from financing that may be required later, to conclude the purchase of the Bell System's and the independent telephone companies' Teletypewriter Exchange Service.

western union

statement of financial position

ASSETS

	December 31, 1968	December 31, 1967
PLANT AND EQUIPMENT, at original cost:		
Plant in service	$855,170,702	$795,495,500
Plant under construction	75,935,982	89,642,498
Gross plant investment	931,106,684	885,137,998
Allowance for depreciation and amortization	287,636,212	281,233,858
	643,470,472	603,904,140
CURRENT ASSETS:		
Cash	23,609,868	24,708,149
Marketable securities, at cost, which approximates market	4,782,350	12,580,559
Receivables, less $1,059,777 and $874,609 allowance for uncollectible accounts	53,665,558	44,642,571
Materials and supplies for construction, maintenance and operation, at average cost or salvage value	45,281,786	50,951,276
Prepaid rents, insurance and taxes	496,003	632,328
	127,835,565	133,514,883
INVESTMENTS AND OTHER ASSETS:		
Investments	695,426	870,528
Other assets	3,076,637	2,477,202
	3,772,063	3,347,730
	$775,078,100	$740,766,753

See notes beginning on page 25.

CAPITAL AND LIABILITIES

	December 31, 1968	December 31, 1967
CAPITAL:		
Preferred shares	$119,154,700	$122,692,500
Common shares	178,117,154	175,368,312
Capital surplus	6,596,653	6,597,464
Retained earnings	132,265,458	127,472,114
	436,133,965	432,130,390
FUNDED DEBT AND OTHER LONG-TERM OBLIGATIONS:		
Debentures	188,857,000	194,654,000
Notes payable to banks	—	28,000,000
Other obligations	2,315,318	2,470,876
	191,172,318	225,124,876
CURRENT LIABILITIES:		
Notes payable to banks	67,800,000	—
Accounts payable and accrued liabilities	40,242,181	40,386,651
Money orders payable	14,094,681	14,579,500
Sinking fund payments on funded debt, due within one year	1,100,000	1,100,000
Dividends payable	4,181,399	4,203,911
	127,418,261	60,270,062
DEFERRED CREDITS AND RESERVES	20,353,556	23,241,425
	$775,078,100	$740,766,753

See notes beginning on page 25.

western union

statement of income and retained earnings

	Year Ended December 31, 1968	1967
REVENUES AND OTHER INCOME		
Telegram message services	$156,423,600	$156,031,219
Telex service	39,018,891	32,003,637
	195,442,491	188,034,856
Money order services	33,137,512	29,174,889
Other services	13,612,017	10,558,993
Leased systems and related services	117,902,785	109,055,650
Total revenues	360,094,805	336,824,388
Other income	8,566,967	6,694,780
Total	368,661,772	343,519,168
EXPENSES		
Operating, administrative and general	198,012,635	189,186,736
Maintenance	47,474,530	43,345,621
Depreciation and amortization	54,861,366	50,398,342
Pensions	15,250,022	13,629,781
Employees' disability, death and other benefits	6,947,024	6,371,855
Social security taxes	7,248,309	6,574,992
Other taxes	7,851,622	7,653,489
Interest	13,488,900	12,223,273
Interest charged to construction — (credit)	(4,041,623)	(3,400,106)
Total	347,092,785	325,983,983
INCOME BEFORE FEDERAL INCOME TAX	21,568,987	17,535,185
Federal income tax	—	—
INCOME BEFORE EXTRAORDINARY ITEMS	21,568,987	17,535,185
Extraordinary items	—	5,943,502
NET INCOME	21,568,987	23,478,687
RETAINED EARNINGS AT BEGINNING OF YEAR	127,472,114	121,326,454
	149,041,101	144,805,141
Less:		
Dividends declared:		
Preferred shares	6,193,547	5,380,040
Common shares — $1.40 per share	10,582,096	10,536,453
Expenses of issuing preferred shares	—	1,416,534
	16,775,643	17,333,027
RETAINED EARNINGS AT END OF YEAR	$132,265,458	$127,472,114
PER COMMON SHARE, based on average number of shares outstanding during the year:		
INCOME BEFORE EXTRAORDINARY ITEMS	$ 2.04	$ 1.61
EXTRAORDINARY ITEMS	—	.79
NET INCOME	$ 2.04	$ 2.40

Note: Pro forma net income per common share for 1968 would have been $2.10 assuming that outstanding employee stock options had been exercised and outstanding convertible preferred shares had been converted into common shares.

See notes beginning on page 25.

NOTE A—DEPRECIATION AND AMORTIZATION

The Company employs the straight-line method of providing for depreciation, based upon the estimated useful lives of the various classes of properties as determined by the Company's engineers and the Federal Communications Commission. The annual rates thus determined are applied to the total investment in the respective classes of properties.

Research and development expenditures associable with specific installations are capitalized and depreciated at the rates prescribed by the Federal Communications Commission for such installations. Development expenditures ($3,237,373 in 1968 and $3,847,599 in 1967) not associable with specific projects were, for many years, charged to expense in the year of expenditure to the extent of the related federal income tax benefit and the remainder was capitalized and amortized over the succeeding ten-year period. In consideration of uncertainties in the amount of realizable federal income tax benefits derived from such tax treatment of research and development expenditures (see Note D covering federal income tax identifying the loss carryover for tax purposes), commencing in 1968, such expenditures are being amortized to expense on a straight-line basis over a period of eight years commencing in the year the project is completed. This change did not have a material effect upon net income for the year 1968.

Direct development charges to expense and amortization of non-specific research and development expenditures capitalized aggregated $1,978,827 in 1968, compared with $3,058,-982 in 1967.

NOTE B—EMPLOYEES' PENSIONS AND BENEFITS

The Western Union General Plan, inaugurated in 1913 and modified from time to time, provides service and disability pensions, sickness benefits, accident benefits and expenses, and occupational death benefits. The plan, which is non-contributory, applies to all employees and officers of the Company.

Effective June 1, 1966, the General Plan was amended to provide for an increase in pension benefits commencing in 1968 through the lowering, in steps, of deductions from pensions of amounts initially equal to one-third of a pensioner's social security benefits, until such deductions are eliminated in 1970. Also on June 1, 1966, the mandatory retirement age for non-supervisory employees was reduced, in steps, to age 67 in 1970. These changes are being reflected in the Company's actuarial valuations as they become effective.

Pursuant to a plan established in 1955 for the partial funding of pensions under the General Plan, the Company is paying into a fund held by a trustee 50% of normal (current service) cost and an amount representing interest on approximately 50% of the present value of unfunded prior service costs as determined by the Company's independent consulting actuary. In 1968 the Company amended the funding plan, to be effective July 1, 1969, to provide for funding of 100% of normal (current service) cost and interest on 100% of the present value of unfunded prior service costs.

Estimates by an independent consulting actuary indicated that annual pension trust fund contributions will amount to about $28 million in 1971 after giving effect to the changes in the two preceding paragraphs, based on the present level of employment and wage rates provided under current labor contracts — such amount being gross before deduction for related federal income tax, with an indeterminate portion to be charged to plant and equipment.

From the inception of the Trust Fund in 1955, to the end of 1968, contributions have amounted to $94,775,206; earnings of the Fund have totaled $17,641,574; and pension payments from the Fund have aggregated $64,071,368. The market value of the assets in the fund held by the trustee, excluded from the Statement of Financial Position, amounted to approximately $52,-000,000 at December 31, 1968. The Company reserves the right to reduce, suspend or discontinue contributions for any reason at any time. The fund is available only to pay pension benefits under the General Plan, and can in no event revert to the Company.

Approximately 50% of current payments to retired employees are made from the trust fund and the balance of such pension payments, as well as other benefit payments provided by the General Plan, are paid from the general funds of the Company. Effective July 1, 1969, in accordance with the funding plan amendment described above, all current payments to retired employees will be made from the trust fund. For rate-making purposes, the Federal Communications Commission limits charges for pensions to amounts paid directly to pensioners or into a trust fund established solely for such purpose. Accordingly, the amount of pension expense shown in the Statement of Income for 1968 reflects contributions to the trust fund of $8,824,552 and pensions paid from the general funds of the Company of $9,039,765, less $2,614,295 charged to plant and equipment.

The Company's independent consulting actuary has estimated the amount of unfunded prior service pension cost to aggregate approximately $297,000,000 as of June 30, 1967, the date of the latest actuarial study, including $198,000,000 relating to pensioners at that date and employees then entitled to retire on pension.

However, in the opinion of the Company's General Counsel, the legal liability of the Company under the General Plan at any time is limited to the unexpended portion of the amounts theretofore appropriated and the Company is under no legal obligation to make additional appropriations or payments, except that under the provisions of labor union contracts expiring in 1971 (and under the provisions of prior contracts since 1945) the Company agreed, during the term of the contracts, to make appropriations with respect to employees covered by the contracts, in amounts sufficient to meet disbursements for benefits provided by the General Plan.

NOTE C—LEASE AND OTHER CONTRACTUAL OBLIGATIONS

The Company leases its headquarters, certain office buildings, branch offices, and warehouses. Minimum annual rentals under these leases amount to approximately $7,998,000 of which approximately $6,745,000 is payable under leases generally expiring within five years. Certain portions of these buildings are sub-rented at an annual income of $1,591,000. Most of the long-term leases contain renewal options ranging from 25 to 65 years with substantial rental reductions.

Payments for facilities leased under contracts with telephone companies currently aggregate $20,000,000 per annum. The agreements relate to inter-city and local circuits and to facilities used for furnishing TELPAK leased line service. The inter-city agreements are subject to termination by either party on ten-years notice, the local agreements on three-years notice and the TELPAK contracts on five-years notice. The agreements permit the Company to increase or reduce the facilities used, but in the case of the inter-city agreements any reduction may not reduce the amount paid by more than 20% from the previous year.

NOTE D—FEDERAL INCOME TAX

Federal income taxes are based upon taxable income or loss which in recent years has differed substantially from income reported in the Statement of Income. This difference results principally from the use of accelerated depreciation methods for tax-purposes whereas straight-line depreciation is recorded in the accounts. At December 31, 1968 the Company had an indicated loss carryover of about $4,400,000 (expiring $2,500,000 in 1969, $300,000 in 1970 and $1,600,000 in 1971) available to offset future taxable income.

The Company records depreciation and federal income taxes in its accounts in accordance with the accounting regulations of the Federal Communications Commission which give effect to the Commission's practice of recognizing for rate-making purposes (except in the case of the AUTODIN installation mentioned below) the amount of tax reductions resulting from accelerated depreciation as current reductions in federal income taxes rather than as deferred income taxes.

This "flow-through" method of accounting is in accordance with generally accepted accounting principles applicable to the Company, except as stated below with respect to the

AUTODIN installation. The "flow-through" method recognizes that continuing replacements and additions to the general plant and the continuing use of accelerated depreciation methods for tax purposes will cause the benefits from the tax reductions to be enjoyed indefinitely or that, if and to the extent that such tax reductions require the Company to pay increased taxes in the future, such increases will be reflected in the rates to be allowed by the regulatory authority.

In the case of the AUTODIN installation, generally accepted accounting principles would have required provision for deferred income taxes for each of the years 1962 through 1967, inasmuch as the tariff rates with respect to AUTODIN were developed without regard to the effects of accelerated depreciation. On this basis, provision for deferred income taxes during the early years with counter-balancing treatment in the later years would more fairly reflect the income for each year during the life of the system. However, the Federal Communications Commission has denied the Company's request to provide for deferred income taxes in its accounts. Generally accepted accounting principles would have required provision for deferred income taxes of $1,900,000 for 1967 after AUTODIN investment tax credits, and a reduction of deferred income taxes of $500,000 for 1968. The net cumulative deferred tax liability at December 31, 1968 would have aggregated $8,500,000.

Internal Revenue ruling 68-109 contained in Internal Revenue Bulletin 68-11 dated March 11, 1968, establishes that the equipment furnished on AUTODIN is subject to investment tax credits. Investment tax credits applicable to eligible plant additions under the Revenue Act of 1962, including AUTODIN, were not used in 1968 nor in prior years due to the absence of tax liability against which to apply the credits. The estimated unused investment tax credit carryover from all sources, available for tax reduction in subsequent years, amounted to $11,500,000 at December 31, 1968, including $3,500,000 applicable to AUTODIN.

NOTE E—CAPITAL

	Outstanding at December 31, 1968		1967	
	Shares	Amount	Shares	Amount
Cumulative preferred, $100 par value, 1,500,000 shares authorized:				
5.2%	341,250	$ 34,125,000	350,000	$ 35,000,000
4.6% convertible series	375,961	37,596,100	376,059	37,605,900
6.0%	250,000	25,000,000	250,000	25,000,000
Cumulative second preferred, $100 par value 500,000 shares authorized:				
4.9% convertible series	224,336	22,433,600	250,866	25,086,600
		$119,154,700		$122,692,500
Common, $2.50 par value, plus stated capital in excess of par, 15,000,000 shares authorized	7,588,609	$178,117,154	7,527,218	$175,368,312

The 6.0% and 5.2% cumulative preferred shares contain sinking fund provisions requiring the Company in the case of the 6.0% issue to retire, by redemption at par or by prior purchase and cancellation, $500,000 on each October 1 beginning 1970, and in the case of the 5.2% issue to retire, by redemption at par, $875,000 on each July 1 through 1977 and $1,050,000 on each July 1 thereafter.

At December 31, 1968, the 4.6% cumulative preferred shares and the 4.9% cumulative second preferred shares were convertible at $56.17 and $45.00 a common share, respectively, and 1,167,871 common shares were reserved for issue upon exercise of conversion rights. During 1968, 98 shares of the 4.6% series and 26,530 shares of the 4.9% series were converted into a total of 59,111 common shares. Purchases of fractional shares have been charged to capital surplus.

The 6.0% and 5.2% series, at the option of the Company, are redeemable immediately, other than for the sinking funds, at $106.00 and $105.20 a share, respectively, subject to certain restrictions if redeemed prior to July 1, 1977. The 4.9% and 4.6% convertible series, at the option of the Company, are redeemable at $104.75 (beginning July 1, 1969) and $104.50 a share, respectively. The redemption prices decline at future dates.

Dividends were declared on preferred shares outstanding as follows:

	1968	1967
5.2%	$1,797,250	$1,820,000
4.6%	1,729,638	1,729,871
6.0%	1,500,000	1,017,333
4.9%	1,166,659	812,836
	$6,193,547	$5,380,040

The provisions of the certificate of incorporation of the Company, as amended, relating to the cumulative preferred shares, impose limitations on the issuance of prior and parity ranking shares, the creation of liens and additional funded indebtedness, and the payment of cash dividends. The amount of retained earnings not restricted as to the payment of cash dividends on common shares and cumulative second preferred shares was $19,392,000 at December 31, 1968.

The indentures and bank loan agreement impose certain limitations on the payment of dividends on both the preferred shares and the common shares. The amount of retained earnings not so restricted as to the payment of such dividends was $23,873,000 at December 31, 1968.

Transactions during the year ended December 31, 1968 under the Officer and Key Employee Stock Option Plan are summarized below:

	Number of Shares	Price range*
Options outstanding at December 31, 1967 (41,288 shares exercisable)	74,150	$31.00 — $51.88
Options granted	2,000	$32.75 — $38.06
Options exercised (aggregate amount received $86,042)	(2,280)	$34.75 — $39.35
Options expired (available for re-grant)	(5,200)	$36.25 — $45.25
Options outstanding at December 31, 1968 (47,533 shares exercisable)	68,670	$31.00 — $51.88

*Since January 1, 1964, 100% (previously 95%) of market at date of grant.

There were 15,700 shares available for additional options at December 31, 1967 and 18,900 such shares at December 31, 1968.

NOTE F—FUNDED DEBT AND OTHER LONG-TERM OBLIGATIONS

	December 31, 1968	1967
Debentures:		
$4\frac{5}{8}\%$ due June 1, 1980	$ 23,100,000	$ 24,200,000
$5\frac{1}{4}\%$ due February 1, 1987	43,667,000	45,875,000
$6\frac{1}{2}\%$ due December 15, 1989	50,000,000	50,000,000
5% due March 1, 1992	72,090,000	74,579,000
	$188,857,000	$194,654,000

The indentures relating to the debentures contain optional redemption provisions and require sinking fund payments for annual retirement as follows:

Debentures	Annual Sinking Fund Requirement	Beginning	Due Within One Year At December 31, 1968
$4\frac{5}{8}\%$	$1,100,000	June 1, 1956	$1,100,000
$5\frac{1}{4}\%$	2,000,000	February 1, 1967	*
$6\frac{1}{2}\%$	2,500,000	December 14, 1971	—
5%	2,700,000	March 1, 1969	*
			$1,100,000

*Satisfied by purchases in 1968

As of December 31, 1968, the Company had purchased, in advance of the 1970 sinking fund payment dates, $333,000 principal of the $5\frac{1}{4}\%$ issue, and $210,000 principal of the 5% issue.

Effective August 1, 1968, the Company's loan agreement was modified to make $95 million available until June 30, 1969. Up to $40 million of notes issued under the agreement may be "short-term" notes at the Company's option, to mature up to 360 days after the date of issuance, but not later than December 31, 1969. At December 31, 1968, the Company had borrowed $35,000,000 (an additional $5,000,000 in January, 1969) under the "short-term" provisions of the agreement, maturing at various dates during 1969 and $32,800,000 under the "long-term" provisions of the agreement, maturing December 31, 1969. All of the outstanding notes payable to banks at December 31, 1968 are shown as current liabilities in the accompanying Statement of Financial Position. The "short-term" notes presently outstanding bear interest at $\frac{1}{2}\%$ above the prime rate of The Chase Manhattan Bank N.A. from time to time in effect and the "long-term" notes bear interest at $\frac{1}{4}\%$ above said rate.

A standby fee of $\frac{1}{4}\%$ per annum is applicable to the unused portion of the available credit. The agreement provides that the proceeds of any funded indebtedness issued by the Company after August 1, 1968, other than that evidenced by notes issued under the agreement and certain other indebtedness, must be applied to the prepayment of the "long-term" notes at the time outstanding. The agreement further provides that the net proceeds from the sale of preferred or common shares of the Company, or the amount of any contribution to the capital of the Company, after August 1, 1968 must be applied to the payment of the "short-term" notes at the time outstanding.

The indentures and the bank loan agreement impose certain limitations on the creation of liens and additional indebtedness, on the incurring of certain rental obligations, on the payment of dividends and on certain investments. Additional funded indebtedness (including long-term notes) is limited (with certain exceptions) by a test of earnings in relation to fixed charges, and is also limited to an amount which will not cause funded debt to exceed approximately 40% of the total of funded debt, capital, surplus and retained earnings. Under the most restrictive of these limitations, the Company was not permitted to incur any additional funded indebtedness at December 31, 1968. The Company's ability to incur additional funded debt is dependent upon subsequent earnings and debt ratios. Short-term notes are not subject to the limitations on additional funded indebtedness.

NOTE G—INCENTIVE COMPENSATION PLAN

The Company's Incentive Compensation Plan, approved by the shareholders on April 10, 1968, provides that the Board of Directors may appropriate each year an amount to be available for payment of incentive compensation to officers and certain key employees of the Company. The maximum amount of this appropriation is based on the income before extraordinary items applicable to common shares, subject to limitations described in the plan. The amounts awarded to individuals are determined by committees of directors or officers who are not eligible to receive any portion of the awards which they determine. The awards are payable in installments following the year for which the award was made, or the recipient may elect to defer payment until after his retirement.

For the year ended December 31, 1968, the Board of Directors appropriated $300,500 which has been charged to operating expense.

NOTE H—EXTRAORDINARY ITEMS

Extraordinary items in 1967 comprise $6,843,502 net gain on sales of the Company's investments, less provision of $900,000 for probable escheat of unclaimed telegraphic money orders.

NOTE I—CONTINGENT LIABILITIES

In connection with the AUTODIN system, the bomb alarm system and the Emergency Message Automatic Transmission System leased to the U.S. Air Force, the Defense Communications Agency of the U.S. Department of Defense is informally seeking a negotiated settlement for alleged excessive rates collected by the Company for past years principally because the applicable tariffs included estimated amounts for maintenance which are asserted to have been in excess of actual costs. In October 1965, the Company filed revised tariffs reflecting reduced maintenance costs applicable to AUTODIN switching centers and, in June 1968, revised tariffs reflecting reduced maintenance costs applicable to AUTODIN terminals, in each case based upon actual experience. The Defense Communications Agency has informally asserted that, for the January 1, 1963—June 30, 1968 period, the estimated maintenance costs substantially exceeded actual costs. While Company studies indicate that the excess for the period involved may have been approximately $6,700,000, in the opinion of the Company's management and General Counsel, the Company has valid counterclaims which will offset all or substantially all of said amount. Representatives of the Defense Communications Agency and the Company have been discussing the matter informally exploring a possible basis of settlement. The determination of the amount, if any, which the Company may be required to repay is further complicated by the fact that, during the period, the Company earned less than a fair rate of return on all of its services combined as well as on its private wire services.

A question has also been raised by the Defense Communications Agency as to the propriety of the inclusion of an amount for estimated federal income taxes in the construction of the rates charged for AUTODIN and the other systems mentioned above inasmuch as, due to subsequent developments, the Company was not required to pay such taxes during the years in question. The Defense Communications Agency has informally advised the Company that it proposed to seek a determination of the issue by the Federal Communications Commission. Should that issue be finally determined against the Company, it is probable that the Defense Communications Agency would then assert that excessive rates had been charged and seek a refund thereof. The Company estimates that such claim for excessive rates might aggregate as much as $15,000,000. In the opinion of the General Counsel of the Company, however, inasmuch as the Company has, during the years in which it has provided the systems mentioned above, earned less than a fair rate of return on all of its services combined as well as on its private wire services, the Company's liability for refunds, if any, should be minimal.

The Company, on June 28, 1968, filed with the Federal Communications Commission a simplified tariff applicable to most interstate telegram services and providing for added revenues to the Company. These tariffs were suspended by the Commission for the statutory three-month period and became effective November 1, 1968. The Commission has announced that it plans to hold hearings on a number of questions related to the new tariffs and has issued an order requiring that such portion, if any, of the increased charges which the Commission finds not justified will be disposed of in such manner as the Commission determines to be reasonable and in the public interest. The Company estimates, on the basis of the telegram volume for the two months ended December 31, 1968, the increase in its revenues from interstate traffic under the new tariffs was approximately $2,500,000 in 1968.

In November 1967 an action was commenced in the Supreme Court, New York County, New York by Law Research Service, Inc. against the Company seeking specific performance of alleged contracts and damages in the amount of $37,785,000 for numerous alleged breaches thereof. The complaint alleges in substance that the Company failed to perform properly the obligations allegedly undertaken by it with respect to the use of the Company's computer facilities and communications network in connection with the furnishing by plaintiff of legal citations to customers of plaintiff's legal citation service. After a trial, the court, on May 28, 1968, rendered a decision upholding the Company's contention that the only legally enforceable agreement between the parties was a written contract dated March 16, 1966, denying the plaintiff's request for specific performance, and finding in favor of the Company as to a number of charges of default. The court also found that the Company had failed to perform certain obligations under said agreement, but stated that it was unable on the evidence before it to determine the amount of damages for which the Company may be liable. The court has referred the question of damages to a referee for the purpose of taking testimony and reporting thereon to the court, which will thereafter render a further decision.

The Company has been joined with Law Research Service, Inc. as a party defendant in four suits in California, Iowa and Illinois, instituted by individuals who had entered into contractual arrangements with Law Research Service, Inc., relating to the furnishing of the legal citation service. The aggregate amount claimed against the Company in these suits is $4,117,000, including $2,200,000 as punitive damages, plus attorneys fees and costs. These actions are in various stages of pretrial proceedings.

The amount of ultimate liability, if any, which may result from the suits described in the two immediately preceding paragraphs is not presently determinable but, in the opinion of the Company and its counsel, any liability resulting therefrom will not be material in relation to the financial position of the Company.

In addition to the foregoing, the Company is a party to other civil actions of a routine nature incident to its normal business. In connection with such litigation, any liability of the Company is either covered by insurance or, in the opinion of its management, if the litigation were decided adversely to the Company, would not be material in relation to the financial position of the Company.

NOTE J—SUBSEQUENT EVENT

Reference is made to page 18 of this report for agreement on the acquisition of TWX and the estimated cost thereof.

western union

statement of investment in plant and equipment

	December 31, 1968	December 31, 1967	Increase (Decrease)	
PLANT IN SERVICE				
Wiretelegraph				
Real estate	$ 4,896,113	$ 4,830,146	$ 65,967	
Outside communication plant	89,033,283	109,165,545	(20,132,262)	
Equipment furnished customers	349,006,227	327,652,021	21,354,206	
Other inside communication plant	246,772,946	201,776,285	44,996,661	
Office and work equipment	36,170,242	33,481,072	2,689,170	
Improvements to leased plant	11,578,624	7,455,099	4,123,525	
Miscellaneous physical property	882,643	859,649	22,994	
Sub-total	738,340,078	685,219,817	53,120,261	
Radiotelegraph				
Real estate and outside communication plant	30,490,718	27,092,705	3,398,013	
Inside communication plant	54,698,733	52,383,703	2,315,030	
Other radiotelegraph plant	4,285,714	4,083,161	202,553	
Sub-total	89,475,165	83,559,569	5,915,596	
	827,815,243	768,779,386	59,035,857	(a)
PLANT UNDER CONSTRUCTION	75,935,982	89,642,498	(13,706,516)	(b)
Total	903,751,225	858,421,884	45,329,341	
Deduct:				
Allowance for depreciation:				
Wiretelegraph	239,903,645	238,250,306	1,653,339	
Radiotelegraph	31,089,644	25,838,204	5,251,440	
Sub-total	270,993,289	264,088,510	6,904,779	(c)
NET INVESTMENT, EXCLUDING RESEARCH AND DEVELOPMENT	632,757,936	594,333,374	38,424,562	
Research and development	27,355,459	26,716,114	639,345	(d)
Deduct — Allowance for amortization	16,642,923	17,145,348	(502,425)	(e)
Total	10,712,536	9,570,766	1,141,770	
NET INVESTMENT, PLANT AND EQUIPMENT	$643,470,472	$603,904,140	$39,566,332	(f)
Average rates of depreciation:				
Wiretelegraph plant	6.94%	6.85%		
Radiotelegraph plant	6.75%	6.73%		
Ratio of allowance for depreciation and amortization to plant in service	33.63%	35.35%		

(a) Additions to plant in service (transferred from plant under construction)	$131,397,737
Removals of plant in service (charged to allowance for depreciation)	(72,330,888)
Sales of plant in service	(30,992)
	$ 59,035,857

(b) Charges to plant under construction including $33,471,695 used equipment and material reinstalled and including $3,237,373 for development projects	$120,720,011
Completions of plant under construction	(131,397,737)
Completions of development projects in progress	(3,028,790)
	($ 13,706,516)

(c) Accrued depreciation deducted from income	$ 52,974,346
Credits for reusable equipment and material removed from service and transferred to inventory	25,946,875
Proceeds from scrap copper sales	3,467,956
Other reserve credits	982,633
Removals of plant in service	(72,330,888)
Cost of removals	(4,118,231)
Depreciation allowance on plant sold	(17,912)
	$ 6,904,779

(d) Additions for completed projects	$ 3,028,790
Reductions for fully amortized research and development	(2,389,445)
	$ 639,345

(e) Accrued amortization	$ 1,887,020
Reductions for fully amortized research and development	(2,389,445)
	($ 502,425)

(f) Charges to plant under construction and development work in progress	$120,720,011
Accrued depreciation	(52,974,346)
Accrued amortization	(1,887,020)
Credits for reusable equipment and material removed and scrap copper sales, less cost of removals	(25,296,600)
Other credits (net)	(995,713)
	$ 39,566,332

western union

statement of source of funds for plant expansion

	Year Ended December 31, 1968	1967	Five years ended Dec. 31, 1968
FUNDS REQUIRED:			
Gross plant charges	$120,720,011	$152,965,886	$592,353,073
Less: Credits, principally for equipment removed from service and transferred to inventory for reinstallation or other disposition, including $3,467,956 in 1968 and $3,388,777 in 1967 realized from sale of scrap copper wire	26,292,313	24,855,079	120,330,665
Funds required for plant expansion	$ 94,427,698	$128,110,807	$472,022,408
FUNDS PROVIDED:			
By operations:			
Net income	$ 21,568,987	$ 23,478,687	$101,934,735
Dividends	(16,775,643)	(15,916,493)	(68,212,084)
Earnings retained in the business	4,793,344	7,562,194	33,722,651
Depreciation and amortization	54,861,366	50,398,342	229,851,813
	59,654,710	57,960,536	263,574,464
By financing:			
Sales of securities:			
Preferred shares, less expenses of issuance	—	48,670,066	120,095,400
Common shares issued under options	86,042	34,837	847,591
Debentures	—	—	125,000,000
Sinking fund payments — on long-term debt	(5,797,000)	(3,646,000)	(14,743,000)
— on preferred shares	(875,000)	—	(875,000)
Increase (decrease) in notes payable to banks	39,800,000	28,000,000	(22,200,000)
	33,214,042	73,058,903	208,124,991
Other:			
Decrease in cash and marketable securities	8,896,490	7,022,546	18,303,408
Net change in other assets and liabilities	(7,337,544)	(9,931,178)	(17,980,455)
	1,558,946	(2,908,632)	322,953
Funds provided for plant expansion	$ 94,427,698	$128,110,807	$472,022,408

opinion of independent accountants

PRICE WATERHOUSE & CO.

60 BROAD STREET

NEW YORK 10004

February 10, 1969

To the Board of Directors and the Shareholders
of The Western Union Telegraph Company

We have examined the financial statements of The Western Union Telegraph Company appearing on pages 22 through 29 of this report. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company is required to maintain its accounts in conformity with principles and methods of accounting prescribed by the Federal Communications Commission, which principles and methods differ from generally accepted accounting principles to the extent described in Note D.

In our opinion, except for the matter referred to in the preceding paragraph, the accompanying statements present fairly the financial position of The Western Union Telegraph Company at December 31, 1968, the results of its operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

ten-year review

RESULTS FOR YEAR:	1968
(Amounts in thousands, except per share figures)	
Revenues And Other Income:	
Telegram message services	$156,423
Telex service	39,019
	195,442
Money order services	33,138
Other services	13,612
Leased systems and related services	117,903
Total revenues	**360,095**
Interest and other income	8,567
Total	**368,662**
Expenses:	
Salaries, wages, social security taxes, pensions and other employee benefits(1)	186,019
Other operating and maintenance expenses(2)	88,914
Depreciation and amortization	54,861
Other taxes	7,852
Interest on debt(3)	9,447
Total	**347,093**
Income before federal income tax	**21,569**
Federal income tax	—
Income before extraordinary items	**21,569**
Extraordinary items	—
Net income	**21,569**
Dividends on preferred shares	**6,194**
Net income applicable to common shares	**$ 15,375**
Per common share:(4)	
Income before extraordinary items	**$ 2.04**
Extraordinary items	—
Net income	**2.04**
Dividends	**1.40**
YEAR-END POSITION:	
(Amounts in thousands):	
Net plant investment	**$643,470**
Working capital	**417**
Funded debt and other long-term obligations	**191,172**
Shareholders' equity (net worth)	**436,134**
EMPLOYMENT:	
Number of employees — (December 31)	**26,269**
Number of pensioners — (December 31)	**11,190**
Salaries, wages, social security taxes, pensions and other employee benefits in relation to operating revenues	**51.7%**
Average earnings of employees:(5)	
Hourly	**$ 3.25**
Weekly	**133.80**

(1) In 1963, the Company commenced the practice of capitalizing the portion of social security taxes, pensions and other employee benefits associable with plant under construction.

(2) Includes operating and maintenance, rentals of space and facilities, payments for use of circuits, materials and supplies, electric power, light, heat, telephone service, agents' commissions, postage, advertising, traveling, insurance, etc.

1967	1966	1965	1964	1963	1962	1961	1960	1959
$156,031	$162,252	$160,782	$163,203	$164,396	$169,769	$176,265	$178,184	$182,643
32,004	25,033	18,435	13,477	7,652	2,570	726	315	140
188,035	**187,285**	**179,217**	**176,680**	**172,048**	**172,339**	**176,991**	**178,499**	**182,783**
29,175	27,135	23,853	22,482	21,110	20,508	20,147	19,877	19,255
10,559	9,600	8,777	7,799	7,965	8,046	8,175	7,726	7,527
109,055	96,389	93,838	92,449	85,699	63,225	60,414	56,263	51,284
336,824	**320,409**	**305,685**	**299,410**	**286,822**	**264,118**	**265,727**	**262,365**	**260,849**
6,695	7,237	4,771	4,243	5,337	2,814	2,519	3,792	5,722
343,519	**327,646**	**310,456**	**303,653**	**292,159**	**266,932**	**268,246**	**266,157**	**266,571**
175,484	171,276	164,800	163,764	164,009	167,909	167,861	164,578	160,509
83,626	76,893	72,937	71,668	68,165	63,659	60,312	58,852	54,391
50,398	43,674	41,657	39,261	32,853	22,895	21,759	20,727	17,984
7,653	6,843	6,203	6,121	5,707	5,110	5,088	4,865	4,503
8,823	7,068	7,026	6,878	3,971	482	1,005	1,769	1,499
325,984	**305,754**	**292,623**	**287,692**	**274,705**	**260,055**	**256,025**	**250,791**	**238,886**
17,535	**21,892**	**17,833**	**15,961**	**17,454**	**6,877**	**12,221**	**15,366**	**27,685**
—	—	—	(1,200)	586	(3,730)	2,400	4,350	11,000
17,535	**21,892**	**17,833**	**17,161**	**16,868**	**10,607**	**9,821**	**11,016**	**16,685**
5,944	—	—	—	—	—	3,659	—	—
23,479	**21,892**	**17,833**	**17,161**	**16,868**	**10,607**	**13,480**	**11,016**	**16,685**
5,380	**3,401**	**566**	—	—	—	—	—	—
$ 18,099	**$ 18,491**	**$ 17,267**	**$ 17,161**	**$ 16,868**	**$ 10,607**	**$ 13,480**	**$ 11,016**	**$ 16,685**
$ 1.61	**$ 2.46**	**$ 2.30**	**$ 2.29**	**$ 2.25**	**$ 1.42**	**$ 1.46**	**$ 1.72**	**$ 2.63**
.79	—	—	—	—	—	**.54**	—	—
2.40	**2.46**	**2.30**	**2.29**	**2.25**	**1.42**	**2.00**	**1.72**	**2.63**
1.40	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.20**
$603,904	**$526,192**	**$450,262**	**$417,154**	**$401,300**	**$378,569**	**$278,282**	**$249,348**	**$241,569**
73,245	**67,133**	**88,874**	**54,814**	**64,463**	**66,091**	**43,491**	**32,824**	**34,932**
225,125	**200,366**	**192,970**	**169,083**	**170,241**	**147,837**	**33,002**	**39,181**	**35,780**
432,130	**375,863**	**331,351**	**289,174**	**282,532**	**285,511**	**285,346**	**239,596**	**237,174**
26,355	**27,348**	**26,485**	**26,520**	**27,891**	**29,953**	**31,398**	**32,397**	**33,152**
10,728	**10,087**	**9,781**	**9,217**	**8,641**	**8,158**	**7,654**	**7,113**	**6,660**
52.1%	**53.5%**	**53.9%**	**54.7%**	**57.2%**	**63.6%**	**63.2%**	**62.7%**	**61.5%**
$ 3.11	**$ 2.98**	**$ 2.88**	**$ 2.77**	**$ 2.69**	**$ 2.57**	**$ 2.49**	**$ 2.43**	**$ 2.27**
132.50	**127.28**	**124.53**	**115.36**	**111.69**	**105.78**	**103.25**	**100.27**	**95.38**

(3) Chiefly on bonds and notes, less interest charged to plant under construction, effective with 1961.

(4) Based on the average number of shares outstanding during each year.

(5) Relates to nonsupervisory employees, except messengers, in mid-December each year.

directors

CHARLES de BRETTEVILLE
Chairman of the Board and President, The Bank of California National Association

HARRY E. FIGGIE, JR.
Chairman of the Board, "Automatic" Sprinkler Corporation of America

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Partner, Milbank, Tweed, Hadley & McCloy

*EUGENE M. GEDDES
Chairman of the Board, Clark, Dodge & Co. Incorporated

JOHN S. HUTCHINS
President, Passavant Memorial Hospital

CLARENCE H. LINDER
Consultant

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Chairman of the Board and President

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Vice President

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President, Garlock, Inc.

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President, Conrac Corporation

*JOHN F. RICH
President, New England Gas and Electric Association

*HARPER SIBLEY, JR.
President, Sibley Corporation

*LOUIS YAEGER
Investments

*Member of the Executive Committee.

corporate officers

R. W. McFALL, Chairman of the Board and President

†L. L. ANDREWS, Vice President—Finance

C. O. JOHNSTON, Vice President and Comptroller

J. W. HARRINGTON, Vice President—Revenue Requirements

H. J. YOUNG, Treasurer

E. D. HILBURN, Executive Vice President

W. E. GIRARDIN, Vice President—Field Support

R. H. McCONNELL, Vice President—National System Operation

†G. E. MULLINIKS, Vice President—Public Office Operation

E. C. CHAMBERLIN, Vice President—Service Quality

H. E. SALTER, Vice President—Material Management

G. A. HOYT, Executive Vice President

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†R. D. SAYLOR, Vice President—Marketing

Z. V. ZAKARIAN, Vice President—Marketing

P. J. SCHENK, Vice President—Government Communications Systems

R. L. CALLAGHAN, Vice President—Government Relations

F. P. DOYLE, Vice President—Public and Employee Relations

J. M. EVANS, Vice President and General Counsel

WM. G. H. ACHESON, Secretary

†T. F. McMAINS, Vice President—Business Relations

D. HARMON, Vice President—Special Assistant for TWX

†E. F. SANGER, Vice President and Special Assistant to the Chairman

†Scheduled for retirement within a year, with responsibilities to be reassigned to other corporate officers listed.

securities

	Stock Exchange Listings	Transfer Agent	Registrar
COMMON SHARES	New York Midwest Pacific Coast Philadelphia-Baltimore-Washington	Manufacturers Hanover Trust Company	The Chase Manhattan Bank N.A.
5.20% CUMULATIVE PREFERRED SHARES	Not listed	Treasurer, Western Union	
4.60% CONVERTIBLE CUMULATIVE PREFERRED SHARES	New York	Manufacturers Hanover Trust Company	The Chase Manhattan Bank N.A.
6% CUMULATIVE PREFERRED SHARES	New York	Manufacturers Hanover Trust Company	The Chase Manhattan Bank N.A.
4.90% CONVERTIBLE CUMULATIVE SECOND PREFERRED SHARES	New York	Manufacturers Hanover Trust Company	The Chase Manhattan Bank N.A.
		Trustee	
$4\frac{5}{8}$% DEBENTURES DUE 1980	Not listed	Morgan Guaranty Trust Company of New York	Marine Midland Grace Trust Company of New York
$5\frac{1}{4}$% DEBENTURES DUE 1987	New York	The Chase Manhattan Bank N.A.	The Bank of New York
$6\frac{1}{2}$% DEBENTURES DUE 1989	New York	Manufacturers Hanover Trust Company	Manufacturers Hanover Trust Company
5% DEBENTURES DUE 1992	New York	Chemical Bank New York Trust Company	The Bank of New York

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