MONEYGRAM INTERNATIONAL INC
Form 10-Q
July 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(mark one)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the Quarterly Period Ended June 30, 2013
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to .
Commission File Number: 001-31950

MONEYGRAM INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-1690064 (I.R.S. Employer Identification No.)
2828 N. Harwood St., 15th Floor Dallas, Texas	75201
(Address of principal executive offices)	(Zip Code)

(214) 999-7552
(Registrant’s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.
As of July 25, 2013, 57,945,141 shares of common stock, $0.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
UNAUDITED

(Amounts in millions, except share data)	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$—	$—
Cash and cash equivalents (substantially restricted)	2,202.4	2,683.2
Receivables, net (substantially restricted)	1,178.5	1,206.5
Interest-bearing investments (substantially restricted)	902.3	450.1
Available-for-sale investments (substantially restricted)	50.5	63.5
Property and equipment, net	126.4	127.9
Goodwill	428.7	428.7
Other assets	187.0	190.7
Total assets	$5,075.8	$5,150.6
LIABILITIES		
Payment service obligations	$4,076.4	$4,175.4
Debt	847.1	809.9
Pension and other postretirement benefits	123.8	126.8
Accounts payable and other liabilities	176.7	199.9
Total liabilities	5,224.0	5,312.0
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS’ DEFICIT		
Participating Convertible Preferred Stock - Series D, $0.01 par value, 200,000 shares authorized, 109,239 issued at June 30, 2013 and December 31, 2012, respectively	281.9	281.9
Common Stock, $0.01 par value, 162,500,000 shares authorized, 62,263,963 shares issued at June 30, 2013 and December 31, 2012, respectively	0.6	0.6
Additional paid-in capital	1,005.4	1,001.0
Retained loss	(1,260.2)	(1,265.9)
Accumulated other comprehensive loss	(51.5)	(52.3)
Treasury stock: 4,331,938 and 4,407,038 shares at June 30, 2013 and December 31, 2012, respectively	(124.4)	(126.7)
Total stockholders’ deficit	(148.2)	(161.4)
Total liabilities and stockholders’ deficit	$5,075.8	$5,150.6

See Notes to Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions, except per share data)	2013	2012	2013	2012
REVENUE				
Fee and other revenue	$361.6	$326.7	$699.3	$641.6
Investment revenue	3.5	3.4	6.3	6.6
Total revenue	365.1	330.1	705.6	648.2
OPERATING EXPENSES				
Fee and other commissions expense	169.6	146.7	323.9	288.6
Investment commissions expense	0.1	0.1	0.2	0.2
Total commissions expense	169.7	146.8	324.1	288.8
Compensation and benefits	66.4	59.0	131.9	118.1
Transaction and operations support	62.4	98.0	113.9	156.2
Occupancy, equipment and supplies	11.9	12.2	24.9	24.4
Depreciation and amortization	12.2	11.0	24.0	21.7
Total operating expenses	322.6	327.0	618.8	609.2
OPERATING INCOME	42.5	3.1	86.8	39.0
OTHER EXPENSE				
Interest expense	9.9	17.7	27.3	35.5
Debt extinguishment costs	—	—	45.3	—
Other	—	0.3	—	0.3
Total other expense	9.9	18.0	72.6	35.8
Income (loss) before income taxes	32.6	(14.9)	14.2	3.2
Income tax expense	13.5	10.2	7.7	18.0
NET INCOME (LOSS)	$19.1	$(25.1)	$6.5	$(14.8)
INCOME (LOSS) PER COMMON SHARE				
Basic	$0.27	$(0.35)	$0.09	$(0.21)
Diluted	$0.27	$(0.35)	$0.09	$(0.21)
Weighted-average outstanding common shares and equivalents used in computing income (loss) per share				
Basic	71.6	71.5	71.6	71.5
Diluted	71.8	71.5	71.8	71.5

See Notes to Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
UNAUDITED

(Amounts in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
NET INCOME (LOSS)	$19.1	$(25.1)	$6.5	$(14.8)
OTHER COMPREHENSIVE INCOME (LOSS)				
Net unrealized (losses) gains on available-for-sale securities:				
Net holding (losses) gains arising during the period, net of tax (benefit) expense of ($0.3) and $0.1 for the three months ended June 30, 2013 and 2012, respectively, and ($0.4) and $0.6 for the six months ended June 30, 2013 and 2012, respectively	(0.3)	0.4	(0.3)	1.4
Pension and postretirement benefit plans:				
Amortization of prior service credit for pension and postretirement benefit plans recorded to net income (loss), net of tax expense of $0 for the three months ended June 30, 2013 and 2012 and $0.1 for the six months ended June 30, 2013 and 2012	(0.1)	(0.1)	(0.2)	(0.2)
Amortization of net actuarial loss for pension and postretirement benefit plans recorded to net income (loss), net of tax benefit of $0.9 and $0.6 for the three months ended June 30, 2013 and 2012, respectively, and $1.6 and $1.2 for the six months ended June 30, 2013 and 2012, respectively	1.3	0.9	2.6	1.9
Unrealized foreign currency translation gain (losses), net of tax expense (benefit) of $0.2 and ($1.2) for the three months ended June 30, 2013 and 2012, respectively, and ($0.8) and $0.1 for the six months ended June 30, 2013 and 2012, respectively	0.3	(1.8)	(1.3)	0.2
Other comprehensive income (loss)	1.2	(0.6)	0.8	3.3
COMPREHENSIVE INCOME (LOSS)	$20.3	$(25.7)	$7.3	$(11.5)

See Notes to Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$19.1	$(25.1)	$6.5	$(14.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	12.2	11.0	24.0	21.7
Signing bonus amortization	10.0	8.0	18.8	16.4
Asset impairments and net losses upon disposal	(0.1)	0.2	(0.1)	0.5
Loss on debt extinguishment	—	—	45.3	—
Amortization of debt discount and deferred financing costs	0.7	1.4	2.1	2.8
Provision for uncollectible receivables	2.6	1.5	5.0	3.0
Non-cash compensation and pension expense	5.2	4.0	9.7	9.3
Changes in foreign currency translation adjustments	0.4	(1.8)	(1.2)	0.2
Signing bonus payments	(1.6)	(1.4)	(10.2)	(6.3)
Change in other assets	(19.6)	1.4	(13.6)	1.8
Change in accounts payable and other liabilities	23.5	19.8	(25.7)	15.4
Other non-cash items, net	0.6	39.2	0.6	37.6
Total adjustments	33.9	83.3	54.7	102.4
Change in cash and cash equivalents (substantially restricted)	227.8	(1.0)	480.8	23.9
Change in receivables (substantially restricted)	(10.7)	(57.9)	23.0	(49.8)
Change in payment service obligations	137.4	3.3	(99.0)	(49.5)
Net cash provided by operating activities	407.5	2.6	466.0	12.2
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from maturities of investments classified as available-for-sale (substantially restricted)	4.9	8.5	11.6	19.3
Purchases of interest-bearing investments (substantially restricted)	(500.0)	(112.7)	(764.7)	(324.5)
Proceeds from maturities of interest-bearing investments (substantially restricted)	100.0	113.5	311.1	323.6
Purchases of property and equipment	(11.2)	(11.7)	(26.4)	(30.3)
Proceeds from disposal of property and equipment	0.3	0.2	0.3	0.4
Net cash used in investing activities	(406.0)	(2.2)	(468.1)	(11.5)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of debt	—	—	850.0	—
Transaction costs for issuance and amendment of debt	—	—	(11.8)	—
Payments on debt	(2.1)	(0.4)	(815.2)	(0.7)
Prepayment penalty	—	—	(21.5)	—
Proceeds from exercise of stock options	0.6	—	0.6	—
Net cash (used in) provided by financing activities	(1.5)	(0.4)	2.1	(0.7)
NET CHANGE IN CASH AND CASH EQUIVALENTS	—	—	—	—
CASH AND CASH EQUIVALENTS—Beginning of period	—	—	—	—
CASH AND CASH EQUIVALENTS—End of period	$—	$—	$—	$—
Supplemental cash flow information:				
Cash payments for interest	$9.4	$15.9	$25.0	$32.4
Cash payments for income taxes	$0.1	$0.7	$0.2	$0.8

Accrued purchases of property and equipment	$0.2	$—	$(3.7)	$(7.0)

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
UNAUDITED

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2013	$281.9	$0.6	$1,001.0	$(1,265.9)	$(52.3)	$(126.7)	$(161.4)
Net income	—	—	—	6.5	—	—	6.5
Stock-based compensation activity	—	—	4.1	(0.8)	—	2.3	5.6
Capital contribution from investors	—	—	0.3	—	—	—	0.3
Net unrealized gain on available-for-sale securities, net of tax	—	—	—	—	(0.3)	—	(0.3)
Amortization of prior service credit for pension and postretirement benefits, net of tax	—	—	—	—	(0.2)	—	(0.2)
Amortization of net actuarial loss for pension and postretirement benefits, net of tax	—	—	—	—	2.6	—	2.6
Unrealized foreign currency translation adjustment, net of tax	—	—	—	—	(1.3)	—	(1.3)
June 30, 2013	$281.9	$0.6	$1,005.4	$(1,260.2)	$(51.5)	$(124.4)	$(148.2)

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2012	$281.9	$0.6	$989.2	$(1,216.5)	$(38.0)	$(127.3)	$(110.1)
Net loss	—	—	—	(14.8)	—	—	(14.8)
Stock-based compensation activity	—	—	4.5	—	—	0.6	5.1
Capital contribution from investors	—	—	0.4	—	—	—	0.4
Net unrealized gain on available-for-sale securities, net of tax	—	—	—	—	1.4	—	1.4
Amortization of prior service credit for pension and postretirement benefits, net of tax	—	—	—	—	(0.2)	—	(0.2)
Amortization of net actuarial loss for pension and	—	—	—	—	1.9	—	1.9

postretirement benefits, net of tax							
Unrealized foreign currency translation adjustment, net of tax	—	—	—	—	0.2	—	0.2
June 30, 2012	$ 281.9	$ 0.6	$ 994.1	$ (1,231.3)	$ (34.7)	$ (126.7)	$ (116.1)

See Notes to Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Basis of Presentation

The accompanying unaudited consolidated financial statements of MoneyGram International, Inc. ("MoneyGram" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for future periods. For further information, refer to the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Note 2 — Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities, ("ASU 2011-11") and in January 2013, a clarification ASU No. 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, ("ASU 2013-01") was issued. ASU 2011-11 provides for additional disclosures of both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. ASU 2013-01 clarifies that ASU 2011-11 should apply only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset. The Company adopted ASU 2011-11 and ASU 2013-01 on January 1, 2013, which resulted in additional disclosures on offsetting derivative contract assets and liabilities. See Note 6 — Derivative Financial Instruments for added disclosure.
In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, ("ASU 2013-02"). ASU 2013-02 requires presentation (either on the face of the statement where net income is presented or in the notes) of the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income-but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The Company adopted ASU 2013-02 on January 1, 2013, which resulted in additional disclosures on movements in "Other comprehensive income." See Note 10 — Stockholders' Deficit for added disclosure.

Note 3 — Assets in Excess of Payment Service Obligations

The following table shows the amount of assets in excess of payment service obligations at June 30, 2013 and December 31, 2012:

(Amounts in millions)	June 30, 2013	December 31, 2012
Cash and cash equivalents (substantially restricted)	$2,202.4	$2,683.2
Receivables, net (substantially restricted)	1,178.5	1,206.5
Interest-bearing investments (substantially restricted)	902.3	450.1
Available-for-sale investments (substantially restricted)	50.5	63.5
	4,333.7	4,403.3
Payment service obligations	4,076.4	4,175.4
Assets in excess of payment service obligations	$257.3	$227.9

The Company was in compliance with its contractual and financial regulatory requirements as of June 30, 2013 and December 31, 2012.

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Note 4 — Fair Value Measurement

The following tables show the Company's financial assets and liabilities measured at fair value by hierarchy level at June 30, 2013 and December 31, 2012:

	Fair Value at June 30, 2013			
(Amounts in millions)	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale investments (substantially restricted):				
United States government agencies	$—	$8.0	$—	$8.0
Residential mortgage-backed securities — agencies	—	24.9	—	24.9
Other asset-backed securities	—	—	17.6	17.6
Investment related to deferred compensation trust	8.9	—	—	8.9
Forward contracts	—	0.8	—	0.8
Total financial assets	$8.9	$33.7	$17.6	$60.2
Financial liabilities:				
Forward contracts	$—	$(0.1)	$—	$(0.1)

	Fair Value at December 31, 2012			
(Amounts in millions)	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale investments (substantially restricted):				
United States government agencies	$—	$8.9	$—	$8.9
Residential mortgage-backed securities — agencies	—	36.6	—	36.6
Other asset-backed securities	—	—	18.0	18.0
Investment related to deferred compensation trust	8.6	—	—	8.6
Forward contracts	—	0.6	—	0.6
Total financial assets	$8.6	$46.1	$18.0	$72.7

Forward contract liabilities measured at fair value were a nominal amount as of December 31, 2012.

For other asset–backed securities, investments in limited partnerships and trading investments, market quotes are generally not available. If available, the Company will utilize a fair value measurement from a pricing service. The pricing service utilizes a pricing model based on market observable data and indices, such as quotes for comparable securities, yield curves, default indices, interest rates and historical prepayment speeds. If a fair value measurement is not available from the pricing service, the Company will utilize a broker quote, if available. Because the inputs and assumptions that brokers use to develop prices are unknown, most valuations that are based on brokers' quotes are classified as Level 3. If no broker quote is available, or if such quote cannot be corroborated by market data, the Company will perform internal valuations utilizing externally developed cash flow models. These pricing models are based on market observable spreads and, when available, observable market indices. The pricing models use inputs such as the rate of future prepayments and expected default rates on the principal, which are derived by the Company based on the characteristics of the underlying structure and historical prepayment speeds experienced at the interest rate levels projected for the underlying collateral. The pricing models for certain asset–backed securities also include significant non–observable inputs such as internally assessed credit ratings for non–rated securities, combined with externally provided credit spreads. Observability of market inputs to the valuation models used for pricing certain of the Company's investments deteriorated with the disruption to the credit markets as overall liquidity and trading activity in these sectors has been substantially reduced. Accordingly, securities valued using a pricing model have consistently been classified as Level 3 financial instruments.

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The following is a summary of the unobservable inputs used in other asset-backed securities classified as Level 3 at June 30, 2013 and December 31, 2012:

			June 30, 2013		December 31, 2012	
(Amounts in millions, except net average price)	Unobservable Input	Pricing Source	Market Value	Net Average Price	Market Value	Net Average Price
Alt-A	Price	Third party pricing service	$0.1	$13.50	$0.1	$12.50
Home Equity	Price	Third party pricing service	0.2	51.53	0.2	47.30
Indirect Exposure - High Grade	Discount margin	Manual	3.8	3.63	3.9	3.46
Indirect Exposure - Mezzanine	Price	Broker	8.4	3.96	7.9	3.71
Other	Discount margin	Manual	5.1	27.48	5.9	31.69
Total			$17.6	$11.80	$18.0	$4.39

The table below provides a roll-forward of the other asset-backed securities, the only financial assets classified as Level 3, which are measured at fair value on a recurring basis, for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Beginning balance	$17.7	$25.4	$18.0	$24.2
Principal paydowns	—	(0.1)	(0.1)	(0.1)
Unrealized gains	0.5	1.7	1.3	3.7
Unrealized losses	(0.6)	(0.3)	(1.6)	(1.1)
Ending balance	$17.6	$26.7	$17.6	$26.7

There were no other-than-temporary impairments for the three and six months ended June 30, 2013 and 2012.

Assets and liabilities that are disclosed at fair value — Debt and interest-bearing investments (substantially restricted) are carried at amortized cost; however, the Company estimates the fair value of debt for disclosure purposes. The fair value of debt is estimated using market quotations, where available, credit ratings, observable market indices and other market data (Level 2). At June 30, 2013 and December 31, 2012, the fair value and carrying value of the debt are:

	Fair Value		Carrying Value	
(Amounts in millions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Senior secured credit facility and incremental term loan	$848.9	$487.1	$847.1	$484.9
Second lien notes	—	337.6	—	325.0

The carrying amounts for the Company's cash and cash equivalents (substantially restricted) and the interest-bearing investments (substantially restricted) approximate fair value due to their short maturities at June 30, 2013 and December 31, 2012.

Assets and liabilities measured at fair value on a non-recurring basis — Assets and liabilities measured at fair value on a non-recurring basis relate primarily to the Company's tangible fixed assets, goodwill and other intangible assets, which are re-measured only in the event of an impairment. No impairments of fixed assets, goodwill and other intangible assets were recorded during the three and six months ended June 30, 2013 and 2012.

Fair value re-measurements are normally based on significant unobservable inputs (Level 3). Tangible and intangible fixed asset fair values are normally derived using a discounted cash flow model based on expected future cash flows discounted using a weighted-average cost of capital rate. If it is determined an impairment loss has occurred, the carrying value of the asset is reduced to fair value with a corresponding charge to the Consolidated Statements of

Operations.

The Company also records the investments in its defined benefit pension plan (the “Pension Plan”) trust at fair value. The majority of the Pension Plan's investments are interest-bearing cash or common collective trusts issued and held by the Pension Plan's trustee. The fair values of the Pension Plan's investments are determined by the trustee based on the current market values of the

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underlying assets. In instances where market prices are not available, market values are determined by using bid quotations obtained from major market makers or security exchanges or bid quotations for identical or similar obligations. See Note 10 - Pension and Other Benefits in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for further description of investments held by the Pension Plan.

Note 5 — Investment Portfolio

The following table shows the components of the investment portfolio at June 30, 2013 and December 31, 2012:

(Amounts in millions)	June 30, 2013	December 31, 2012
Cash	$2,178.6	$2,112.1
Money-market securities	23.8	571.1
Cash and cash equivalents (substantially restricted)	2,202.4	2,683.2
Interest-bearing investments (substantially restricted)	902.3	450.1
Available-for-sale investments (substantially restricted)	50.5	63.5
Total investment portfolio	$3,155.2	$3,196.8

Cash and Cash Equivalents (substantially restricted) — Cash and cash equivalents consist of interest-bearing deposit accounts, non-interest bearing transaction accounts and money-market securities. The Company's money-market securities are invested in four funds, all of which are AAA rated and consist of U.S. Treasury bills, notes or other obligations issued or guaranteed by the U.S. government and its agencies, as well as repurchase agreements secured by such instruments.

Interest-bearing Investments (substantially restricted) — Investment-bearing investments consist of time deposits and certificates of deposit with original maturities of up to fifteen months, and are issued from financial institutions rated A- or better as of June 30, 2013.

Available-for-sale Investments (substantially restricted) — Available-for-sale investments consist of mortgage-backed securities, other asset-backed securities and agency debenture securities. The amortized cost and fair value of available-for-sale investments were as follows at June 30, 2013:

(Amounts in millions, except net average price)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Net[1] Average Price
Residential mortgage-backed securities — agencies	$22.8	$2.1	$—	$24.9	$110.15
Other asset-backed securities	6.7	10.9	—	17.6	4.44
United States government agencies	7.5	0.5	—	8.0	99.63
Total	$37.0	$13.5	$—	$50.5	$11.80

[1] Net average price is per $100.00

After other-than-temporary impairment charges, the amortized cost and fair value of available-for-sale investments were as follows at December 31, 2012:

(Amounts in millions, except net average price)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Net[1] Average Price
Residential mortgage-backed securities — agencies	$33.5	$3.1	$—	$36.6	$110.02
Other asset-backed securities	7.6	10.4	—	18.0	4.39
United States government agencies	8.2	0.7	—	8.9	99.39
Total	$49.3	$14.2	$—	$63.5	$14.06

[1] Net average price is per $100.00

At June 30, 2013 and December 31, 2012, approximately 65 percent and 71 percent, respectively, of the

available-for-sale portfolio are invested in debentures of U.S. government agencies or securities collateralized by U.S. government agency debentures. These securities have the implicit backing of the U.S. government and the Company expects to receive full par value upon maturity or pay-down, as well as all interest payments. Included in other asset-backed securities are collateralized debt obligations backed primarily by high-grade debt, mezzanine equity tranches of collateralized debt obligations and home equity loans, along with

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private equity investments, as summarized in Note 4 — Fair Value Measurement. The "other asset-backed securities" continue to have market exposure and this risk is factored into the fair value estimates of the Company, with the average price of an asset-backed security at $0.04 per dollar of par at June 30, 2013.

Gains and Losses and Other-than-temporary Impairments — At June 30, 2013 and December 31, 2012, net unrealized gains of $16.0 million and $16.3 million, respectively, are included in the Consolidated Balance Sheets in "Accumulated other comprehensive loss." The Company had no net gains or losses reclassified from "Accumulated other comprehensive loss" to "Net securities gains" in connection with other-than-temporary impairments or realized gains and losses recognized for the three and six months ended June 30, 2013 and 2012.

Investment Ratings — In rating the securities in its investment portfolio, the Company uses ratings from Moody's Investor Service ("Moody's"), Standard & Poors ("S&P") and Fitch Ratings ("Fitch"). If the rating agencies have split ratings, the Company uses the highest two out of three ratings across the rating agencies for disclosure purposes. If none of the rating agencies have the same rating, the Company uses the lowest rating across the agencies for disclosure purposes. Securities issued or backed by U.S. government agencies are included in the AAA rating category. Investment grade is defined as a security having a Moody's equivalent rating of Aaa, Aa, A or Baa or an S&P or Fitch equivalent rating of AAA, AA, A or BBB. The Company's investments at June 30, 2013 and December 31, 2012 consisted of the following ratings:

	June 30, 2013			December 31, 2012		
(Dollars in millions)	Number of Securities	Fair Value	Percent of Investments	Number of Securities	Fair Value	Percent of Investments
Investment grade	16	$32.6	65 %	20	$45.3	71 %
Below investment grade	53	17.9	35 %	54	18.2	29 %
Total	69	$50.5	100 %	74	$63.5	100 %

Had the Company used the lowest rating from the rating agencies in the information presented above, there would be no change and a nominal change to investment grade as of June 30, 2013 and December 31, 2012, respectively.

Contractual Maturities — The amortized cost and fair value of available-for-sale securities at June 30, 2013 and December 31, 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations, sometimes without call or prepayment penalties. Maturities of mortgage-backed and other asset-backed securities depend on the repayment characteristics and experience of the underlying obligations.

	June 30, 2013		December 31, 2012	
(Amounts in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
After one year through five years	$7.5	$8.0	$8.2	$8.9
Mortgage-backed and other asset-backed securities	29.5	42.5	41.1	54.6
Total	$37.0	$50.5	$49.3	$63.5

Fair Value Determination — The Company uses various sources of pricing for its fair value estimates of its available-for-sale portfolio. The percentage of the portfolio for which the various pricing sources were used is as follows at June 30, 2013 and December 31, 2012: 50 percent and 60 percent, respectively, used a third party pricing service; 16 percent and 12 percent, respectively, used broker pricing; and 34 percent and 28 percent, respectively, used internal pricing.

Assessment of Unrealized Losses — The Company had no unrealized losses in its available-for-sale portfolio at June 30, 2013 and December 31, 2012.

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Note 6 — Derivative Financial Instruments

The Company uses forward contracts to manage its foreign currency needs and foreign currency exchange risk arising from its assets and liabilities denominated in foreign currencies. While these contracts may mitigate certain foreign currency risks, they are not designated as hedges for accounting purposes. The "Transaction and operations support" line in the Consolidated Statements of Operations includes the following losses (gains) related to assets and liabilities denominated in foreign currencies, for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Net realized foreign currency (gains) losses	$(0.4)	$5.6	$3.9	$1.1
Net losses (gains) from the related forward contracts	0.8	(5.3)	(3.7)	(1.3)
Net losses (gains) from foreign currency transactions and related forward contracts	$0.4	$0.3	$0.2	$(0.2)

As of June 30, 2013 and December 31, 2012, the Company had $147.1 million and $173.0 million, respectively, of outstanding notional amounts relating to its forward contracts. At June 30, 2013 and December 31, 2012, the Company reflects the following fair values of derivative forward contract instruments in its Consolidated Balance Sheets:

		Gross Amount of Recognized Assets		Gross Amount of Offset in the Consolidated Balance Sheets		Net Amount of Assets Presented in the Consolidated Balance Sheets	
(Amounts in millions)	Balance Sheet Location	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Forward contracts	Other assets	$0.8	$0.7	$—	$(0.1)	$0.8	$0.6

		Gross Amount of Recognized Liabilities		Gross Amount of Offset in the Consolidated Balance Sheets		Net Amount of Liabilities Presented in the Consolidated Balance Sheets	
(Amounts in millions)	Balance Sheet Location	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Forward contracts	Other assets	$(0.1)	$(0.1)	$—	$0.1	$(0.1)	$—

The Company's forward contracts are primarily executed with counterparties governed by an International Swaps and Derivatives Association agreement that generally include standard netting arrangements. Hence, asset and liability positions from forward contracts and all other foreign exchange transactions with the same counterparty are net settled upon maturity.

Note 7 — Property and Equipment

Property and equipment consists of the following at June 30, 2013 and December 31, 2012:

(Amounts in millions)	June 30, 2013	December 31, 2012
Computer hardware and software	$216.8	$204.5
Signage	100.7	94.5
Agent equipment	72.7	72.1
Office furniture and equipment	36.7	37.5
Leasehold improvements	27.8	26.4

Total property and equipment	454.7	435.0
Accumulated depreciation	(328.3)	(307.1)
Total property and equipment, net	$126.4	$127.9

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Depreciation expense for the three and six months ended June 30, 2013 and 2012 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Computer hardware and software	$5.6	$5.5	$11.1	$10.6
Signage	3.7	3.0	7.2	5.7
Agent equipment	1.2	1.0	2.3	2.1
Office furniture and equipment	1.0	0.9	2.0	1.8
Leasehold improvements	0.7	0.6	1.3	1.3
Total depreciation expense	$12.2	$11.0	$23.9	$21.5

At June 30, 2013 and December 31, 2012, there were $3.4 million and $7.0 million, respectively, of property and equipment that had been received by the Company and included in “Accounts payable and other liabilities” in the Consolidated Balance Sheets.

During the three and six months ended June 30, 2013, the Company recognized a nominal disposal loss on furniture and equipment related to the closing of an office location. During the three and six months ended June 30, 2012, the Company recognized a disposal loss of $0.4 million and $0.7 million, respectively, on furniture and equipment related to the closing of an office location. The losses were recorded in the “Occupancy, equipment and supplies” line in the Consolidated Statements of Operations.

Note 8 — Debt

The following is a summary of the Company’s outstanding debt at June 30, 2013 and activity since December 31, 2012:

	2011 Credit Agreement		2013 Credit Agreement		
(Amounts in millions)	Senior secured credit facility due 2017	Senior secured incremental term loan due 2017	Senior secured credit facility due 2020	Second Lien Notes due 2018	Total Debt
Balance at December 31, 2012	$339.4	$145.5	$—	$325.0	$809.9
Borrowings, gross	—	—	850.0	—	850.0
Discount on borrowings [1]	—	0.8	(0.8)	—	—
Accretion of discount	—	0.1	—	—	0.1
Write-off of debt discount upon prepayments	0.6	1.7	—	—	2.3
Payments	(340.0)	(148.1)	(2.1)	(325.0)	(815.2)
Balance at June 30, 2013	$—	$—	$847.1	$—	$847.1
Weighted average interest rate	4.25%	4.25%	4.25%	13.25%	

[1] As a result of the 2013 Credit Agreement, the entire debt discount was transferred from the 2011 Credit Agreement to the 2013 Credit Agreement

2013 Credit Agreement — On March 28, 2013, the Company, as borrower, entered into an Amended and Restated Credit Agreement (the "2013 Credit Agreement") with Bank of America, N.A. ("BOA"), as administrative agent, the financial institutions party thereto as lenders and the other agents party thereto. The 2013 Credit Agreement provides for (i) a senior secured five-year revolving credit facility up to an aggregate principal amount of $125.0 million (the "Revolving Credit Facility") and (ii) a senior secured seven-year term loan facility of $850.0 million (the "Term Credit Facility"). The proceeds of the Term Credit Facility were used to repay in full all outstanding indebtedness under the 2011 Credit Agreement (defined below), to purchase all of the outstanding 2018 Notes (defined below) and

also have been and will be used to pay certain costs, fees and expenses relating to the 2013 Credit Agreement and the purchase of the 2018 Notes and for general corporate purposes. The Revolving Credit Facility includes a sub-facility that permits the Company to request the issuance of letters of credit up to an aggregate amount of $50.0 million, with borrowings available for general corporate purposes.

The Credit Agreement is secured by substantially all of the non-financial assets of the Company and its material domestic subsidiaries that guarantee the payment and performance of the Company's obligations under the 2013 Credit Agreement.

The Company may elect an interest rate under the 2013 Credit Agreement at each reset period based on the BOA prime bank rate or the Eurodollar rate. The interest rate election may be made individually for the Term Credit Facility and each draw under the Revolving Credit Facility. The interest rate will be either the "alternate base rate" (calculated in part based on the BOA prime rate)

plus either 200 or 225 basis points (depending on the Company's secured leverage ratio or total leverage ratio, as applicable, at such time) or the Eurodollar rate plus either 300 or 325 basis points (depending on the Company's secured leverage ratio or total leverage ratio, as applicable, at such time). In connection with the initial funding under the 2013 Credit Agreement, the Company elected the Eurodollar rate as its primary interest basis. Under the terms of the 2013 Credit Agreement, the minimum interest rate applicable to Eurodollar borrowings under the Term Credit Facility is 1.00 percent plus the applicable margins previously referred to in this paragraph.

Fees on the daily unused availability under the Revolving Credit Facility are 50 basis points. As of June 30, 2013, the Company had $0.4 million of outstanding letters of credit and no borrowings under the Revolving Credit Facility, leaving $124.6 million of availability thereunder.

2011 Credit Agreement and 2018 Notes — On May 18, 2011, Moneygram Payment Systems Worldwide, Inc. (“Worldwide”) entered into a $540.0 million Credit Agreement with BOA, as Administrative Agent, and the lenders party thereto (the “2011 Credit Agreement”). The 2011 Credit Agreement was comprised of a $390.0 million six-and-one-half-year term loan maturing the earlier of November 2017 and 180 days prior to the scheduled maturity of Worldwide's 13.25% senior secured second lien notes due 2018 (the “2018 Notes”), and a $150.0 million five-year revolving credit facility maturing May 2016. The term loan was issued to Worldwide at 99.75% of par. On November 21, 2011, Worldwide entered into an amendment to the 2011 Credit Agreement and obtained an incremental term loan in an aggregate principal amount of $150.0 million. The incremental term loan was issued to Worldwide at 98.0% of par.

The 2011 Credit Agreement permitted Worldwide to elect an interest rate at each reset period based on the BOA prime bank rate or the Eurodollar rate. Worldwide elected the Eurodollar rate as its primary interest basis, and elected for a minimal amount of the term debt to accrue interest at the interest rate based on the BOA prime bank rate. The 2011 Credit Agreement was amended, restated and replaced in its entirety with the 2013 Credit Agreement.

2013 Note Repurchase — In connection with the Company's entry into the 2013 Credit Agreement, the Company purchased all $325.0 million of the outstanding 2018 Notes for a purchase price equal to 106.625 percent of the principal amount purchased, plus accrued and unpaid interest, which amount was funded with a portion of the net proceeds from the Credit Agreement described above. Following the closing of the transaction, the 2018 Notes were canceled, and no 2018 Notes remain outstanding.

The entry into the 2013 Credit Agreement and the purchase of the 2018 Notes was accounted for principally as a debt extinguishment with a partial modification of debt, in accordance with ASC 470 — Debt. Under debt extinguishment accounting, the Company expensed the pro-rata portion of deferred financing costs and debt discount costs related to the extinguished debt balance. For the debt balance classified as a modification, the Company is required to amortize the pro-rata portion of the deferred financing costs and unamortized debt discount from the 2011 Credit Agreement over the terms of the 2013 Credit Agreement. Additionally, the Company expensed the pro-rata portion of the financing costs related to the 2013 Credit Agreement as third party costs in connection with the modification of debt.

Debt Discount — The decrease in the debt discount balance for the six months ended June 30, 2013 includes a pro-rata write-off of $2.3 million as a result of the term debt extinguishment. Debt discount amortization is recorded in “Interest expense” and the write-off of the deferred financing is recorded in "Debt extinguishment costs" in the Consolidated Statements of Operations. The following is a reconciliation of debt discount amortization for the three and six months ended ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Amortization of debt discount	$0.1	$0.1	$0.2	$0.2
Write-off of debt discount upon prepayments	—	—	2.3	—
Total amortization of discount	$0.1	$0.1	$2.5	$0.2

Debt Covenants and Other Restrictions — Borrowings under the 2013 Credit Agreement are subject to various limitations that restrict the Company’s ability to: incur additional indebtedness; create or incur additional liens; effect mergers and consolidations; make certain acquisitions or investments; sell assets or subsidiary stock; pay dividends and other restricted payments; and effect loans, advances and certain other transactions with affiliates. In addition, the

2013 Revolving Credit Facility has covenants that place limitations on the use of proceeds from borrowings under the facility.

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The 2013 Credit Agreement contains various financial and non-financial covenants. A violation of these covenants could negatively impact our liquidity by restricting our ability to borrow under the revolving credit facility and/or causing acceleration of amounts due under the credit facilities. The financial covenants in the 2013 Credit Agreement measure leverage, interest coverage and liquidity. Leverage is measured through a senior secured debt ratio calculated as consolidated indebtedness to consolidated EBITDA, adjusted for certain items such as net securities gains, stock-based compensation expense, certain legal settlements and asset impairments, among other items, also referred to as adjusted EBITDA. This measure is similar, but not identical, to the measure discussed under EBITDA and Adjusted EBITDA. Interest coverage is calculated as adjusted EBITDA to net cash interest expense.

The Company is required to maintain Asset Coverage greater than its payment service obligation. Assets used in the determination of the Asset Coverage covenant are cash and cash equivalents, cash and cash equivalents (substantially restricted), receivables, net (substantially restricted), interest-bearing investments (substantially restricted) and available-for-sale investments (substantially restricted). See Note 3 — Assets in Excess of Payment Service Obligation for details of the Asset Coverage calculation as of June 30, 2013.

The 2013 Credit Agreement also has quarterly financial covenants to maintain the following interest coverage and total secured leverage ratios:

	Interest Coverage Minimum Ratio	Total Secured Leverage Not to Exceed
Present through September 30, 2013	2.15:1	4.625:1
December 31, 2013 through September 30, 2014	2.15:1	4.375:1
December 31, 2014 through September 30, 2015	2.25:1	4.000:1
December 31, 2015 through September 30, 2016	2.25:1	3.750:1
December 31, 2016 through maturity	2.25:1	3.500:1

We continuously monitor our compliance with our debt covenants. At June 30, 2013, the Company was in compliance with its financial covenants. At June 30, 2013, our Interest Coverage ratio was 5.08 and our Total Secured Leverage ratio was 2.885.

Deferred Financing Costs — The Company capitalizes financing costs in "Other assets" in the Consolidated Balance Sheet and amortizes them over the term of the related debt using the effective interest method. Expense of the deferred financing costs during the six months ended June 30, 2013 included the write-off of a pro-rata portion of deferred financing costs in connection with the extinguishment of the 2011 Credit Agreement, consisting of a senior secured credit facility, a senior secured incremental term loan and a senior secured revolving credit facility, as well as payment on the 2018 Notes. Amortization is recorded in “Interest expense” and the write-off of the deferred financing is recorded in "Debt extinguishment costs" in the Consolidated Statements of Operations. The following is a summary of the deferred financing costs at June 30, 2013:

(Amounts in millions)	
Balance at December 31, 2012	$24.9
Capitalized deferred financing costs	11.3
Amortization of deferred financing costs	(1.8)
Write-off of deferred financing costs	(20.0)
Balance at June 30, 2013	$14.4

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Debt Extinguishment — The Company recognized debt extinguishment costs in connection with the 2013 Credit Agreement, which included a prepayment penalty for the Company's purchase of the 2018 Notes and debt modifications costs for the 2013 Credit Agreement. The following is a summary of the debt extinguishment costs at June 30:

	Six Months Ended June 30,	
(Amounts in millions)	2013	2012
Prepayment penalty	$21.5	$—
Write-off of unamortized deferred financing costs	20.0	—
Write-off of debt discount upon prepayments	2.3	—
Debt modification costs	1.5	—
Debt extinguishment costs	$45.3	$—

Interest Paid in Cash — The Company paid $9.4 million and $25.0 million of interest for the three and six months ended June 30, 2013, respectively, and $15.9 million and $32.4 million of interest for the three and six months ended June 30, 2012, respectively.

Maturities — At June 30, 2013, debt totaling $125.0 million will mature in 2018 and $790.5 million will mature in 2020, while debt principal totaling $57.4 million will be paid quarterly in increments of $2.1 million through 2020.

Note 9 — Pensions and Other Benefits

The following table shows net periodic benefit expense for the Company's Pension Plan and combined supplemental executive retirement plans ("SERPs"), for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Interest cost	$2.4	$2.7	$4.8	$5.3
Expected return on plan assets	(1.9)	(1.9)	(3.7)	(3.9)
Recognized net actuarial loss	2.0	1.4	3.9	2.9
Net periodic benefit expense	$2.5	$2.2	$5.0	$4.3

We have a noncontributory Pension Plan that is frozen to both future benefit accruals and new participants. Benefits paid through the Pension Plan were $2.4 million and $4.7 million for the three and six months ended June 30, 2013, respectively, and $2.3 million and $4.7 million for the three and six months ended June 30, 2012, respectively. The Company made contributions to the Pension Plan of $2.0 million for the three and six months ended June 30, 2013 and $2.0 million and $3.4 million during the three and six months ended June 30, 2012, respectively. Benefits paid through, and contributions made to, the combined SERPs was $0.9 million and $2.1 million for the three and six months ended June 30, 2013, respectively, and $0.8 million and $1.6 million for the three and six months ended June 30, 2012, respectively.

The following table is a summary of the net actuarial loss and prior service credits for the Pension Plan and combined SERPs that the Company amortized from "Accumulated other comprehensive loss" into "Net periodic benefit expense," for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Net actuarial loss	$2.1	$1.3	$4.0	$2.8
Tax benefit on net actuarial loss	(0.8)	(0.5)	(1.5)	(1.1)
Net amortization from accumulated other comprehensive loss	$1.3	$0.8	$2.5	$1.7

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Net periodic benefit expense for the Company's postretirement benefit plans includes the following components, for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Amortization of prior service credit	$(0.1)	$(0.1)	$(0.3)	$(0.3)
Recognized net actuarial loss	0.1	0.1	0.2	0.2
Net periodic benefit expense	$—	$—	$(0.1)	$(0.1)

Benefits paid through, and contributions made to, the postretirement benefit plans were nominal for the three and six months ended June 30, 2013 and 2012.

The following table is a summary of the net actuarial loss and prior service credit for the postretirement benefit plans that the Company amortized from "Accumulated other comprehensive loss" into "Net periodic benefit expense," for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Net actuarial loss	$0.1	$0.1	$0.2	$0.2
Tax benefit on net actuarial loss	(0.1)	(0.1)	(0.1)	(0.1)
Prior service credits	(0.1)	(0.1)	(0.3)	(0.3)
Tax expense on prior service credits	—	—	0.1	0.1
Net amortization from accumulated other comprehensive loss	$(0.1)	$(0.1)	$(0.1)	$(0.1)

Contribution expense for the 401(k) defined contribution plan was $1.1 million and $2.0 million for the three and six months ended June 30, 2013, respectively, compared to $1.0 million and $1.8 million for the three and six months ended June 30, 2012, respectively.

International Benefit Plans — The Company's international subsidiaries have certain defined contribution benefit plans. Contributions and costs related to international plans were $0.4 million and $0.9 million for the three and six months ended June 30, 2013, respectively, and $0.3 million and $0.7 million for the three and six months ended June 30, 2012, respectively.

Deferred Compensation Plans — The deferred compensation plans are unfunded and unsecured, and the Company is not required to physically segregate any assets in connection with the deferred accounts. The Company has rabbi trusts associated with each deferred compensation plan, which are funded through voluntary contributions by the Company. At both June 30, 2013 and December 31, 2012, the Company had a liability related to the deferred compensation plans of $2.5 million recorded in the "Accounts payable and other liabilities" line in the Consolidated Balance Sheets. The rabbi trusts had a market value of $8.9 million and $8.6 million at June 30, 2013 and December 31, 2012, respectively, recorded in "Other assets" in the Consolidated Balance Sheets. In the six months ended June 30, 2013, the Company made nominal payments relating to the deferred compensation plans.

Note 10 — Stockholders' Deficit

The following table is a summary of the Company's authorized, issued and outstanding stock for the six months ended June 30, 2013:

	D Stock			Common Stock			Treasury
(Shares in thousands)	Authorized	Issued	Outstanding	Authorized	Issued	Outstanding	Stock
June 30, 2013	200	109	109	162,500	62,264	57,932	(4,332)

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Common Stock — The holders of the Company's common stock are entitled to one vote per share on all matters to be voted upon by its stockholders. The holders of common stock have no preemptive, conversion or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. The determination to pay dividends on common stock will be at the discretion of the Board of Directors and will depend on applicable laws and the Company's financial condition, results of operations, cash requirements, prospects and such other factors as the Board of Directors may deem relevant. No dividends were paid during the three and six months ended June 30, 2013. The Company's ability to declare or pay dividends or distributions to the holders of the Company's common stock is restricted under the Company's 2013 Credit Agreement.

Participation Agreement between the Investors and Wal-Mart Stores, Inc. — Affiliates of Thomas H. Lee Partners, L.P. ("THL") and affiliates of Goldman, Sachs & Co. ("Goldman Sachs" and collectively with THL, the "Investors") have a Participation Agreement with Wal-Mart Stores, Inc. ("Walmart"), under which the Investors are obligated to pay Walmart certain percentages of any accumulated cash payments received by the Investors in excess of the Investors' original investment in the Company. While the Company is not a party to, and has no obligations to Walmart or additional obligations to the Investors under, the Participation Agreement, the Company must recognize the Participation Agreement in its consolidated financial statements as the Company indirectly benefits from the agreement. A liability and the related expense associated with the Participation Agreement are recognized by the Company in the period in which it becomes probable that a liquidity event will occur that would require the Investors to make a payment to Walmart (a "liquidity event"). Upon payment by the Investors to Walmart, the liability is released through a credit to the Company's additional paid-in capital.

Any future payments by the Investors to Walmart may result in an expense that could be material to the Company's financial position or results of operations, but would have no impact on the Company's cash flows. As liquidity events are dependent on many external factors and uncertainties, the Company does not consider a liquidity event to be probable at this time for any Investor, and has not recognized any liability or expense related to the Participation Agreement for the three and six months ended June 30, 2013.

Accumulated Other Comprehensive Loss — The following is a summary of the changes to "Accumulated other comprehensive loss" by component for the six months ended June 30, 2013:

(Amounts in millions)	Net unrealized gains on securities classified as available-for-sale, net of tax	Cumulative foreign currency translation adjustments, net of tax	Pension and postretirement benefits adjustment, net of tax	Total
December 31, 2012	$16.3	$2.6	$(71.2)	$(52.3)
Other comprehensive income before amortization	(0.3)	(1.3)	—	(1.6)
Amounts amortized from accumulated other comprehensive loss	—	—	2.4	2.4
Net current period other comprehensive income	(0.3)	(1.3)	2.4	0.8
June 30, 2013	$16.0	$1.3	$(68.8)	$(51.5)

The following is a summary of the significant amounts amortized out of each component of "Accumulated other comprehensive loss" for the six months ended June 30, 2013:

(Amounts in millions)	Amounts reclassified from Accumulated Other Comprehensive Income Components	Affected Line item in the Statement Where Net Income is Presented
Pension and postretirement benefits adjustments:		
Prior service credits	$(0.3)	"Compensation and benefits"
Net actuarial losses	4.2	"Compensation and benefits"

Total before tax	3.9
Tax benefit	(1.5)
Total, net of tax	$2.4
Total amortization for the period, net of tax	$2.4

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Note 11 — Stock-Based Compensation

The following is a summary of stock-based compensation expense for the three and six months ended June 30, 2013 and 2012:

(Amounts in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Expense recognized related to stock options	$1.8	$1.2	$3.4	$4.4
Expense recognized related to restricted stock units	0.8	0.5	1.6	0.8
Expense related to stock appreciation rights [1]	—	—	—	—
Stock-based compensation expense	$2.6	$1.7	$5.0	$5.2

[1] Expense related to stock appreciation rights for the three and six months ended June 30, 2013 and 2012 was nominal.

In May 2013, the Company's stockholders approved an amendment and restatement of the MoneyGram International, Inc. 2005 Omnibus Incentive Plan, which we refer to as the 2005 Plan. The amendment increased the aggregate number of shares that may be issued under awards under the 2005 Plan from 7,125,000 to 12,925,000 shares.

Stock Options — Option awards are generally granted with an exercise price equal to the closing market price of the Company's common stock on the date of grant. All outstanding stock options contain certain forfeiture and non-compete provisions.

Pursuant to the terms of grants made in 2013, all options issued are time-based with a term of 10 years and vest over a four-year period in an equal number of shares each year.

For purposes of determining the fair value of stock option awards in 2013, the Company uses the Black-Scholes single option pricing model. The following table provides weighted-average grant-date fair value and assumptions utilized to estimate the grant-date fair value of the options granted during 2013:

Expected dividend yield [1]	0.0 %
Expected volatility [2]	68.2% - 69.0%
Risk-free interest rate [3]	1.1% - 1.2%
Expected life [4]	6.3 years
Weighted-average grant-date fair value per option	$10.25

(1) Expected dividend yield represents the level of dividends expected to be paid on the Company's common stock over the expected term of the option. The Company does not anticipate declaring any dividends at this time.

(2) Expected volatility is the amount by which the Company's stock price has fluctuated or will fluctuate during the expected term of the option. The Company's expected volatility is calculated based on the historical volatility of the price of the Company's common stock since the spin-off from Viad Corporation on June 30, 2004. The Company also considers any known or anticipated factors that will likely impact future volatility.

(3) The risk-free interest rate for the Black-Scholes model is based on the U. S. Treasury yield curve in effect at the time of grant for periods within the expected term of the option.

(4) Expected life represents the period of time that options are expected to be outstanding. The expected life was determined using the simplified method as the pattern of changes in the value of the Company's common stock and exercise activity since late 2007 has been inconsistent and substantially different from historical patterns. Additionally, there have been minimal stock option exercises, which would be representative of the Company's normal exercise activity since 2007. Accordingly, the Company does not believe that historical terms are relevant to the assessment of the expected term of the grant. Based on these factors, the Company does not believe that it has the ability to make a more refined estimate than the use of the simplified method.

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The following table is a summary of the Company's stock option activity for the six months ended June 30, 2013:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000,000)
Options outstanding at December 31, 2012	4,412,076	$22.10		
Granted	933,175	16.43		
Exercised	(38,951)	18.54		
Forfeited/Expired	(488,000)	28.88		
Options outstanding at June 30, 2013	4,818,300	$20.35	7.15 years	$19.7
Vested or expected to vest at June 30, 2013	4,648,688	$20.44	7.08 years	$18.8
Options exercisable at June 30, 2013	1,535,426	$22.02	6.04 years	$7.4

The following table is a summary of the Company's stock option compensation information for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Intrinsic value of options exercised [(1)]	$0.1	$—	$0.1	$—
Cash received from option exercises [(1)]	$0.6	$—	$0.6	$—
Unrecognized stock option expense	$15.7			
Remaining weighted-average vesting period	2.0 years			

[(1)] Intrinsic value and cash received from option exercises for the three and six months ended June 30, 2012 were nominal.

Restricted Stock Units — During 2013, the Company issued performance-based restricted stock units, which are subject to three-year cliff vesting, based on average annual adjusted EBITDA (defined as earnings before interest, taxes, depreciation and amortization and less certain non-recurring or other unexpected expenses) growth during the applicable performance period (2013 - 2015). Under the terms of the restricted stock units granted in 2013, the number of restricted stock units that will vest is determined based on the extent to which the performance goal is achieved. Under the terms of the grant, 50 percent of the restricted stock units granted will vest for threshold performance; 100 percent of the restricted stock units granted will vest for the achievement of average annual adjusted EBITDA at target. The number of restricted stock units that will vest for performance achievement between the performance threshold and target will be determined based on a straight-line interpolation. No restricted stock units will vest for performance achievement below the threshold.

During 2012 and in the fourth quarter of 2011, the Company issued grants of performance-based restricted stock units to certain employees, which will vest and become payable in shares of common stock to the extent the Company attains the performance goals applicable to the performance period. The performance goal is based on the degree to which the Company's average annual adjusted EBITDA meets, exceeds or falls short of the target performance goal of achieving an average annual adjusted EBITDA increase of 10 percent over a three year period. Under the terms of the grant, 50 percent of the target restricted stock units may vest on the second anniversary and 50 percent may vest on the third anniversary if the performance goal is achieved as of that date. The number of restricted stock units that vest is determined on a pro-rata basis by the extent to which the performance goal is met within a threshold minimum and maximum. In the event the target performance goal is not met, but the Company achieves a minimum performance goal of an average annual adjusted EBITDA growth of five percent, the participant will be entitled to 50 percent of the target number of restricted stock units. In the event the Company achieves its maximum performance goal of an average annual adjusted EBITDA growth of 20 percent, the participant will be entitled to 200 percent of the target number of restricted stock units.

Since 2010, the Company has granted time-based restricted stock units to members of the Board of Directors, excluding the Chairman of the Board, as compensation for services to be provided. The restricted stock units vest on

the first anniversary of their issuance and may only be settled in the Company's common stock. Following the settlement of certain stockholders' litigation on July 20, 2012, THL agreed to waive any future compensation for its representatives on the Board of Directors, including the issuance of Director restricted stock units.

The fair value of restricted stock units is calculated based on the stock price at the time of grant. For performance-based restricted stock units, expense is recognized if achievement of the performance goal is deemed probable, with the amount of expense recognized based on the Company's best estimate of the ultimate achievement level. For the 2013 grants of performance-based restricted stock units, the grant date fair values at the minimum and target thresholds are $6.4 million and $12.7 million, respectively.

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As of June 30, 2013, the Company believes it is probable it will achieve the performance goal at the target level for the 2013 restricted stock units and the threshold level for the 2011 and 2012 restricted stock units on the third anniversary. For grants to employees, expense is recognized in the “Compensation and benefits” line, and expense for grants to Directors is recorded in the “Transaction and operations support” line in the Consolidated Statements of Operations using the straight-line method over the vesting period.
A summary of the Company’s unvested restricted stock unit activity for the six months ended June 30, 2013 is as follows:

	Total Shares	Weighted Average Price
Restricted stock units outstanding at December 31, 2012	532,224	$16.80
Granted	769,718	15.87
Vested	(48,474)	16.71
Forfeited	(58,790)	17.19
Restricted stock units outstanding at June 30, 2013	1,194,678	$16.62

The fair value of restricted stock units vested was $0.8 million for the three and six months ended June 30, 2013 and $0.6 million for the three and six months ended June 30, 2012. As of June 30, 2013, the Company’s outstanding restricted stock units had unrecognized compensation expense of $12.4 million and a remaining weighted-average vesting period of 2.2 years.
Unrecognized restricted stock unit expense and the remaining weighted-average vesting period are presented under the Company’s current estimate of achievement of the performance goal on the third anniversary. Unrecognized restricted stock unit expense as of June 30, 2013 under the minimum and maximum thresholds are $11.7 million and $13.9 million, respectively.

Note 12 — Income Taxes

For the three and six months ended June 30, 2013, the Company had $13.5 million and $7.7 million, respectively, of income tax expense on pre-tax income of $32.6 million and $14.2 million, respectively. For the three and six months ended June 30, 2012, the Company had $10.2 million and $18.0 million, respectively, of income tax expense on pre-tax (loss) income of $(14.9) million and $3.2 million, respectively.
The Company paid $0.1 million and $0.2 million of federal and state income taxes for the three and six months ended June 30, 2013, respectively, compared to $0.7 million and $0.8 million of federal and state income taxes for the three and six months ended June 30, 2012, respectively. Changes in facts and circumstances may cause the Company to record additional tax expense or benefits in the future.
For the three and six months ended June 30, 2013, interest and penalties for unrecognized tax benefits were $1.7 million and $3.0 million compared to $0.1 million and $0.2 million for the three and six months ended June 30, 2012. The Company records interest and penalties for unrecognized tax benefits in “Income tax expense” in the Consolidated Statements of Operations. As of June 30, 2013 and December 31, 2012, the Company had a liability of $5.0 million and $2.0 million, respectively, for interest and penalties within “Accounts payable and other liabilities” in the Consolidated Balance Sheets.
The Internal Revenue Service (the “IRS”) has completed its examination of the Company’s consolidated income tax returns through 2009. The IRS issued a Notice of Deficiency for 2005-2007 in April 2012 and a Notice of Deficiency for 2009 in October 2012. The Company filed petitions with the U.S. Tax Court in May 2012 and December 2012 contesting adjustments in the 2005-2007 and the 2009 Notices of Deficiency, respectively, related to certain securities losses. In August 2012, the IRS also issued an Examination Report for 2008. The Notices of Deficiency relate to, among other items, approximately $900.0 million of deductions that the Company took on securities losses in its 2007, 2008 and 2009 tax returns. As of June 30, 2013, the Company has recognized a cumulative benefit of approximately $139.9 million relating to these deductions. The Company continues to believe that the amounts

recorded in its consolidated financial statements reflect its best estimate of the ultimate outcome of this matter.

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Note 13 — Commitments and Contingencies

Operating Leases — The Company has various non-cancelable operating leases for buildings and equipment that terminate through 2023. Certain of these leases contain rent holidays and rent escalation clauses based on pre-determined annual rate increases. The Company recognizes rent expense under the straight-line method over the term of the lease. Any differences between the straight-line rent amounts and amounts payable under the leases are recorded as deferred rent in “Accounts payable and other liabilities” in the Consolidated Balance Sheets. Cash or lease incentives received under certain leases are recorded as deferred rent when the incentive is received and amortized as a reduction to rent over the term of the lease using the straight-line method. Incentives received relating to tenant improvements are recognized as a reduction of rent expense under the straight-line method over the term of the lease. Tenant improvements are capitalized as leasehold improvements and depreciated over the shorter of the remaining term of the lease or 10 years. At June 30, 2013 and December 31, 2012, the deferred rent liability relating to these incentives was $3.3 million and $2.6 million, respectively.

Minimum rental expense under operating leases for the three and six months ended June 30, 2013 and 2012 are:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2013	2012	2013	2012
Rent expense	$3.6	$4.1	$8.8	$7.9
Contingent rent expense	0.1	—	0.1	—
Sublease agreements	(0.2)	(0.1)	(0.4)	(0.3)
Minimum rent expense under operating leases	$3.5	$4.0	$8.5	$7.6

Minimum future rental payments for all non-cancelable operating leases with an initial term of more than one year at June 30, 2013 are (amounts in millions):

2013	$7.4
2014	14.0
2015	11.1
2016	5.4
2017	4.9
Thereafter	15.4
Total	$58.2

Letters of Credit — At June 30, 2013, the Company has $0.4 million of letters of credit. These letters of credit reduce the amount available under the revolving credit facility.

Minimum Commission Guarantees — In limited circumstances as an incentive to new or renewing agents, the Company may grant minimum commission guarantees for a specified period of time at a contractually specified amount. Under the guarantees, the Company will pay to the agent the difference between the contractually specified minimum commission and the actual commissions earned by the agent. Expense related to the guarantee is recognized in the “Fee and other commissions expense” line in the Consolidated Statements of Operations.

As of June 30, 2013, the liability for minimum commission guarantees is $2.8 million and the maximum amount that could be paid under the minimum commission guarantees was $9.9 million over a weighted average remaining term of 2.1 years. The maximum payment is calculated as the contractually guaranteed minimum commission times the remaining term of the contract and, therefore, assumes that the agent generates no money transfer transactions during the remainder of its contract. However, under the terms of certain agent contracts, the Company may terminate the contract if the projected or actual volume of transactions falls beneath a contractually specified amount. With respect to minimum commission guarantees expiring in the six months ended June 30, 2013, the Company paid $0.7 million, or 60 percent, of the estimated maximum payment for the year.

Other Commitments — The Company has agreements with certain co-investors to provide funds related to investments in limited partnership interests. As of June 30, 2013 the total amount of unfunded commitments related to these

agreements was $0.3 million.

Legal Proceedings — The matters set forth below are subject to uncertainties and outcomes that are not predictable. The Company accrues for these matters as any resulting losses become probable and can be reasonably estimated. Further, the Company maintains

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insurance coverage for many claims and litigations alleged. In relation to various legal matters, including those described below, the Company had $1.7 million and $38.7 million of liability recorded in the "Accounts payable and other liabilities" line in the Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, respectively. For the three and six months ended June 30, 2013, a nominal charge, net of insurance recoveries, was recorded in the "Transaction and operations support" line in the Consolidated Statements of Operations for legal proceedings. A charge of $36.5 million and $38.1 million, net of insurance recoveries, was recorded in the "Transaction and operations support" line in the Consolidated Statements of Operations for the three and six months ended June 30, 2012, respectively, for legal proceedings.

Litigation Commenced Against the Company:

The Company is involved in various claims and litigation that arise from time to time in the ordinary course of the Company's business. Management does not believe that after final disposition any of these matters is likely to have a material adverse impact on the Company's financial condition, results of operations and cash flows.

Government Investigations:

State Civil Investigative Demands — MoneyGram has received Civil Investigative Demands from a working group of nine state attorneys general who have initiated an investigation into whether the Company took adequate steps to prevent consumer fraud during the period from 2007 to 2011. The Civil Investigative Demands seek information and documents relating to the Company's procedures to prevent fraudulent transfers and consumer complaint information. MoneyGram continues to cooperate fully with the states in this matter. MoneyGram has submitted the information and documents requested by the states. No claims have been made against MoneyGram in conjunction with this investigation.

Other Matters — The Company is involved in various other government inquiries and other matters that arise from time to time. Management does not believe that after final disposition any of these other matters is likely to have a material adverse impact on the Company's financial condition, results of operations and cash flows.

Actions Commenced by the Company:

CDO Litigation — In March 2012, the Company initiated an arbitration proceeding before the Financial Industry Regulatory Authority against Goldman Sachs & Co., or Goldman Sachs. The arbitration relates to MoneyGram's purchase of Residential Mortgage Backed Securities and Collateral Debt Obligations that Goldman Sachs sold to MoneyGram during the 2005 through 2007 timeframe. The Company alleges, among other things, that Goldman Sachs made material misrepresentations and omissions in connection with the sale of these products, ultimately causing significant losses to the Company for which the Company is currently seeking damages. Goldman Sachs owns, together with certain of its affiliates, approximately 19 percent of the shares of the Company's common stock on a diluted basis, assuming conversion of the Company's Series D Participating Convertible Preferred Stock, or D Stock, currently owned by Goldman Sachs and its affiliates.

Tax Litigation — On May 14, 2012 and December 17, 2012, the Company filed petitions in the U.S. Tax Court challenging the 2005-2007 and 2009 Notices of Deficiency, respectively, pursuant to which the IRS determined that the Company owes additional corporate income taxes because certain deductions relating to securities losses were capital in nature, rather than ordinary losses. The Company asserts that it properly deducted its securities losses and that, consequently, no additional corporate income taxes are owed. The IRS filed its responses to the Company's petitions in July 2012 and February 2013 reasserting its original position relating to the years 2005-2007 and 2009. The cases have been consolidated before the U.S. Tax Court.

Note 14 — Earnings per Common Share

For all periods in which it is outstanding, the D Stock is included in the weighted-average number of common shares outstanding utilized to calculate basic earnings per common share because the D Stock is deemed a common stock equivalent. Diluted earnings per common share reflects the potential dilution that could result if securities or incremental shares arising out of the Company's stock-based compensation plans were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock

method.

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The following table is a reconciliation of the weighted-average amounts used in calculating earnings per share for the three and six months ended June 30, 2013 and 2012:

(Amounts in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Basic common shares outstanding	71.6	71.5	71.6	71.5
Shares related to stock options	0.2	—	0.2	—
Diluted common shares outstanding	71.8	71.5	71.8	71.5

Potential common shares are excluded from the computation of diluted earnings per common share when the effect would be anti-dilutive. All potential common shares are anti-dilutive in periods of net loss available to common stockholders. Stock options are anti-dilutive when the exercise price of these instruments is greater than the average market price of the Company's common stock for the period. The following table summarizes the weighted-average potential common shares excluded from diluted earnings per common share, as their effect would be anti-dilutive, for the three and six months ended June 30, 2013 and 2012:

(Amounts in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Shares related to stock options	3.7	5.0	4.2	5.2
Shares related to restricted stock and restricted stock units	1.0	0.5	1.0	0.4
Shares excluded from the computation	4.7	5.5	5.2	5.6

Note 15 — Segment Information

The Company's reporting segments are primarily organized based on the nature of products and services offered and the type of consumer served. The Company has two reporting segments: Global Funds Transfer and Financial Paper Products. The Global Funds Transfer segment provides global money transfers and bill payment services to consumers through a network of agents and, in select markets, company-operated locations. The Financial Paper Products segment provides money orders to consumers through retail and financial institution locations in the U.S. and Puerto Rico, and provides official check services to financial institutions in the U.S. One of the Company's agents of both the Global Funds Transfer segment and the Financial Paper Products segment accounted for 27 percent and 28 percent of total revenue for the three months ended June 30, 2013 and 2012, respectively, and 28 percent and 29 percent of total revenue for the six months ended June 30, 2013 and 2012, respectively. Businesses that are not operated within these segments are categorized as "Other," and primarily related to discontinued products and businesses. "Other" also contains corporate items. Segment pre-tax operating income and segment operating margin are used to review segment performance and to allocate resources.

The following tables set forth revenue, operating results, depreciation and amortization and capital expenditures for the three and six months ended June 30, 2013 and 2012:

(Amounts in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Revenue				
Global Funds Transfer:				
Money transfer	$319.7	$282.3	$614.1	$550.8
Bill payment	24.8	26.0	50.8	53.6
Total Global Funds Transfer	344.5	308.3	664.9	604.4
Financial Paper Products:				
Money order	13.6	14.5		