

MONEYGRAM INTERNATIONAL INC

Form 10-Q

August 09, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(mark one)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the Quarterly Period Ended June 30, 2012**

**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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**16-1690064**  
(I.R.S. Employer  
Identification No.)

**2828 N. Harwood St., 15<sup>th</sup> Floor**

**Dallas, Texas**  
(Address of principal executive offices)

**75201**  
(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  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  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   
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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 6, 2012, 57,856,925 shares of common stock, \$0.01 par value, were outstanding.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****MONEYGRAM INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEETS****UNAUDITED**

| <i>(Amounts in thousands, except share data)</i>   | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|--------------------------|------------------------------|
| <b>ASSETS</b>  |                          |                              |
| Cash and cash equivalents  | \$                       | \$                           |
| Cash and cash equivalents (substantially restricted)   | 2,548,257                | 2,572,174                    |
| Receivables, net (substantially restricted)  | 1,266,882                | 1,220,065                    |
| Short-term investments (substantially restricted)  | 524,055                  | 522,024                      |
| Available-for-sale investments (substantially restricted)  | 85,281                   | 102,771                      |
| Property and equipment   | 117,032                  | 116,341                      |
| Goodwill   | 428,691                  | 428,691                      |
| Other assets   | 214,864                  | 213,512                      |
| <br>Total assets   | <br>\$ 5,185,062         | <br>\$ 5,175,578             |
| <b>LIABILITIES</b>   |                          |                              |
| Payment service obligations  | \$ 4,155,880             | \$ 4,205,375                 |
| Debt   | 810,365                  | 810,888                      |
| Pension and other postretirement benefits  | 116,353                  | 120,252                      |
| Accounts payable and other liabilities   | 218,567                  | 149,261                      |
| <br>Total liabilities  | <br>5,301,165            | <br>5,285,776                |
| <b>COMMITMENTS AND CONTINGENCIES (NOTE 13)</b>   |                          |                              |
| <b>STOCKHOLDERS DEFICIT</b>  |                          |                              |
| Participating Convertible Preferred Stock - Series D, \$0.01 par value, 200,000 shares authorized, 109,239 issued at June 30, 2012 and December 31, 2011, respectively | 281,898                  | 281,898                      |
| Common Stock, \$0.01 par value, 162,500,000 shares authorized, 62,263,963 shares issued at June 30, 2012 and December 31, 2011, respectively                           | 623                      | 623                          |
| Additional paid-in capital   | 994,076                  | 989,188                      |
| Retained loss  | (1,231,304)              | (1,216,543)                  |
| Accumulated other comprehensive loss   | (34,657)                 | (38,028)                     |
| Treasury stock: 4,407,038 and 4,429,184 shares at June 30, 2012 and December 31, 2011, respectively  | (126,739)                | (127,336)                    |
| <br>Total stockholders deficit   | <br>(116,103)            | <br>(110,198)                |
| <br>Total liabilities and stockholders deficit   | <br>\$ 5,185,062         | <br>\$ 5,175,578             |

See Notes to Consolidated Financial Statements

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF (LOSS) INCOME****UNAUDITED**

| <i>(Amounts in thousands, except per share data)</i>                              | <b>Three Months Ended June 30,</b> |                     | <b>Six Months Ended June 30,</b> |                     |
|---|------------------------------------|---------------------|----------------------------------|---------------------|
|   | <b>2012</b>                        | <b>2011</b>         | <b>2012</b>                      | <b>2011</b>         |
| <b>REVENUE</b>  |                                    |                     |                                  |                     |
| Fee and other revenue   | \$ 326,706                         | \$ 304,074          | \$ 641,624                       | \$ 594,083          |
| Investment revenue  | 3,436                              | 5,879               | 6,613                            | 9,894               |
| Total revenue   | 330,142                            | 309,953             | 648,237                          | 603,977             |
| <b>EXPENSES</b>   |                                    |                     |                                  |                     |
| Fee and other commissions expense   | 146,673                            | 135,561             | 288,588                          | 264,621             |
| Investment commissions expense  | 103                                | 111                 | 180                              | 251                 |
| Total commissions expense   | 146,776                            | 135,672             | 288,768                          | 264,872             |
| Compensation and benefits   | 59,030                             | 57,913              | 118,094                          | 117,208             |
| Transaction and operations support  | 98,008                             | 58,594              | 156,222                          | 109,003             |
| Occupancy, equipment and supplies   | 12,142                             | 11,637              | 24,353                           | 23,390              |
| Depreciation and amortization   | 11,053                             | 11,879              | 21,736                           | 23,545              |
| Total operating expenses  | 327,009                            | 275,695             | 609,173                          | 538,018             |
| <b>OPERATING INCOME</b>   | <b>3,133</b>                       | <b>34,258</b>       | <b>39,064</b>                    | <b>65,959</b>       |
| <b>Other (income) expense</b>   |                                    |                     |                                  |                     |
| Net securities gains  |                                    | (32,816)            |                                  | (32,816)            |
| Interest expense  | 17,637                             | 22,873              | 35,520                           | 43,486              |
| Other   | 347                                | 14,856              | 347                              | 14,856              |
| Total other expenses, net   | 17,984                             | 4,913               | 35,867                           | 25,526              |
| (Loss) income before income taxes   | (14,851)                           | 29,345              | 3,197                            | 40,433              |
| Income tax expense (benefit)  | 10,205                             | 2,941               | 17,984                           | (16)                |
| <b>NET (LOSS) INCOME</b>  | <b>\$ (25,056)</b>                 | <b>\$ 26,404</b>    | <b>\$ (14,787)</b>               | <b>\$ 40,449</b>    |
| <b>LOSS PER COMMON SHARE</b>  |                                    |                     |                                  |                     |
| Basic and diluted   | \$ (0.35)                          | \$ (10.97)          | \$ (0.21)                        | \$ (18.10)          |
| <b>Net loss available to common stockholders:</b>                                 |                                    |                     |                                  |                     |
| Net (loss) income as reported   | \$ (25,056)                        | \$ 26,404           | \$ (14,787)                      | \$ 40,449           |
| Accrued dividends on mezzanine equity   |                                    |                     |                                  | (30,934)            |
| Accretion on mezzanine equity   |                                    | (77,465)            |                                  | (80,023)            |
| Additional consideration issued in connection with conversion of mezzanine equity |                                    | (366,797)           |                                  | (366,797)           |
| Cash dividends paid on mezzanine equity   |                                    | (20,477)            |                                  | (20,477)            |
| <b>Net loss available to common stockholders</b>                                  | <b>\$ (25,056)</b>                 | <b>\$ (438,335)</b> | <b>\$ (14,787)</b>               | <b>\$ (457,782)</b> |

**Weighted-average outstanding common shares and equivalents used in computing earnings per share**

|                   |        |        |        |        |
|-------------------|--------|--------|--------|--------|
| Basic and diluted | 71,502 | 39,959 | 71,496 | 25,288 |
|-------------------|--------|--------|--------|--------|

See Notes to Consolidated Financial Statements

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****UNAUDITED**

| <i>(Amounts in thousands)</i>  | <b>Three Months Ended June 30,<br/>2012</b> | <b>2011</b>      | <b>Six Months Ended June 30,<br/>2012</b> | <b>2011</b>      |
|--|---|------------------|---|------------------|
| <b>NET (LOSS) INCOME</b>   | \$ (25,056)                                 | \$ 26,404        | \$ (14,787)                               | \$ 40,449        |
| <b>OTHER COMPREHENSIVE (LOSS) INCOME</b>   |   |                  |   |                  |
| Net unrealized gains on available-for-sale securities:   |   |                  |   |                  |
| Net holding gains arising during the period, net of tax expense of \$53 and \$0 for the three months ended June 30, 2012 and 2011, respectively and \$585 and \$0 for the six months ended June 30, 2012 and 2011, respectively                                | 434   | 3,083            | 1,408                                     | 5,028            |
| Reclassification adjustment for net realized losses included in net income, net of tax benefit of \$0 for the three and six months ended June 30, 2012 and 2011, respectively  |   | 4                |   | 4                |
|  | 434   | 3,087            | 1,408                                     | 5,032            |
| Pension and postretirement benefit plans:  |   |                  |   |                  |
| Reclassification of prior service credit recorded to net income, net of tax expense of \$56 and \$57 for the three months ended June 30, 2012 and 2011, respectively, and \$113 and \$114 for the six months ended June 30, 2012 and 2011, respectively        | (93)  | (92)             | (185)                                     | (185)            |
| Reclassification of net actuarial loss recorded to net income, net of tax benefit of \$595 and \$620, for the three months ended June 30, 2012 and 2011, respectively, and \$1,191 and \$1,242 for the six months ended June 30, 2012 and 2011, respectively   | 972   | 1,012            | 1,944                                     | 2,024            |
| Unrealized foreign currency translation (losses) gains, net of tax (benefit) expense of \$(1,127) and \$205 for the three months ended June 30, 2012 and 2011, respectively, and \$125 and \$648 for the six months ended June 30, 2012 and 2011, respectively | (1,839)                                     | 334              | 204                                       | 1,058            |
| Other comprehensive (loss) income  | (526)                                       | 4,341            | 3,371                                     | 7,929            |
| <b>COMPREHENSIVE (LOSS) INCOME</b>   | <b>\$ (25,582)</b>                          | <b>\$ 30,745</b> | <b>\$ (11,416)</b>                        | <b>\$ 48,378</b> |

See Notes to Consolidated Financial Statements

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****UNAUDITED**

| <i>(Amounts in thousands)</i>   | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | <b>2012</b>                        | <b>2011</b> | <b>2012</b>                      | <b>2011</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                    |             |                                  |             |
| Net (loss) income   | \$ (25,056)                        | \$ 26,404   | \$ (14,787)                      | \$ 40,449   |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities:            |                                    |             |                                  |             |
| Depreciation and amortization   | 11,053                             | 11,879      | 21,736                           | 23,545      |
| Net securities gains  |                                    | (32,820)    |                                  | (32,820)    |
| Asset impairments and net losses upon disposal  | 230                                | 4,254       | 477                              | 3,972       |
| Loss on debt extinguishment   |                                    | 5,221       |                                  | 5,221       |
| Amortization of debt discount and deferred financing costs  | 1,397                              | 2,806       | 2,794                            | 4,397       |
| Provision for uncollectible receivables   | 1,517                              | 549         | 2,980                            | 1,898       |
| Non-cash compensation and pension expense   | 3,976                              | 5,771       | 9,307                            | 12,693      |
| Legal accruals  | 38,034                             |             | 38,034                           |             |
| Other non-cash items, net   | 1,063                              | (299)       | (420)                            | 156         |
| Changes in foreign currency translation adjustments   | (1,839)                            | 335         | 204                              | 1,058       |
| Signing bonus amortization  | 8,041                              | 8,119       | 16,384                           | 16,067      |
| Signing bonus payments  | (1,406)                            | (6,025)     | (6,340)                          | (12,803)    |
| Change in other assets  | 1,349                              | (12,433)    | 1,807                            | (8,194)     |
| Change in accounts payable and other liabilities  | 19,844                             | 16,067      | 15,414                           | (3,761)     |
| Total adjustments   | 83,259                             | 3,424       | 102,377                          | 11,429      |
| Change in cash and cash equivalents (substantially restricted)                                      | (1,007)                            | 90,343      | 23,917                           | 180,275     |
| Change in receivables (substantially restricted)  | (57,893)                           | (68,771)    | (49,797)                         | (44,746)    |
| Change in payment service obligations   | 3,276                              | 97,696      | (49,495)                         | (41,775)    |
| Net cash provided by operating activities   | 2,579                              | 149,096     | 12,215                           | 145,632     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                    |             |                                  |             |
| Proceeds from maturities of investments classified as available-for-sale (substantially restricted) | 8,447                              | 14,281      | 19,267                           | 31,743      |
| Proceeds from settlement of investments   |                                    | 19,221      |                                  | 19,221      |
| Purchases of short-term investments (substantially restricted)                                      | (112,733)                          | (111,259)   | (324,489)                        | (316,700)   |
| Proceeds from maturities of short-term investments (substantially restricted)                       | 113,525                            | 5,316       | 323,638                          | 205,816     |
| Purchases of property and equipment   | (11,663)                           | (15,217)    | (30,295)                         | (24,190)    |
| Proceeds from disposal of property and equipment  | 219                                |             | 391                              |             |
| Cash paid for acquisitions, net of cash acquired  |                                    | (53)        |                                  | (53)        |
| Net cash used in investing activities   | (2,205)                            | (87,711)    | (11,488)                         | (84,163)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                    |             |                                  |             |
| Proceeds from issuance of debt  |                                    | 389,025     |                                  | 389,025     |
| Transaction costs for issuance and amendment of debt  |                                    | (17,062)    |                                  | (17,062)    |
| Payments on debt  | (375)                              | (191,250)   | (750)                            | (191,250)   |
| Additional consideration issued in connection with conversion of mezzanine equity                   |                                    | (218,333)   |                                  | (218,333)   |
| Transaction costs for the conversion and issuance of stock  |                                    | (3,469)     |                                  | (3,736)     |
| Cash dividends paid on mezzanine equity   |                                    | (20,477)    |                                  | (20,477)    |



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|  |       |          |       |          |
|--|-------|----------|-------|----------|
| Proceeds from exercise of stock options                | 1     | 181      | 23    | 364      |
| Net cash used in financing activities                  | (374) | (61,385) | (727) | (61,469) |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>         |       |          |       |          |
| <b>CASH AND CASH EQUIVALENTS - Beginning of period</b> |       |          |       |          |
| <b>CASH AND CASH EQUIVALENTS - End of period</b>       | \$    | \$       | \$    | \$       |

See Notes to Consolidated Financial Statements

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## MONEYGRAM INTERNATIONAL, INC.

## CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT

## UNAUDITED

| <i>(Amounts in thousands)</i>  | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Loss | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total        |
|--|--------------------|-----------------|----------------------------------|------------------|---|-------------------|--------------|
| <b>December 31, 2011</b>   | \$ 281,898         | \$ 623          | \$ 989,188                       | \$ (1,216,543)   | \$ (38,028)                                   | \$ (127,336)      | \$ (110,198) |
| Net loss   |                    |                 |                                  | (14,787)         |   |                   | (14,787)     |
| Employee benefit plans   |                    |                 | 4,541                            | 26               |   | 597               | 5,164        |
| Capital contribution from investors  |                    |                 | 347                              |                  |   |                   | 347          |
| Net unrealized gain on available-for-sale securities, net of tax                       |                    |                 |                                  |                  | 1,408   |                   | 1,408        |
| Amortization of prior service cost for pension and postretirement benefits, net of tax |                    |                 |                                  |                  | (185)   |                   | (185)        |
| Amortization of unrealized losses on pension and postretirement benefits, net of tax   |                    |                 |                                  |                  | 1,944   |                   | 1,944        |
| Unrealized foreign currency translation adjustment                                     |                    |                 |                                  |                  | 204   |                   | 204          |
| <b>June 30, 2012</b>   | \$ 281,898         | \$ 623          | \$ 994,076                       | \$ (1,231,304)   | \$ (34,657)                                   | \$ (126,739)      | \$ (116,103) |

See Notes to Consolidated Financial Statements

**Table of Contents****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, 2012 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, 2011.

*Participation Agreement between the Investors and Walmart Stores, Inc.* As previously disclosed, 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 Walmart 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.

During the three months ended June 30, 2012, one of the Investors sold all of its common stock to an unrelated third-party, resulting in cumulative participation securities payments in excess of its original investment basis. As of June 30, 2012, the performance condition for only this Investor has been achieved. The Investor paid \$0.3 million to Walmart for settlement in full of its obligation under the Participation Agreement. As a result, the Company has recognized expense and a corresponding increase to additional paid-in capital during the three and six months ended June 30, 2012.

Any future payments by the Investors to Walmart may result in 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 other Investors, and has not recognized any further liability or expense related to the Participation Agreement.

**Note 2 Assets in Excess of Payment Service Obligations**

The following table shows the amount of assets in excess of payment service obligations at June 30, 2012 and December 31, 2011:

| <i>(Amounts in thousands)</i>                             | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|--------------------------|------------------------------|
| Cash and cash equivalents (substantially restricted)      | \$ 2,548,257             | \$ 2,572,174                 |
| Receivables, net (substantially restricted)               | 1,266,882                | 1,220,065                    |
| Short-term investments (substantially restricted)         | 524,055                  | 522,024                      |
| Available-for-sale investments (substantially restricted) | 85,281                   | 102,771                      |
|   | 4,424,475                | 4,417,034                    |
| Payment service obligations                               | (4,155,880)              | (4,205,375)                  |
| Assets in excess of payment service obligations           | \$ 268,595               | \$ 211,659                   |

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The Company was in compliance with its contractual and financial regulatory requirements as of June 30, 2012 and December 31, 2011.

**Table of Contents****Note 3 Fair Value Measurement**

The following tables set forth the Company's financial assets and liabilities measured at fair value by hierarchy level:

| <i>(Amounts in thousands)</i>                              | Fair Value at June 30, 2012 |           |           | Total     |
|--|-----------------------------|-----------|-----------|-----------|
|  | Level 1                     | Level 2   | Level 3   |           |
| <b>Financial assets:</b>                                   |                             |           |           |           |
| Available-for-sale investments (substantially restricted): |                             |           |           |           |
| United States government agencies                          | \$                          | \$ 8,970  | \$        | \$ 8,970  |
| Residential mortgage-backed securities - agencies          |                             | 49,614    |           | 49,614    |
| Other asset-backed securities                              |                             |           | 26,697    | 26,697    |
| Investment related to deferred compensation trust          | 8,327                       |           |           | 8,327     |
| Forward contracts  |                             | 1,423     |           | 1,423     |
| Total financial assets                                     | \$ 8,327                    | \$ 60,007 | \$ 26,697 | \$ 95,031 |
| <b>Financial liabilities:</b>                              |                             |           |           |           |
| Forward contracts  | \$                          | \$ 214    | \$        | \$ 214    |

| <i>(Amounts in thousands)</i>                              | Fair Value at December 31, 2011 |           |           | Total      |
|--|---------------------------------|-----------|-----------|------------|
|  | Level 1                         | Level 2   | Level 3   |            |
| <b>Financial assets:</b>                                   |                                 |           |           |            |
| Available-for-sale investments (substantially restricted): |                                 |           |           |            |
| United States government agencies                          | \$                              | \$ 8,827  | \$        | \$ 8,827   |
| Residential mortgage-backed securities - agencies          |                                 | 69,712    |           | 69,712     |
| Other asset-backed securities                              |                                 |           | 24,232    | 24,232     |
| Investment related to deferred compensation trust          | 8,118                           |           |           | 8,118      |
| Forward contracts  |                                 | 399       |           | 399        |
| Total financial assets                                     | \$ 8,118                        | \$ 78,938 | \$ 24,232 | \$ 111,288 |
| <b>Financial liabilities:</b>                              |                                 |           |           |            |
| Forward contracts  | \$                              | \$ 46     | \$        | \$ 46      |

For other asset backed securities, 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. Due to a general lack of transparency in the process that the brokers use to develop prices, 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 or internal valuations, 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 also 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

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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. Following is a summary of the unobservable inputs used in Other asset-backed securities classified as Level 3:

| <i>(Amounts in thousands)</i>  | Unobservable<br>Input | Pricing Source              | June 30, 2012 |                   | December 31, 2011 |                   |
|--------------------------------|-----------------------|-----------------------------|---------------|-------------------|-------------------|-------------------|
|                                |                       |                             | Market Value  | Net Average Price | Market Value      | Net Average Price |
| Alt-A                          | Price                 | Third-party pricing service | \$ 151        | \$ 12.90          | \$ 210            | \$ 14.57          |
| Home Equity                    | Price                 | Third-party pricing service | 199           | 39.99             | 185               | 23.35             |
| Bank Loans and Trust Preferred | Price                 | Broker                      | 5             | 0.01              | 4                 | 0.01              |
| Direct Exposure to Subprime    | Price                 | Third-party pricing service | 38            | 0.89              | 61                | 0.86              |
| Indirect Exposure - High Grade | Discount margin       | Manual                      | 3,849         | 3.2               | 3,776             | 3.14              |
| Indirect Exposure - Mezzanine  | Price                 | Broker                      | 15,671        | 6.95              | 13,010            | 5.63              |
| Other                          | Discount margin       | Manual                      | 6,784         | 36.41             | 6,986             | 37.5              |
| Total                          |                       |                             | \$ 26,697     | \$ 6.16           | \$ 24,232         | \$ 5.49           |

The table below provides a roll-forward of the Other asset-backed securities, the only financial assets classified in Level 3, which are measured at fair value on a recurring basis, for the three and six months ended June 30, 2012 and 2011:

| <i>(Amounts in thousands)</i>                                    | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2012                           | 2011      | 2012                         | 2011      |
| Beginning balance  | \$ 25,397                      | \$ 26,340 | \$ 24,232                    | \$ 23,710 |
| Principal paydowns   | (70)                           | (94)      | (134)                        | (504)     |
| Other-than-temporary impairments                                 |                                | (4)       |                              | (4)       |
| Unrealized gains - instruments still held at the reporting date  | 1,657                          | 5,436     | 3,707                        | 9,529     |
| Unrealized losses - instruments still held at the reporting date | (287)                          | (2,004)   | (1,108)                      | (3,057)   |
| Ending balance   | \$ 26,697                      | \$ 29,674 | \$ 26,697                    | \$ 29,674 |

Realized gains and losses and other-than-temporary impairments related to these available-for-sale investment securities are reported in the Net securities gains line in the Consolidated Statements of (Loss) Income while unrealized gains and losses related to available-for-sale securities are recorded in accumulated other comprehensive loss in stockholders deficit.

*Assets and liabilities that are disclosed at fair value*

Debt is 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). As of June 30, 2012, the fair value of the senior secured facility is \$479.1 million compared to the carrying value of \$485.4 million. As of June 30, 2011, the fair value of the Company's second lien notes is estimated at \$337.2 million compared to a carrying value of \$325.0 million. As of December 31, 2011, the fair value of the senior secured facility was \$479.8 million compared to the carrying value of \$489.6 million. As of December 31, 2010, the fair value of the Company's second lien notes was estimated at \$335.6 million compared to a carrying value of \$325.0 million.

**Note 4 Investment Portfolio**

Components of the Company's investment portfolio are as follows:

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| <i>(Amounts in thousands)</i>                             | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|--------------------------|------------------------------|
| Cash  | \$ 2,126,441             | \$ 2,016,451                 |
| Money markets   | 421,794                  | 555,659                      |
| Deposits  | 22                       | 64                           |
| <br>  |                          |                              |
| Cash and cash equivalents (substantially restricted)      | 2,548,257                | 2,572,174                    |
| Short-term investments (substantially restricted)         | 524,055                  | 522,024                      |
| Available-for-sale investments (substantially restricted) | 85,281                   | 102,771                      |
| <br>  |                          |                              |
| <b>Total investment portfolio</b>                         | <b>\$ 3,157,593</b>      | <b>\$ 3,196,969</b>          |

*Cash and Cash Equivalents (substantially restricted)* Cash and cash equivalents consist of cash, money-market securities and deposits. Cash primarily consists of interest-bearing deposit accounts and non-interest bearing transaction accounts. The Company's money-market securities are invested in six funds, all of which are AAA rated and consist of United States Treasury bills, notes or other obligations issued or guaranteed by the United States government and its agencies, as well as repurchase agreements secured by such instruments. Deposits consist of time deposits with original maturities of three months or less, and are issued from financial institutions that are rated BBB or better as of the date of this filing.

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*Short-term Investments (substantially restricted)* Short-term investments consist of time deposits and certificates of deposit with original maturities of greater than three months but no more than twelve months, and are issued from financial institutions rated AA- or better as of the date of this filing.

*Available-for-sale Investments (substantially restricted)* Available-for-sale investments consist of mortgage-backed securities, asset-backed securities and agency debenture securities. After other-than-temporary impairment charges, the amortized cost and fair value of available-for-sale investments are as follows at June 30, 2012:

|   | June 30, 2012     |                              |                               |               | Net<br>Average<br>Price |
|---|-------------------|------------------------------|-------------------------------|---------------|-------------------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |                         |
| <i>(Amounts in thousands, except net average price)</i> |                   |                              |                               |               |                         |
| Residential mortgage-backed securities-agencies         | \$ 45,828         | \$ 3,786                     | \$                            | \$ 49,614     | \$ 109.04               |
| Other asset-backed securities                           | 8,615             | 18,082                       |                               | 26,697        | 6.16                    |
| United States government agencies                       | 7,959             | 1,011                        |                               | 8,970         | 99.67                   |
| Total   | \$ 62,402         | \$ 22,879                    | \$                            | \$ 85,281     | \$ 17.48                |

After other-than-temporary impairment charges, the amortized cost and fair value of available-for-sale investments were as follows at December 31, 2011:

|   | December 31, 2011 |                              |                               |               | Net<br>Average<br>Price |
|---|-------------------|------------------------------|-------------------------------|---------------|-------------------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |                         |
| <i>(Amounts in thousands, except net average price)</i> |                   |                              |                               |               |                         |
| Residential mortgage-backed securities - agencies       | \$ 65,211         | \$ 4,501                     | \$                            | \$ 69,712     | \$ 107.63               |
| Other asset-backed securities                           | 8,951             | 15,281                       |                               | 24,232        | 5.49                    |
| United States government agencies                       | 7,723             | 1,104                        |                               | 8,827         | 98.08                   |
| Total   | \$ 81,885         | \$ 20,886                    | \$                            | \$ 102,771    | \$ 21.83                |

At June 30, 2012 and December 31, 2011, approximately 69 percent and 76 percent, respectively, of the available-for-sale portfolio are invested in debentures of United States government agencies or securities collateralized by United States government agency debentures. These securities have the implicit backing of the United States government, and the Company expects to receive full par value upon maturity or pay-down, as well as all interest payments. The Other asset-backed securities continue to have market exposure, as factored into the fair value estimates, with the average price of an asset-backed security at \$0.06 per dollar of par at June 30, 2012.

*Gains and Losses and Other-Than-Temporary Impairments* At June 30, 2012 and December 31, 2011, net unrealized gains of \$22.9 million and \$21.5 million, respectively, are included in the Consolidated Balance Sheets in Accumulated other comprehensive loss. During the three and six months ended June 30, 2012, no losses were reclassified from Accumulated other comprehensive (loss) income to Net securities gains in connection with other-than-temporary impairments and realized gains and losses recognized during the period. During the second quarter of 2011, the Company recognized settlements of \$32.8 million, equal to all of the outstanding principal from two securities classified in Other asset-backed securities. These securities had previously been written down to a nominal fair value, resulting in a realized gain of \$32.8 million recorded in Net securities gains in the Consolidated Statements of (Loss) Income. Net securities gains were as follows:

| <i>(Amounts in thousands)</i>  | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|--|--------------------------------|-------------|------------------------------|-------------|
|  | 2012                           | 2011        | 2012                         | 2011        |
| Realized gains from available-for-sale investments                   | \$                             | \$ (32,820) | \$                           | \$ (32,820) |
| Other-than-temporary impairments from available-for-sale investments |                                |             | 4                            | 4           |



|                      |    |             |    |             |
|----------------------|----|-------------|----|-------------|
| Net securities gains | \$ | \$ (32,816) | \$ | \$ (32,816) |
|----------------------|----|-------------|----|-------------|

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*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 rating across the rating agencies for disclosure purposes. Securities issued or backed by United States 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, 2012 and December 31, 2011 consisted of the following ratings:

|                                       | June 30, 2012        |            |                        | December 31, 2011    |            |                        |
|---------------------------------------|----------------------|------------|------------------------|----------------------|------------|------------------------|
|                                       | Number of Securities | Fair Value | Percent of Investments | Number of Securities | Fair Value | Percent of Investments |
| <i>(Dollars in thousands)</i>         |                      |            |                        |                      |            |                        |
| AAA, including United States agencies | 20                   | \$ 58,275  | 68%                    | 24                   | \$ 78,267  | 76%                    |
| Below investment grade                | 58                   | 27,006     | 32%                    | 60                   | 24,504     | 24%                    |
| Total                                 | 78                   | \$ 85,281  | 100%                   | 84                   | \$ 102,771 | 100%                   |

Had the Company used the lowest rating from the rating agencies in the information presented above, there would be no change to investments rated A or better at June 30, 2012, and less than a \$0.1 million change at December 31, 2011.

*Contractual Maturities* The amortized cost and fair value of available-for-sale securities at June 30, 2012 and December 31, 2011, 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, 2012  |            | December 31, 2011 |            |
|---|----------------|------------|-------------------|------------|
|   | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| <i>(Amounts in thousands)</i>                     |                |            |                   |            |
| One year or less                                  | \$ 1,000       | \$ 1,023   | \$                | \$         |
| After one year through five years                 | 6,959          | 7,948      | 7,723             | 8,827      |
| Mortgage-backed and other asset-backed securities | 54,443         | 76,310     | 74,162            | 93,944     |
| Total   | \$ 62,402      | \$ 85,281  | \$ 81,885         | \$ 102,771 |

*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, 2012 and December 31, 2011: 60 percent and 69 percent, respectively, used a third party pricing service; 18 percent and 13 percent, respectively, used broker pricing; and 22 percent and 18 percent, respectively, used internal pricing.

*Assessment of Unrealized Losses* The Company had no unrealized losses in its available-for-sale portfolio at June 30, 2012 and at December 31, 2011.

**Note 5 Derivative Financial Instruments**

The Company uses forward contracts to manage its foreign currency needs and exchange risk arising from its assets and liabilities denominated in foreign currencies. While these contracts economically hedge foreign currency risk, they are not designated as hedges for accounting purposes.

The Transaction and operations support line in the Consolidated Statements of (Loss) Income includes the following losses (gains) related to assets and liabilities denominated in foreign currencies:

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| <i>(Amounts in thousands)</i>   | Three Months Ended |            | Six Months Ended |          |
|---|--------------------|------------|------------------|----------|
|   | June 30,           |            | June 30,         |          |
|   | 2012               | 2011       | 2012             | 2011     |
| Net realized foreign currency losses (gains)  | \$ 5,630           | \$ (2,130) | \$ 1,144         | (8,720)  |
| Net (gains) losses from the related forward contracts                               | (5,267)            | 4,440      | (1,302)          | 12,525   |
| Net losses (gains) from foreign currency transactions and related forward contracts | \$ 363             | \$ 2,310   | \$ (158)         | \$ 3,805 |

At June 30, 2012 and December 31, 2011, the Company had \$81.6 million and \$65.5 million, respectively, of outstanding notional amounts relating to its forward contracts. At June 30, 2012 and December 31, 2011, the Company reflects the following fair values of derivative forward contract instruments in its Consolidated Balance Sheets:

| <i>(Amounts in thousands)</i> | Balance Sheet Location | Derivative Assets |                   | Derivative Liabilities |                   |
|-------------------------------|------------------------|-------------------|-------------------|------------------------|-------------------|
|                               |                        | June 30, 2012     | December 31, 2011 | June 30, 2012          | December 31, 2011 |
| Forward contracts             | Other liabilities      | \$ 1,423          | \$                | \$ 214                 | \$                |
| Forward contracts             | Other assets           | \$                | \$ 399            | \$                     | \$ 46             |

**Table of Contents****Note 6 Property and Equipment**

Property and equipment consists of the following at June 30, 2012 and December 31, 2011:

| <i>(Amounts in thousands)</i>       | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-------------------------------------|--------------------------|------------------------------|
| Computer hardware and software      | \$ 209,832               | \$ 196,168                   |
| Signage                             | 83,801                   | 80,303                       |
| Agent equipment                     | 69,121                   | 69,643                       |
| Office furniture and equipment      | 36,062                   | 36,733                       |
| Leasehold improvements              | 24,878                   | 27,562                       |
| Land                                | 410                      | 410                          |
|                                     | 424,104                  | 410,819                      |
| Accumulated depreciation            | (307,072)                | (294,478)                    |
| <b>Total property and equipment</b> | <b>\$ 117,032</b>        | <b>\$ 116,341</b>            |

Depreciation expense for the three and six months ended June 30, 2012 and 2011 is as follows:

| <i>(Amounts in thousands)</i>     | <b>Three Months Ended<br/>June 30,</b> |                  | <b>Six Months Ended<br/>June 30,</b> |                  |
|-----------------------------------|--|------------------|--------------------------------------|------------------|
|                                   | <b>2012</b>                            | <b>2011</b>      | <b>2012</b>                          | <b>2011</b>      |
| Computer hardware and software    | \$ 5,492                               | \$ 5,373         | \$ 10,554                            | \$ 10,783        |
| Signage                           | 2,980                                  | 2,381            | 5,750                                | 4,652            |
| Agent equipment                   | 1,042                                  | 1,815            | 2,121                                | 3,619            |
| Office furniture and equipment    | 875                                    | 1,005            | 1,776                                | 1,977            |
| Leasehold improvements            | 591                                    | 963              | 1,300                                | 1,836            |
| <b>Total depreciation expense</b> | <b>\$ 10,980</b>                       | <b>\$ 11,537</b> | <b>\$ 21,501</b>                     | <b>\$ 22,867</b> |

At June 30, 2012 and December 31, 2011, there were \$2.9 million and \$9.9 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, 2012, the Company recognized disposal losses of \$0.4 million and \$0.7 million, respectively, on furniture and equipment related to the closing of two office locations. The losses were recorded in the Occupancy, equipment and supplies line in the Consolidated Statements of (Loss) Income.

Following its decision to sell land in 2011, the Company recognized a \$2.3 million impairment during the second quarter of 2011 in the Other line in the Consolidated Statements of (Loss) Income.

**Table of Contents****Note 7 Intangible Assets**

Intangible assets consist of the following:

| <i>(Amounts in thousands)</i> | June 30, 2012        |                          |                    | December 31, 2011    |                          |                    |
|-------------------------------|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
|                               | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Amortized intangible assets:  |                      |                          |                    |                      |                          |                    |
| Customer lists                | \$ 3,835             | \$ (2,819)               | \$ 1,016           | \$ 7,272             | \$ (6,074)               | \$ 1,198           |
| Non-compete agreements        | 137                  | (108)                    | 29                 | 137                  | (68)                     | 69                 |
| Trademarks and license        | 636                  | (1)                      | 635                | 597                  | (1)                      | 596                |
| Developed technology          | 146                  | (117)                    | 29                 | 146                  | (100)                    | 46                 |
| Total intangible assets       | \$ 4,754             | \$ (3,045)               | \$ 1,709           | \$ 8,152             | \$ (6,243)               | \$ 1,909           |

In the second quarter of 2011, the Company acquired the agent contracts of a former Spain super-agent for a purchase price of \$1.0 million. The acquisition of these agent contracts provided the Company with further network expansion in its money transfer business in its Global Funds Transfer segment. The agent contracts are amortized over a life of four years.

In connection with disposition activity, the Company recognized an impairment charge of \$1.8 million in the second quarter of 2011, for certain agent contracts utilized in our Global Funds transfer segment, as recorded in the Other line in the Consolidated Statements of (Loss) Income.

Intangible asset amortization expense was \$0.1 million and \$0.2 million for the three and six months ended June 30, 2012, respectively, and \$0.3 million and \$0.7 million for the three and six months ended June 30, 2011, respectively.

As of June 30, 2012, the estimated future intangible asset amortization expense is as follows (amounts in thousands):

|            |          |
|------------|----------|
| Year 1     | \$ 313   |
| Year 2     | 215      |
| Year 3     | 188      |
| Year 4     | 64       |
| Year 5     | 64       |
| Thereafter | 231      |
| Total      | \$ 1,075 |

**Note 8 Debt**

Following is a summary of the Company's outstanding debt at June 30, 2012:

| <i>(Amounts in thousands)</i> | 2011 Credit Agreement                   |   |                            | Total Debt |
|-------------------------------|---|---|----------------------------|------------|
|                               | Senior secured credit facility due 2017 | Senior secured incremental term loan due 2017 | Second Lien Notes due 2018 |            |
| Balance at December 31, 2011  | \$ 339,232                              | \$ 146,656                                    | \$ 325,000                 | \$ 810,888 |
| Payments                      |   | (750)   |                            | (750)      |
| Accretion of discount         | 65                                      | 162   |                            | 227        |

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|                                |            |            |            |            |
|--------------------------------|------------|------------|------------|------------|
| Balance at June 30, 2012       | \$ 339,297 | \$ 146,068 | \$ 325,000 | \$ 810,365 |
| Weighted average interest rate | 4.36%      | 4.38%      | 13.25%     |            |

*2008 Senior Facility* In connection with the Company's recapitalization transaction in May 2011 (the 2011 Recapitalization), the 2008 senior facility was terminated. Prior to the termination, the Company was able to elect an interest rate for the 2008 senior facility at each reset period based on the JP Morgan prime bank rate or the Eurodollar rate. During the six months ended June 30, 2011, the Company elected the JP Morgan prime bank rate as its interest basis. The Company recognized \$0.2 million of discount accretion through the Interest expense line in the Consolidated Statements of Income during the six months ending June 30, 2011.

*2011 Credit Agreement* The Company may elect an interest rate under the agreement governing the Company's senior secured credit facility (the 2011 Credit Agreement) at each reset period based on the Bank of America (BOA) prime bank rate or the Eurodollar rate. The interest rate election may be made individually for the term loan, incremental term loan and each draw under the revolving credit facility. The interest rate is either the BOA prime rate plus 225 basis points or the Eurodollar rate plus

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300 basis points. Since inception of the 2011 Credit Agreement, the Company elected the Eurodollar rate as its primary interest basis, with a minimal amount of the term debt at the BOA alternate base rate. Under the terms of the 2011 Credit Agreement, the interest rate determined using the Eurodollar rate has a minimum rate of 1.25 percent.

Fees on the daily unused availability under the revolving credit facility are 62.5 basis points. Substantially all of the Company's non-financial assets are pledged as collateral for the loans under the 2011 Credit Agreement, with the collateral guaranteed by the Company's material domestic subsidiaries. The non-financial assets of the material domestic subsidiaries are pledged as collateral for these guarantees. As of June 30, 2012, the Company had \$137.3 million of availability under the revolving credit facility, net of \$12.7 million of outstanding letters of credit that reduce the amount available. At June 30, 2012 there were no amounts outstanding under the revolving credit facility.

Amortization of the debt discount for each of the three and six months ended June 30, 2011 includes a pro-rata write-off of \$0.1 million as a result of the term debt prepayment. Following is the debt discount amortization recorded in Interest expense in the Consolidated Statements of (Loss) Income for the three months and six months ended June 30:

| <i>(Amounts in thousands)</i>               | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|---|--------------------------------|---------------|------------------------------|---------------|
|   | 2012                           | 2011          | 2012                         | 2011          |
| Amortization of debt discount               | \$ 117                         | \$ 93         | \$ 227                       | \$ 237        |
| Write-off of debt discount upon prepayments |                                | 123           |                              | 123           |
| <b>Total amortization of discount</b>       | <b>\$ 117</b>                  | <b>\$ 216</b> | <b>\$ 227</b>                | <b>\$ 360</b> |

*Second Lien Notes* Prior to the fifth anniversary, the Company may redeem some or all of the second lien notes at a price equal to 100 percent of the principal, plus any accrued and unpaid interest plus a premium equal to the greater of one percent or an amount calculated by discounting the sum of (a) the redemption payment that would be due upon the fifth anniversary plus (b) all required interest payments due through such fifth anniversary using the treasury rate plus 50 basis points. Starting with the fifth anniversary, the Company may redeem some or all of the second lien notes at prices expressed as a percentage of the outstanding principal amount of the second lien notes plus accrued and unpaid interest, starting at approximately 107 percent on the fifth anniversary, decreasing to 100 percent on or after the eighth anniversary. Upon a change of control, the Company is required to make an offer to repurchase the second lien notes at a price equal to 101 percent of the principal amount plus accrued and unpaid interest. The Company is also required to make an offer to repurchase the second lien notes with proceeds of certain asset sales that have not been reinvested in accordance with the terms of the second lien notes or have not been used to repay certain debt.

*Inter-creditor Agreement* In connection with the above financing arrangements, both the lenders under the 2011 Credit Agreement and the trustee on behalf of the holders of the second lien notes entered into an inter-creditor agreement under which the lenders and trustee have agreed to waive certain rights and limit the exercise of certain remedies available to them for a limited period of time, both before and following a default under the financing arrangements.

*Debt Covenants and Other Restrictions* Borrowings under the Company's debt agreements are subject to various covenants that limit the Company's ability to: incur additional indebtedness; create or incur additional liens; effect mergers and consolidations; make certain acquisitions; sell assets or subsidiary stock; pay dividends and other restricted payments; invest in certain assets; and effect loans, advances and certain other transactions with affiliates. In addition, the 2011 Credit Agreement has a covenant that places limitations on the use of proceeds from borrowings under the facility.

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The indenture governing the second lien notes contains a financial covenant requiring the Company to maintain a minimum liquidity ratio of at least 1:1 for certain assets to outstanding payment service obligations. The 2011 Credit Agreement also has quarterly financial covenants to maintain the following interest coverage and total leverage ratios:

|  | <b>Interest<br/>Coverage<br/>Minimum<br/>Ratio</b> | <b>Total<br/>Leverage<br/>Not To<br/>Exceed</b> |
|--|--|---|
| Present through September 30, 2012           | 2.00:1   | 4.75:1  |
| December 31, 2012 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   | 4.00:1  |
| December 31, 2015 through September 30, 2016 | 2.25:1   | 3.75:1  |
| December 31, 2016 through maturity           | 2.25:1   | 3.50:1  |

At June 30, 2012, the Company is in compliance with its financial covenants.

*Deferred Financing Costs* During the three months ended June 30, 2011, the Company capitalized financing costs of \$12.8 million associated with the 2011 Credit Agreement and \$5.0 million for the amendment of the indenture governing the second lien notes. These costs were capitalized in Other assets in the Consolidated Balance Sheets and are being amortized over the term of the related debt using the effective interest method.

Amortization is recorded in Interest expense in the Consolidated Statements of Income. Following is a summary of the deferred financing costs at June 30, 2012:

| <i>(Amounts in thousands)</i>            | <b>2011 Credit Agreement</b>                  |  |   | <b>Second Lien<br/>Notes</b> | <b>Total Deferred<br/>Financing Costs</b> |
|--|---|--|---|------------------------------|---|
|  | <b>Senior secured<br/>credit<br/>facility</b> | <b>Senior secured<br/>incremental term</b> | <b>Senior revolving<br/>credit<br/>facility</b> |                              |   |
| Balance at December 31, 2011             | \$ 6,882                                      | \$ 3,092                                   | \$ 3,523  | \$ 16,649                    | \$ 30,146                                 |
| Amortization of deferred financing costs | (586)   | (266)                                      | (402)   | (1,299)                      | (2,553)                                   |
| Write-off of deferred financing costs    |   | (14)                                       |   |                              | (14)                                      |
| Balance at June 30, 2012                 | \$ 6,296                                      | \$ 2,812                                   | \$ 3,121  | \$ 15,350                    | \$ 27,579                                 |

*Interest Paid in Cash* The Company paid \$15.9 million and \$32.4 million of interest for the three and six months ended June 30, 2012, respectively, and \$20.0 million and \$38.7 million for the three and six months ended June 30, 2011, respectively.

*Maturities* At June 30, 2012, debt totaling \$481.0 million will mature in 2017 and \$325.0 million will mature in 2018, while debt principal totaling \$7.9 million will be paid in increments of \$0.4 million quarterly through 2017.

**Note 9 Pensions and Other Benefits**

Net periodic benefit expense for the Company's defined benefit pension plan and combined supplemental executive retirement plans (SERPs) includes the following components:

| <i>(Amounts in thousands)</i>  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--------------------------------|--|-------------|--------------------------------------|-------------|
|                                | <b>2012</b>                            | <b>2011</b> | <b>2012</b>                          | <b>2011</b> |
| Interest cost                  | \$ 2,639                               | \$ 2,841    | \$ 5,278                             | \$ 5,682    |
| Expected return on plan assets | (1,968)                                | (2,056)     | (3,937)                              | (4,111)     |



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|                                     |                 |                 |                 |                 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Amortization of prior service cost  | 7               | 7               | 14              | 14              |
| Recognized net actuarial loss       | 1,470           | 1,572           | 2,940           | 3,144           |
| <b>Net periodic benefit expense</b> | <b>\$ 2,148</b> | <b>\$ 2,364</b> | <b>\$ 4,295</b> | <b>\$ 4,729</b> |

Benefits paid through the defined benefit pension plan were \$2.3 million and \$4.7 million for the three and six months ended June 30, 2012, respectively, and \$2.3 million and \$4.5 million for the three and six months ended June 30, 2011, respectively. The Company made contributions to the defined benefit pension plan of \$2.0 million and \$3.4 million during the three months and six months ended June 30, 2012, respectively, and \$1.4 million and \$2.3 million for the three and six months ended June 30, 2011, respectively. Benefits paid through, and contributions made to, the combined SERPs were \$0.7 million and \$1.6 million for the three and six months ended June 30, 2012, respectively, and \$0.8 million and \$1.9 million for the three and six months ended June 30, 2011, respectively.

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Following is a summary of the net actuarial loss and prior service costs for the defined benefit pension plan and combined SERPs that the Company amortized from Accumulated other comprehensive (loss) income into Net periodic benefit expense :

| <i>(Amounts in thousands)</i>                                       | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |                 |
|---|--------------------------------|---------------|------------------------------|-----------------|
|   | 2012                           | 2011          | 2012                         | 2011            |
| Net actuarial loss  | \$ 1,470                       | \$ 1,572      | \$ 2,940                     | \$ 3,144        |
| Tax benefit on net actuarial loss                                   | (559)                          | (597)         | (1,117)                      | (1,195)         |
| Prior service costs   | 7                              | 7             | 14                           | 14              |
| Tax benefit on prior service costs                                  | (3)                            | (2)           | (6)                          | (5)             |
| <b>Net amortization from accumulated other comprehensive income</b> | <b>\$ 915</b>                  | <b>\$ 980</b> | <b>\$ 1,831</b>              | <b>\$ 1,958</b> |

Net periodic benefit expense for the Company's postretirement benefit plans includes the following components:

| <i>(Amounts in thousands)</i>        | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                 |
|--------------------------------------|--------------------------------|----------------|------------------------------|-----------------|
|                                      | 2012                           | 2011           | 2012                         | 2011            |
| Interest cost                        | \$ 24                          | \$ 13          | \$ 48                        | \$ 26           |
| Amortization of prior service credit | (157)                          | (156)          | (313)                        | (313)           |
| Recognized net actuarial loss        | 97                             | 61             | 195                          | 122             |
| <b>Net periodic benefit expense</b>  | <b>\$ (36)</b>                 | <b>\$ (82)</b> | <b>\$ (70)</b>               | <b>\$ (165)</b> |

Benefits paid through, and contributions made to, the postretirement benefit plans were \$0.1 million for both the three and six months ended June 30, 2012, respectively, and \$0.1 million for both the three and six months ended June 30, 2011, respectively.

Following 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 :

| <i>(Amounts in thousands)</i>                                       | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                 |
|---|--------------------------------|----------------|------------------------------|-----------------|
|   | 2012                           | 2011           | 2012                         | 2011            |
| Net actuarial loss  | \$ 97                          | \$ 61          | \$ 195                       | \$ 122          |
| Tax benefit on net actuarial loss                                   | (37)                           | (24)           | (74)                         | (47)            |
| Prior service costs   | (157)                          | (156)          | (313)                        | (313)           |
| Tax expense on prior service costs                                  | 60                             | 59             | 119                          | 119             |
| <b>Net amortization from accumulated other comprehensive income</b> | <b>\$ (37)</b>                 | <b>\$ (60)</b> | <b>\$ (73)</b>               | <b>\$ (119)</b> |

Contribution expense for the 401(k) defined contribution plan was \$1.0 million and \$1.8 million for the three and six months ended June 30, 2012, respectively, compared to \$0.9 million and \$1.7 million for the three and six months ended June 30, 2011, respectively.

*International Benefit Plans* The Company's international subsidiaries have certain defined contribution benefit plans. Contributions expense related to international plans was \$0.3 million and \$0.7 million for the three months and six months ended June 30, 2012, respectively, and \$0.3 million and \$0.6 million for the three and six months ended June 30, 2011, 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 plans

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that are funded through voluntary contributions by the Company. At June 30, 2012 and December 31, 2011, the Company had a liability related to the deferred compensation plans of \$2.6 million and \$3.4 million, respectively, recorded in the Accounts payable and other liabilities line in the Consolidated Balance Sheets. The rabbi trusts had a market value of \$8.3 million and \$8.1 million at June 30, 2012 and December 31, 2011, respectively, recorded in Other assets in the Consolidated Balance Sheets.

In the first quarter of 2011, the MoneyGram International, Inc. Deferred Compensation Plan, a non-qualified, frozen, deferred compensation plan for a select group of management and highly compensated employees, was amended to terminate all employee deferral accounts on the amendment date and pay each participant the balance of their account in a lump sum no earlier than one year from termination and no later than December 31, 2012. In the six months ended June 30, 2012, the Company made \$0.5 million in payments and no further payments are due.

**Table of Contents****Note 10 Stockholders Deficit**

*Reverse Stock Split* On November 14, 2011, the Company filed a certificate of amendment to its Amended and Restated Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a reverse stock split ratio of 1-for-8. All share and per share amounts have been retroactively adjusted to reflect the stock split with the exception of the Company's treasury stock, which was not a part of the reverse stock split.

Following is a summary of the activity of the Company's stock authorized, issued and outstanding:

| (Amounts in thousands)                                      | D Stock    |        |             | Common Stock |        |             | Treasury |
|---|------------|--------|-------------|--------------|--------|-------------|----------|
|   | Authorized | Issued | Outstanding | Authorized   | Issued | Outstanding | Stock    |
| December 31, 2011   | 200        | 109    | 109         | 162,500      | 62,264 | 57,835      | (4,429)  |
| Stock option exercise and release of restricted stock units |            |        |             |              |        | 22          | 22       |
| June 30, 2012   | 200        | 109    | 109         | 162,500      | 62,264 | 57,857      | (4,407)  |

*Common Stock* The holders of MoneyGram 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, 2012. 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 2011 Credit Agreement and the indenture governing the Company's second lien notes.

*Accumulated Other Comprehensive Loss* The components of Accumulated other comprehensive loss at June 30, 2012 and December 31, 2011 include:

| (Amounts in thousands)  | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Net unrealized gains on securities classified as available-for-sale, net of tax | \$ 22,887        | \$ 21,479            |
| Cumulative foreign currency translation adjustments, net of tax                 | 1,225            | 1,021                |
| Prior service credit for pension and postretirement benefits, net of tax        | 1,849            | 2,034                |
| Unrealized losses on pension and postretirement benefits, net of tax            | (60,618)         | (62,562)             |
| Accumulated other comprehensive loss  | \$ (34,657)      | \$ (38,028)          |

**Note 11 Stock-Based Compensation**

The MoneyGram International, Inc. 2005 Omnibus Incentive Plan ( 2005 Plan ) provides for the granting of equity-based compensation awards, including stock options, stock appreciation rights, restricted stock units and restricted stock awards (collectively, share-based awards ) to officers, employees and directors. The Company is authorized to issue a total of 5,875,000 of share-based awards. As of June 30, 2012, the Company has remaining authorization to issue future grants of up to 1,672,833 shares.

The calculated fair value of share-based awards is recognized as compensation cost using the straight-line method over the vesting or service period in the Company's financial statements. Stock-based compensation is recognized only for those options, restricted stock units and stock appreciation rights expected to vest, with forfeitures estimated at the date of grant and evaluated and adjusted periodically to reflect the Company's historical experience and future expectations. Any change in the forfeiture assumption will be accounted for as a change in estimate, with the cumulative effect of the change on periods previously reported being reflected in the financial statements of the period in which the change is made.

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Following is a summary of stock-based compensation expense for the three and six months ended June 30:

| <i>(Amounts in thousands)</i>                        | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2012                           | 2011     | 2012                         | 2011     |
| Expense recognized related to stock options          | \$ 1,161                       | \$ 2,658 | \$ 4,343                     | \$ 7,109 |
| Expense recognized related to restricted stock units | 456                            | 174      | 797                          | 322      |
| Expense related to stock appreciation rights         | 11                             |          | 20                           |          |
| Stock-based compensation expense                     | \$ 1,628                       | \$ 2,832 | \$ 5,160                     | \$ 7,431 |

Employee stock based compensation included a \$1.2 million expense reversal for the three and six months ended June 30, 2012 from forfeitures upon executive employee terminations.

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*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 2012, options awarded become exercisable through the passage of time annually over a four-year period in an equal number of shares each year, and have a term of 10 years.

For purposes of determining the fair value of stock options awarded in 2012, 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 2012 options:

|   |              |
|---|--------------|
| Expected dividend yield <sup>(1)</sup>            | 0.0%         |
| Expected volatility <sup>(2)</sup>                | 71.2% -71.8% |
| Risk-free interest rate <sup>(3)</sup>            | 1.2% -1.5%   |
| Expected life <sup>(4)</sup>                      | 6.3 years    |
| Weighted-average grant-date fair value per option | \$ 11.04     |

- <sup>(1)</sup> 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.
- <sup>(2)</sup> 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.
- <sup>(3)</sup> The risk-free interest rate for the Black-Scholes model is based on the United States Treasury yield curve in effect at the time of grant for periods within the expected term of the option.
- <sup>(4)</sup> 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.

A summary of the Company's stock option activity for the six months ended June 30, 2012 is as follows:

|   | Shares    | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (\$000) |
|---|-----------|---------------------------------|---|-----------------------------------|
| Options outstanding at December 31, 2011    | 5,365,085 | \$ 23.45                        |   |                                   |
| Granted                                     | 140,848   | 16.75                           |   |                                   |
| Exercised                                   | (1,250)   | 17.36                           |   |                                   |
| Forfeited/Expired                           | (714,409) | 29.83                           |   |                                   |
| Options outstanding at June 30, 2012        | 4,790,274 | \$ 22.30                        | 7.09 years                                  | \$ 1,698                          |
| Vested or expected to vest at June 30, 2012 | 4,641,553 | \$ 22.35                        | 7.02 years                                  | \$ 1,698                          |
| Options exercisable at June 30, 2012        | 1,303,523 | \$ 26.48                        | 5.99 years                                  | \$ 1,037                          |



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The following is a summary of the Company's stock option compensation information:

| <i>(Amounts in thousands)</i>             | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |        |
|---|--------------------------------|-----------|------------------------------|--------|
|   | 2012                           | 2011      | 2012                         | 2011   |
| Intrinsic value of options exercised      | \$                             | \$ 73     | \$ 1                         | \$ 154 |
| Cash received from option exercises       | \$                             | \$ 1      | \$ 22                        | \$ 364 |
| Unrecognized stock option expense         | \$                             | \$ 16,542 |                              |        |
| Remaining weighted-average vesting period |                                | 1.0 years |                              |        |

**Restricted Stock Units** In the first half of 2012, 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, defined as earnings before interest, taxes, depreciation and amortization and less certain non-recurring or other unexpected expenses, 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.

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 2012 grants of performance-based restricted stock units, the grant date fair value at the minimum, target and maximum thresholds is \$0.9 million, \$1.7 million and \$3.4 million, respectively. As of June 30, 2012, the Company believes it is probable it will achieve the performance goal at the target level on the third anniversary.

In April 2012, the Company granted an aggregate of 48,474 restricted stock units to members of the Board of Directors, excluding the Chairman of 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.

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 Income using the straight-line method over the vesting period.

A summary of the Company's restricted stock unit activity for the six months ended June 30, 2012 is as follows:

|   | Total<br>Shares | Weighted<br>Average<br>Price |
|---|-----------------|------------------------------|
| Restricted stock units outstanding at December 31, 2011 | 337,676         | \$ 17.77                     |
| Granted   | 254,030         | 16.65                        |
| Vested  | (20,896)        | 28.72                        |
| Forfeited   | (27,300)        | 17.03                        |
| Restricted stock units outstanding at June 30, 2012     | 543,510         | \$ 16.86                     |

The fair value of restricted stock units vested is \$0.6 million for both the three and six months ended June 30, 2012 and \$0.6 million for both the three and six months ended June 30, 2011. As of June 30, 2012, the Company's outstanding restricted stock units had unrecognized compensation expense of \$3.7 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 target performance goal on the third anniversary. Unrecognized restricted stock unit expense as of June 30, 2012 under the minimum and maximum thresholds is \$2.2 million and \$6.8 million, respectively.



**Note 12 Income Taxes**

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, resulting from the non-deductibility of certain legal accruals and related expenses. The Company paid \$0.7 million and \$0.8 million of federal and state income taxes for the three and six months ended June 30, 2012, respectively.

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For the three months ended June 30, 2011, the Company had \$2.9 million of income tax expense on pre-tax income of \$29.3 million, primarily reflecting \$2.9 million of tax on an investment security settlement received in the second quarter of 2011. For the six months ended June 30, 2011, the Company had nominal income tax benefit on pre-tax income of \$40.4 million, reflecting a discrete benefit of \$3.5 million for the reversal of a portion of the valuation allowance on domestic deferred tax assets, which was partially offset by the \$2.9 million of tax on an investment security settlement. The Company paid \$0.4 million and \$0.5 million of federal and state income taxes for the three and six months ended June 30, 2011, 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, 2012, interest and penalties for unrecognized tax benefits were \$0.1 million and \$0.2 million, respectively, compared to nominal amounts for both the three and six months ended June 30, 2011. The Company records interest and penalties for unrecognized tax benefits in *Income tax expense (benefit)* in the Consolidated Statements of (Loss) Income. As of June 30, 2012 and December 31, 2011, the Company had a liability of \$1.7 million and \$1.6 million, respectively, for interest and penalties within *Accounts payable and other liabilities* in the Consolidated Balance Sheets.

During the second quarter of 2010, the Internal Revenue Service (the *IRS*) completed its examination of the Company's consolidated income tax returns for 2005 to 2007 and issued a Notice of Deficiency related to these items in April 2012 (the *2005-2007 Notice of Deficiency*). The Company is also currently under examination for its 2008 and 2009 tax returns, which had similar deductions, and received a Revenue Agent Report (*RAR*) for 2008 and 2009 in April 2012. The Company anticipates receiving a Notice of Deficiency for 2008 and 2009 within the next 12 months. The Company filed a petition with the United States Tax Court on May 14, 2012 contesting the adjustments in the 2005-2007 Notice of Deficiency and plans to petition the United States Tax Court for 2008 and 2009 as well. Approximately \$955.0 million of cumulative deductions were taken for net securities losses in its 2007, 2008 and 2009 tax returns. As of June 30, 2012, the Company has recognized a cumulative benefit of approximately \$136.1 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.

**Note 13 Commitments and Contingencies**

*Operating Leases* The Company has various non-cancelable operating leases for buildings and equipment that terminate through 2021. 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 difference 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, 2012, the deferred rent liability relating to these incentives was \$2.2 million.

Rent expense under operating leases was \$4.1 million and \$7.9 million for the three and six months ended June 30, 2012, respectively, and \$3.8 million and \$8.0 million for the three and six months ended June 30, 2011, respectively. Minimum future rental payments for all non-cancelable operating leases with an initial term of more than one year are (amounts in thousands):

|              |                  |
|--------------|------------------|
| Year 1       | \$ 13,052        |
| Year 2       | 12,242           |
| Year 3       | 10,697           |
| Year 4       | 5,606            |
| Year 5       | 2,821            |
| Thereafter   | 9,231            |
| <b>Total</b> | <b>\$ 53,649</b> |

*Credit Facilities* At June 30, 2012, the Company has overdraft facilities through its senior facility consisting of \$12.7 million of letters of credit to assist in the management of investments and the clearing of payment service obligations. All of these letters of credit are outstanding as of June 30, 2012. These overdraft facilities reduce amounts available under the senior facility. Fees on the letters of credit are paid in accordance with the terms of the senior facility described in Note 8 *Debt*.

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*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 commissions expense line in the Consolidated Statements of (Loss) Income.

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As of June 30, 2012, the liability for minimum commission guarantees was \$3.5 million and the maximum amount that could be paid under the minimum commission guarantees was \$12.5 million over a weighted average remaining term of 2.9 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, 2012 and 2011, the Company paid \$0.5 million and \$0.1 million, respectively, or 19 percent and 21 percent, respectively, 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, 2012, 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 with certainty. The Company accrues for these matters as any resulting losses become probable and can be reasonably estimated. Further, the Company maintains insurance coverage for many claims and litigations alleged. In relation to various legal matters, including those described below, the Company had \$43.6 million and \$3.0 million of liability recorded in the Accounts payable and other liabilities line in the Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011, respectively. Legal accruals and settlement charges of \$36.5 million and \$38.1 million, net of insurance recoveries of \$2.8 million, were recorded in the Transaction and operations support line in the Consolidated Statements of (Loss) Income during the three and six months ended June 30, 2012, and charges of \$0.4 million and \$1.4 million were recorded during the three and six months ended June 30, 2011, respectively.

### Litigation Commenced Against the Company:

*Stockholder Litigation* On April 15, 2011 a complaint was filed in the Court of Chancery of the State of Delaware by Willie R. Pittman purporting to be a class action complaint on behalf of all stockholders and a stockholder derivative complaint against the Company, THL, Goldman Sachs and each of the Company's directors. Ms. Pittman alleged in her complaint that she is a stockholder of the Company and asserted, among other things, (i) breach of fiduciary duty and disclosure claims against the Company's directors, THL and Goldman Sachs, (ii) breach of the Company's certificate of incorporation claims against the Company, THL and Goldman Sachs, and (iii) claims for aiding and abetting breach of fiduciary duties against Goldman Sachs. Ms. Pittman purported to sue on her own behalf and on behalf of the Company and its stockholders. Pittman sought to, among other things, enjoin or rescind the 2011 Recapitalization. On April 29, 2011 the plaintiff filed an amended complaint to add two additional plaintiffs, Susan Seales and Stephen Selzer. On May 16, 2011 a hearing to enjoin or rescind the 2011 Recapitalization was held in the Court of Chancery of the State of Delaware (the Delaware Court), and at the hearing, the plaintiffs' request for a preliminary injunction was denied. The 2011 Recapitalization was completed on May 18, 2011. Since that time, Ms. Pittman has withdrawn as a putative class representative; Ms. Seales and Mr. Selzer remain as plaintiffs. The plaintiffs sought to recover damages of some or all of the cash and stock payments made to THL and Goldman Sachs by the Company in connection with the 2011 Recapitalization.

On May 12, 2011 a complaint was filed in the County Court at Law No. 3 in Dallas County, Texas by Hilary Kramer purporting to be a class action complaint on behalf of all stockholders and a stockholder derivative complaint against the Company, THL, Goldman Sachs and each of the Company's directors. Ms. Kramer alleged in her complaint that she is a stockholder of the Company and asserted, among other things, (i) breach of fiduciary duty claims against the Company's directors, THL and Goldman Sachs and (ii) claims for aiding and abetting breach of fiduciary duties against Goldman Sachs. Ms. Kramer purported to sue on her own behalf and on behalf of the Company and its stockholders. Ms. Kramer sought to, among other things, enjoin the 2011 Recapitalization. The defendants have moved for the Texas court to stay this litigation in favor of the Pittman litigation in Delaware, which has an overlapping class definition.

On July 20, 2012, the parties in the Pittman litigation applied for preliminary approval of a proposed settlement, the terms of which are set forth in a Stipulation and Agreement of Compromise and Settlement, dated as of July 19, 2012 (the Stipulation). The Stipulation, which is still subject to preliminary and final approval by the Delaware Court, provides for a settlement payment of \$10.0 million, to be distributed pro rata to certain stockholders, net of any attorneys' fees awarded by the Delaware Court. During the three and six months ended June 30, 2012, the Company recognized \$6.5 million of expense for the proposed settlement. The Company, THL, Goldman Sachs, the Company's directors and other parties agreed to share financial responsibility for funding the settlement payment as follows: (i) the Company will contribute \$3.5 million; (ii) the Company's insurer will contribute \$2.8 million under the Company's director and officer liability policy; (iii) THL and the individuals nominated by THL as directors of the Company, referred to collectively herein as the THL Directors, will waive all future rights to receive cash or equity compensation from the Company for services by the THL Directors or any other directors nominated by THL, and the Company will contribute \$2.0 million toward the settlement payment in recognition of such waiver; (iv) Goldman Sachs has agreed to waive reimbursements of \$1.0 million of legal fees and expenses associated with the Company's 2011 Recapitalization, and the Company will contribute this amount toward the settlement payment; and (v) other parties with rights related to the 2011 Recapitalization have agreed to waive reimbursement of \$0.8 million of legal fees and expenses, and the Company will contribute this amount toward the settlement payment.

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The Stipulation also includes a release by the putative class of stockholders of all claims with respect to the allegations in the action or relating to the 2011 Recapitalization. The Delaware Court has set a hearing on October 10, 2012 to consider final approval of the settlement and entry of judgment. If the settlement is approved, the action will be dismissed with prejudice on the merits, and the Company will seek to dismiss the Texas action as well.

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*Other Matters* 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:**

*MDPA/DOJ Matter* MoneyGram has been served with subpoenas to produce documents and testify before a grand jury in the U.S. District Court for the Middle District of Pennsylvania. The subpoenas sought information related to, inter alia, MoneyGram's U.S. and Canadian agents, as well as certain transactions involving such agents, fraud complaint data, and MoneyGram's consumer anti-fraud program during the period from 2004 to 2009. MoneyGram has provided information requested pursuant to the subpoenas and continues to provide additional information relating to the investigation. In addition, the Company was provided with subpoenas for the testimony of certain current and former employees in connection with the investigation. Interviews of one former executive officer and one former chief executive officer of the Company have taken place. The U.S. Department of the Treasury Financial Crimes Enforcement Network, or FinCEN, also requested information, which information was subsequently provided by MoneyGram, concerning MoneyGram's reporting of fraudulent transactions during this period. In November 2010, MoneyGram met with representatives from the U.S. Attorney's Office for the Middle District of Pennsylvania, or the MDPA USAO, and representatives of FinCEN to discuss the investigation. In July 2011, MoneyGram had further discussions with the MDPA USAO and representatives of the Asset Forfeiture and Money Laundering Section of the U.S. Department of Justice, or the US DOJ. MoneyGram has been informed that it is being investigated by the federal grand jury in connection with these matters for the period 2004 to early 2009 as well as MoneyGram's anti-money laundering program during that period. In January 2012, meetings were held between representatives of the Company, the MDPA USAO and the Criminal Division of the US DOJ to discuss the investigation. During the course of these discussions, the Company was advised that consideration was being given to a range of possible outcomes, including the seeking of criminal penalties against the Company.

On March 19, 2012, the Company entered into a tolling agreement with the U.S. Attorney's Office for the Middle District of Pennsylvania and the Asset Forfeiture and Money Laundering Section of the Criminal Division of the Department of Justice that tolled the statute of limitations applicable to any criminal proceedings that the government might later initiate to include the period from March 23, 2012 through and including December 31, 2012.

MoneyGram continues to engage in discussions and to cooperate with the government representatives regarding the investigation. However, the Company is unable to determine at this time what the final resolution of the investigation will be, including the nature of any proceeding and the manner in which it will be resolved. In the second quarter, the Company recorded an accrual of \$30.0 million in connection with a possible resolution of this matter, based on the facts and circumstances known at this time. However, the Company is unable at this time to reasonably estimate the ultimate loss and no assurance can be given that costs and payments made in connection with this matter will not exceed the amount currently recorded or that the government will not also seek to impose non-monetary remedies or penalties.

*State Civil Investigative Demands* MoneyGram has also received Civil Investigative Demands from a working group of nine state attorneys general who have initiated an investigation into whether the Company has taken 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 at this time.

*Other Matters* The Company is involved in various government inquiries and other matters that arise from time to time. 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.

**Action Commenced by the Company:**

*CDO Litigation* In March 2012, the Company initiated an arbitration proceeding before the Financial Industry Regulatory Authority ( FINRA ) against Goldman Sachs & Co. ( Goldman ). The arbitration relates to MoneyGram's purchase of Residential Mortgage Backed Securities and Collateral Debt Obligations that Goldman sold to MoneyGram during the 2005

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through 2007 timeframe. The Company alleges, among other things, that Goldman 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 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 ( D Stock ) currently owned by Goldman and its affiliates.

**Tax Litigation** On May 14, 2012, the Company filed a petition in the United States Tax Court challenging the 2005-2007 Notice of Deficiency, 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. If the Company's petition is denied in its entirety, the Company would be required to make cash payments of \$110.1 million based on benefits taken through June 30, 2012. The IRS filed a response to the Company's petition on July 18, 2012 reasserting its original position.

**Note 14 Earnings per Common Share**

For discrete periods from January 1, 2008 through June 30, 2011, the Company utilized the two-class method for computing basic earnings per common share, which reflects the amount of undistributed earnings allocated to the common stockholders using the participation percentage of each class of stock. Undistributed earnings was determined as the Company's net income less dividends declared, accumulated, deemed or paid on preferred stock. The undistributed earnings allocated to the common stockholders are divided by the weighted-average number of common shares outstanding during the period to compute basic 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 and the outstanding shares of the Company's Series B Participating Convertible Preferred Stock and the Company's Series B-1 Participating Convertible Preferred Stock (collectively, the Series B Stock ) were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method and the conversion of the Series B Stock using the if-converted method.

Effective for discrete periods beginning after June 30, 2011, the Company no longer applies the two-class method of calculating basic earnings per share because the Series B Stock is no longer outstanding and the D Stock is deemed a common stock equivalent.

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 Series B Stock is anti-dilutive when the incremental earnings per share of Series B Stock on an if-converted basis is greater than the basic earnings per common share. Following are the weighted-average potential common shares excluded from diluted earnings per common share as their effect would be anti-dilutive:

| <i>(Amounts in thousands)</i>                                 | Three Months Ended |        | Six Months Ended |        |
|---|--------------------|--------|------------------|--------|
|   | June 30,           |        | June 30,         |        |
|   | 2012               | 2011   | 2012             | 2011   |
| Shares related to stock options                               | 5,045              | 5,101  | 5,200            | 5,117  |
| Shares related to restricted stock and restricted stock units | 500                | 28     | 422              | 28     |
| Shares related to preferred stock                             |                    | 29,283 |                  | 42,327 |
| Shares excluded from the computation                          | 5,545              | 34,412 | 5,622            | 47,472 |

**Note 15 Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, ( ASU 2011-04 ). ASU 2011-04 amends Accounting Standards Codification ( ASC ) 820, *Fair Value Measurements*, ( ASC 820 ), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes

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certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. The Company adopted ASU 2011-04 on January 1, 2012, which resulted in additional fair value measurement disclosures.



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In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*, ( ASU 2011-05 ) to amend financial statement presentation guidance for other comprehensive income ( OCI ). Under ASU 2011-05, the statement of income and OCI can be presented either as a continuous statement or in two separate consecutive statements. As such, the option to present the components of OCI as part of the statement of stockholders' equity is eliminated. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 was adopted on January 1, 2012 with no impact to the Company's Consolidated Financial Statements.

**Note 16 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 primarily manages its business through 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 United States and Puerto Rico, and provides official check services to financial institutions in the United States. One of the Company's agents of both the Global Funds Transfer segment and the Financial Paper Products segment accounted for 28.1 percent and 28.3 percent of total revenue for the three months ended June 30, 2012 and 2011, respectively, and 28.6 percent and 29.2 percent for the six months ended June 30, 2012 and 2011, respectively.

The following tables set forth revenue, operating results, depreciation and amortization, capital expenditures and assets by segment:

| <i>(Amounts in thousands)</i>  | Three Months Ended |            | Six Months Ended |            |
|--------------------------------|--------------------|------------|------------------|------------|
|                                | June 30,           |            | June 30,         |            |
|                                | 2012               | 2011       | 2012             | 2011       |
| Revenue                        |                    |            |                  |            |
| Global Funds Transfer:         |                    |            |                  |            |
| Money transfer                 | \$ 282,262         | \$ 256,285 | \$ 550,753       | \$ 495,989 |
| Bill payment                   | 26,008             | 27,554     | 53,652           | 57,631     |
| Total Global Funds Transfer    | 308,270            | 283,839    | 604,405          | 553,620    |
| Financial Paper Products:      |                    |            |                  |            |
| Money order                    | 14,518             | 15,623     | 29,408           | 31,353     |
| Official check                 | 7,001              | 10,016     | 13,779           | 18,182     |
| Total Financial Paper Products | 21,519             | 25,639     | 43,187           | 49,535     |
| Other                          | 353                | 475        | 645              | 822        |
| Total revenue                  | \$ 330,142         | \$ 309,953 | \$ 648,237       | \$ 603,977 |

| <i>(Amounts in thousands)</i>  | Three Months Ended |           | Six Months Ended |           |
|--------------------------------|--------------------|-----------|------------------|-----------|
|                                | June 30,           |           | June 30,         |           |
|                                | 2012               | 2011      | 2012             | 2011      |
| Segment operating income:      |                    |           |                  |           |
| Global Funds Transfer          | \$ 38,626          | \$ 25,911 | \$ 71,908        | \$ 52,358 |
| Financial Paper Products       | 8,080              | 9,344     | 17,070           | 17,724    |
| Other                          | (488)              | (400)     | (1,057)          | (663)     |
| Total segment operating income | 46,218             | 34,855    | 87,921           | 69,419    |
| Other unallocated expenses     | 43,085             | 597       | 48,857           | 3,460     |
| Total operating income         | 3,133              | 34,258    | 39,064           | 65,959    |
| Net securities gains           |                    | (32,816)  |                  | (32,816)  |
| Interest expense               | 17,637             | 22,873    | 35,520           | 43,486    |

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|                                   |             |           |          |           |
|-----------------------------------|-------------|-----------|----------|-----------|
| Other                             | 347         | 14,856    | 347      | 14,856    |
| (Loss) income before income taxes | \$ (14,851) | \$ 29,345 | \$ 3,197 | \$ 40,433 |

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| <i>(Amounts in thousands)</i>              | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|--|--------------------------------|------------------|------------------------------|------------------|
|  | 2012                           | 2011             | 2012                         | 2011             |
| <b>Depreciation and amortization:</b>      |                                |                  |                              |                  |
| Global Funds Transfer                      | \$ 9,416                       | \$ 10,351        | \$ 19,166                    | \$ 20,464        |
| Financial Paper Products                   | 897                            | 1,504            | 1,812                        | 3,049            |
| Other                                      | 740                            | 24               | 758                          | 32               |
| <b>Total depreciation and amortization</b> | <b>\$ 11,053</b>               | <b>\$ 11,879</b> | <b>\$ 21,736</b>             | <b>\$ 23,545</b> |
| <b>Capital expenditures:</b>               |                                |                  |                              |                  |
| Global Funds Transfer                      | \$ 10,416                      | \$ 11,601        | \$ 19,953                    | \$ 18,492        |
| Financial Paper Products                   | 1,292                          | 2,611            | 3,325                        | 3,485            |
| <b>Total capital expenditures</b>          | <b>\$ 11,708</b>               | <b>\$ 14,212</b> | <b>\$ 23,278</b>             | <b>\$ 21,977</b> |

| <i>(Amounts in thousands)</i> | June 30,<br>2012    | December 31,<br>2011 |
|-------------------------------|---------------------|----------------------|
| <b>Assets:</b>                |                     |                      |
| Global Funds Transfer         | \$ 1,445,862        | \$ 1,247,355         |
| Financial Paper Products      | 3,447,031           | 3,683,393            |
| Other                         | 292,169             | 244,830              |
| <b>Total assets</b>           | <b>\$ 5,185,062</b> | <b>\$ 5,175,578</b>  |

*Geographic areas* International operations are located principally in Europe. International revenues are defined as revenues generated from money transfer transactions originating in a country other than the United States. The table below presents revenue by major geographic area for the three and six months ended June 30:

| <i>(Amounts in thousands)</i> | Three Months Ended<br>June 30, |                   | Six Months Ended<br>June 30, |                   |
|-------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
|                               | 2012                           | 2011              | 2012                         | 2011              |
| United States                 | \$ 205,079                     | \$ 192,205        | \$ 405,611                   | \$ 380,103        |
| International                 | 125,063                        | 117,748           | 242,626                      | 223,874           |
| <b>Total revenue</b>          | <b>\$ 330,142</b>              | <b>\$ 309,953</b> | <b>\$ 648,237</b>            | <b>\$ 603,977</b> |

**Note 17 Condensed Consolidating Financial Statements**

In the event the Company offers debt securities pursuant to its registration statement on Form S-3, such debt securities may be guaranteed by certain of its subsidiaries. Accordingly, the Company is providing condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*. If the Company issues debt securities, the following 100 percent directly or indirectly owned subsidiaries could fully and unconditionally guarantee the debt securities on a joint and several basis: MoneyGram Payment Systems Worldwide, Inc.; MoneyGram Payment Systems, Inc.; and MoneyGram of New York LLC (collectively, the Guarantors).

The following information represents condensed, consolidating Balance Sheets as of June 30, 2012 and December 31, 2011, along with condensed, consolidating Statements of (Loss) Income, Statements of Comprehensive (Loss) Income and Statements of Cash Flows for the three

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and six months ended June 30, 2012 and 2011. The condensed, consolidating financial information presents financial information in separate columns for MoneyGram International, Inc. on a parent-only basis carrying its investment in subsidiaries under the equity method; Guarantors on a combined basis, carrying investments in subsidiaries that are not expected to guarantee the debt (collectively, the Non-Guarantors ) under the equity method; Non-Guarantors on a combined basis; and eliminating entries. The eliminating entries primarily reflect intercompany transactions, such as accounts receivable and payable, fee revenue and commissions expense and the elimination of equity investments and income in subsidiaries.

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING BALANCE SHEETS****AS OF JUNE 30, 2012**

| <i>(Amounts in thousands)</i>                             | Parent    | Subsidiary<br>Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|---|-----------|--------------------------|--------------------|--------------|--------------|
| <b>ASSETS</b>   |           |                          |                    |              |              |
| Cash and cash equivalents                                 | \$        | \$                       | \$                 | \$           | \$           |
| Cash and cash equivalents (substantially restricted)      | 547       | 2,457,501                | 90,209             |              | 2,548,257    |
| Receivables, net (substantially restricted)               |           | 1,248,250                | 18,632             |              | 1,266,882    |
| Short-term investments (substantially restricted)         |           | 500,000                  | 24,055             |              | 524,055      |
| Available-for-sale investments (substantially restricted) |           | 85,281                   |                    |              | 85,281       |
| Property and equipment                                    |           | 89,941                   | 27,091             |              | 117,032      |
| Goodwill  |           | 306,878                  | 121,813            |              | 428,691      |
| Other assets  | 10,072    | 185,225                  | 19,567             |              | 214,864      |
| Equity investments in subsidiaries                        | 80,798    | 173,247                  |                    | (254,045)    |              |
| Intercompany receivables                                  |           | 173,416                  |                    | (173,416)    |              |
| Total assets  | \$ 91,417 | \$ 5,219,739             | \$ 301,367         | \$ (427,461) | \$ 5,185,062 |
| <b>LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY</b>      |           |                          |                    |              |              |
| Payment service obligations                               | \$        | \$ 4,102,134             | \$ 53,746          | \$           | \$ 4,155,880 |
| Debt  |           | 810,365                  |                    |              | 810,365      |
| Pension and other postretirement benefits                 |           | 114,606                  | 1,747              |              | 116,353      |
| Accounts payable and other liabilities                    | 84,860    | 111,855                  | 21,852             |              | 218,567      |
| Intercompany liabilities                                  | 122,660   | (19)                     | 50,775             | (173,416)    |              |
| Total liabilities   | 207,520   | 5,138,941                | 128,120            | (173,416)    | 5,301,165    |
| Total stockholders (deficit) equity                       | (116,103) | 80,798                   | 173,247            | (254,045)    | (116,103)    |
| Total liabilities and stockholders (deficit) equity       | \$ 91,417 | \$ 5,219,739             | \$ 301,367         | \$ (427,461) | \$ 5,185,062 |

**MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING BALANCE SHEETS****AS OF DECEMBER 31, 2011**

| <i>(Amounts in thousands)</i>                             | Parent | Subsidiary<br>Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|---|--------|--------------------------|--------------------|--------------|--------------|
| <b>ASSETS</b>   |        |                          |                    |              |              |
| Cash and cash equivalents                                 | \$     | \$                       | \$                 | \$           | \$           |
| Cash and cash equivalents (substantially restricted)      | 524    | 2,462,106                | 109,544            |              | 2,572,174    |
| Receivables, net (substantially restricted)               |        | 1,204,903                | 15,162             |              | 1,220,065    |
| Short-term investments (substantially restricted)         |        | 500,000                  | 22,024             |              | 522,024      |
| Available-for-sale investments (substantially restricted) |        | 102,771                  |                    |              | 102,771      |
| Property and equipment                                    |        | 87,172                   | 29,169             |              | 116,341      |
| Goodwill  |        | 306,878                  | 121,813            |              | 428,691      |
| Other assets  | 4,820  | 190,295                  | 18,397             |              | 213,512      |

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|  |           |              |            |              |              |
|--|-----------|--------------|------------|--------------|--------------|
| Equity investments in subsidiaries                   | 85,436    | 177,385      | (262,821)  |              |              |
| Intercompany receivables                             |           | 187,441      | (187,441)  |              |              |
| Total assets   | \$ 90,780 | \$ 5,218,951 | \$ 316,109 | \$ (450,262) | \$ 5,175,578 |
| <b>LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY</b> |           |              |            |              |              |
| Payment service obligations                          | \$        | \$ 4,138,418 | \$ 66,957  | \$           | \$ 4,205,375 |
| Debt   |           | 810,888      |            |              | 810,888      |
| Pension and other postretirement benefits            |           | 118,580      | 1,672      |              | 120,252      |
| Accounts payable and other liabilities               | 54,803    | 65,629       | 28,829     |              | 149,261      |
| Intercompany liabilities                             | 146,175   |              | 41,266     | (187,441)    |              |
| Total liabilities                                    | 200,978   | 5,133,515    | 138,724    | (187,441)    | 5,285,776    |
| Total stockholders (deficit) equity                  | (110,198) | 85,436       | 177,385    | (262,821)    | (110,198)    |
| Total liabilities and stockholders (deficit) equity  | \$ 90,780 | \$ 5,218,951 | \$ 316,109 | \$ (450,262) | \$ 5,175,578 |

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF (LOSS) INCOME****FOR THE THREE MONTHS ENDED JUNE 30, 2012**

| <i>(Amounts in thousands)</i>        | Parent      | Subsidiary<br>Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|--------------------------------------|-------------|--------------------------|--------------------|--------------|--------------|
| <b>REVENUE</b>                       |             |                          |                    |              |              |
| Fee and other revenue                | \$          | \$ 352,844               | \$ 71,870          | \$ (98,008)  | \$ 326,706   |
| Investment revenue                   |             | 3,238                    | 198                |              | 3,436        |
| Total revenue                        |             | 356,082                  | 72,068             | (98,008)     | 330,142      |
| <b>EXPENSES</b>                      |             |                          |                    |              |              |
| Fee and other commissions expense    |             | 184,742                  | 42,263             | (80,332)     | 146,673      |
| Investment commissions expense       |             | 103                      |                    |              | 103          |
| Total commissions expense            |             | 184,845                  | 42,263             | (80,332)     | 146,776      |
| Compensation and benefits            |             | 42,292                   | 16,738             |              | 59,030       |
| Transaction and operations support   | 8,845       | 93,676                   | 13,163             | (17,676)     | 98,008       |
| Occupancy, equipment and supplies    |             | 8,572                    | 3,570              |              | 12,142       |
| Depreciation and amortization        |             | 7,967                    | 3,086              |              | 11,053       |
| Total operating expenses             | 8,845       | 337,352                  | 78,820             | (98,008)     | 327,009      |
| <b>OPERATING (LOSS) INCOME</b>       | (8,845)     | 18,730                   | (6,752)            |              | 3,133        |
| <b>Other expense</b>                 |             |                          |                    |              |              |
| Interest expense                     |             | 17,637                   |                    |              | 17,637       |
| Other                                | 347         |                          |                    |              | 347          |
| Total other expenses, net            | 347         | 17,637                   |                    |              | 17,984       |
| (Loss) income before income taxes    | (9,192)     | 1,093                    | (6,752)            |              | (14,851)     |
| Income tax (benefit) expense         | (3,563)     | 15,239                   | (1,471)            |              | 10,205       |
| (Loss) income after income taxes     | (5,629)     | (14,146)                 | (5,281)            |              | (25,056)     |
| Equity (loss) income in subsidiaries | (19,427)    | (5,281)                  |                    | 24,708       |              |
| <b>NET (LOSS) INCOME</b>             | \$ (25,056) | \$ (19,427)              | \$ (5,281)         | \$ 24,708    | \$ (25,056)  |

**MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF (LOSS) INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2012**

| <i>(Amounts in thousands)</i> | Parent | Subsidiary<br>Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|-------------------------------|--------|--------------------------|--------------------|--------------|--------------|
| <b>REVENUE</b>                |        |                          |                    |              |              |

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|                                      |             |            |            |              |             |
|--------------------------------------|-------------|------------|------------|--------------|-------------|
| Fee and other revenue                | \$          | \$ 693,211 | \$ 141,182 | \$ (192,769) | \$ 641,624  |
| Investment revenue                   |             | 6,181      | 432        |              | 6,613       |
| Total revenue                        |             | 699,392    | 141,614    | (192,769)    | 648,237     |
| <b>EXPENSES</b>                      |             |            |            |              |             |
| Fee and other commissions expense    |             | 364,196    | 80,136     | (155,744)    | 288,588     |
| Investment commissions expense       |             | 180        |            |              | 180         |
| Total commissions expense            |             | 364,376    | 80,136     | (155,744)    | 288,768     |
| Compensation and benefits            |             | 86,318     | 31,776     |              | 118,094     |
| Transaction and operations support   | 10,611      | 157,698    | 24,938     | (37,025)     | 156,222     |
| Occupancy, equipment and supplies    |             | 17,591     | 6,762      |              | 24,353      |
| Depreciation and amortization        |             | 15,566     | 6,170      |              | 21,736      |
| Total operating expenses             | 10,611      | 641,549    | 149,782    | (192,769)    | 609,173     |
| <b>OPERATING (LOSS) INCOME</b>       | (10,611)    | 57,843     | (8,168)    |              | 39,064      |
| <b>Other expense</b>                 |             |            |            |              |             |
| Interest expense                     |             | 35,520     |            |              | 35,520      |
| Other                                | 347         |            |            |              | 347         |
| Total other expenses, net            | 347         | 35,520     |            |              | 35,867      |
| (Loss) income before income taxes    | (10,958)    | 22,323     | (8,168)    |              | 3,197       |
| Income tax (benefit) expense         | (4,181)     | 23,600     | (1,435)    |              | 17,984      |
| (Loss) income after income taxes     | (6,777)     | (1,277)    | (6,733)    |              | (14,787)    |
| Equity (loss) income in subsidiaries | (8,010)     | (6,733)    |            | 14,743       |             |
| <b>NET (LOSS) INCOME</b>             | \$ (14,787) | \$ (8,010) | \$ (6,733) | \$ 14,743    | \$ (14,787) |



**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF INCOME (LOSS)****FOR THE THREE MONTHS ENDED JUNE 30, 2011**

| <i>(Amounts in thousands)</i>        | Parent    | Subsidiary<br>Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|--------------------------------------|-----------|--------------------------|--------------------|--------------|--------------|
| <b>REVENUE</b>                       |           |                          |                    |              |              |
| Fee and other revenue                | \$        | \$ 297,495               | \$ 67,045          | \$ (60,466)  | \$ 304,074   |
| Investment revenue                   |           | 5,751                    | 128                |              | 5,879        |
| Total revenue                        |           | 303,246                  | 67,173             | (60,466)     | 309,953      |
| <b>EXPENSES</b>                      |           |                          |                    |              |              |
| Fee and other commissions expense    |           | 140,855                  | 37,004             | (42,298)     | 135,561      |
| Investment commissions expense       |           | 111                      |                    |              | 111          |
| Total commissions expense            |           | 140,966                  | 37,004             | (42,298)     | 135,672      |
| Compensation and benefits            |           | 42,949                   | 14,964             |              | 57,913       |
| Transaction and operations support   | 1,471     | 64,174                   | 11,117             | (18,168)     | 58,594       |
| Occupancy, equipment and supplies    |           | 8,749                    | 2,888              |              | 11,637       |
| Depreciation and amortization        |           | 8,957                    | 2,922              |              | 11,879       |
| Total operating expenses             | 1,471     | 265,795                  | 68,895             | (60,466)     | 275,695      |
| <b>OPERATING (LOSS) INCOME</b>       | (1,471)   | 37,451                   | (1,722)            |              | 34,258       |
| <b>Other (income) expense</b>        |           |                          |                    |              |              |
| Net securities gains                 |           | (32,816)                 |                    |              | (32,816)     |
| Interest expense                     |           | 22,873                   |                    |              | 22,873       |
| Other                                | 5,520     | 9,336                    |                    |              | 14,856       |
| Total other expenses (income), net   | 5,520     | (607)                    |                    |              | 4,913        |
| (Loss) income before income taxes    | (6,991)   | 38,058                   | (1,722)            |              | 29,345       |
| Income tax (benefit) expense         | (2,417)   | 5,058                    | 300                |              | 2,941        |
| (Loss) income after income taxes     | (4,574)   | 33,000                   | (2,022)            |              | 26,404       |
| Equity income (loss) in subsidiaries | 30,978    | (2,022)                  |                    | (28,956)     |              |
| <b>NET INCOME (LOSS)</b>             | \$ 26,404 | \$ 30,978                | \$ (2,022)         | \$ (28,956)  | \$ 26,404    |

**MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF INCOME (LOSS)****FOR THE SIX MONTHS ENDED JUNE 30, 2011**

| <i>(Amounts in thousands)</i> | Parent | Subsidiary<br>Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|-------------------------------|--------|--------------------------|--------------------|--------------|--------------|
|-------------------------------|--------|--------------------------|--------------------|--------------|--------------|

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| <b>REVENUE</b>                       |           |            |            |              |            |
|--------------------------------------|-----------|------------|------------|--------------|------------|
| Fee and other revenue                | \$        | \$ 582,173 | \$ 130,318 | \$ (118,408) | \$ 594,083 |
| Investment revenue                   |           | 9,686      | 208        |              | 9,894      |
| Total revenue                        |           | 591,859    | 130,526    | (118,408)    | 603,977    |
| <b>EXPENSES</b>                      |           |            |            |              |            |
| Fee and other commissions expense    |           | 275,943    | 63,946     | (75,268)     | 264,621    |
| Investment commissions expense       |           | 251        |            |              | 251        |
| Total commissions expense            |           | 276,194    | 63,946     | (75,268)     | 264,872    |
| Compensation and benefits            | (31)      | 87,091     | 30,148     |              | 117,208    |
| Transaction and operations support   | 2,495     | 130,250    | 19,398     | (43,140)     | 109,003    |
| Occupancy, equipment and supplies    |           | 17,560     | 5,830      |              | 23,390     |
| Depreciation and amortization        |           | 17,994     | 5,551      |              | 23,545     |
| Total operating expenses             | 2,464     | 529,089    | 124,873    | (118,408)    | 538,018    |
| <b>OPERATING (LOSS) INCOME</b>       | (2,464)   | 62,770     | 5,653      |              | 65,959     |
| <b>Other (income) expense</b>        |           |            |            |              |            |
| Net securities gains                 |           | (32,816)   |            |              | (32,816)   |
| Interest expense                     |           | 43,486     |            |              | 43,486     |
| Other                                | 5,520     | 9,336      |            |              | 14,856     |
| Total other expenses, net            | 5,520     | 20,006     |            |              | 25,526     |
| (Loss) income before income taxes    | (7,984)   | 42,764     | 5,653      |              | 40,433     |
| Income tax (benefit) expense         | (2,764)   | 2,148      | 600        |              | (16)       |
| (Loss) income after income taxes     | (5,220)   | 40,616     | 5,053      |              | 40,449     |
| Equity income (loss) in subsidiaries | 45,669    | 5,053      |            | (50,722)     |            |
| <b>NET INCOME (LOSS)</b>             | \$ 40,449 | \$ 45,669  | \$ 5,053   | \$ (50,722)  | \$ 40,449  |

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****FOR THE THREE MONTHS ENDED JUNE 30, 2012**

| <i>(Amounts in thousands)</i>  | <b>Parent</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|----------------------------------|----------------------------|---------------------|---------------------|
| <b>NET (LOSS) INCOME</b>   | \$ (25,056)   | \$ (19,427)                      | \$ (5,281)                 | \$ 24,708           | \$ (25,056)         |
| <b>OTHER COMPREHENSIVE (LOSS) INCOME</b>   |               |                                  |                            |                     |                     |
| Net unrealized gains on available-for-sale securities:   |               |                                  |                            |                     |                     |
| Net holding gains arising during the period, net of tax expense of \$53  | 434           | 434                              |                            | (434)               | 434                 |
| Pension and postretirement benefit plans:  |               |                                  |                            |                     |                     |
| Reclassification of prior service credit for pension and postretirement benefit plans recorded to net income, net of tax expense of \$56 | (93)          | (93)                             |                            | 93                  | (93)                |
| Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$595  | 972           | 972                              |                            | (972)               | 972                 |
| Unrealized foreign currency translation gains, net of tax benefit of \$1,127   | (1,839)       | (1,839)                          | (1,506)                    | 3,345               | (1,839)             |
| Other comprehensive (loss) income  | (526)         | (526)                            | (1,506)                    | 2,032               | (526)               |
| <b>COMPREHENSIVE (LOSS) INCOME</b>   | \$ (25,582)   | \$ (19,953)                      | \$ (6,787)                 | \$ 26,740           | \$ (25,582)         |

**MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2012**

| <i>(Amounts in thousands)</i>   | <b>Parent</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------|----------------------------------|----------------------------|---------------------|---------------------|
| <b>NET (LOSS) INCOME</b>  | \$ (14,787)   | \$ (8,010)                       | \$ (6,733)                 | \$ 14,743           | \$ (14,787)         |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>  |               |                                  |                            |                     |                     |
| Net unrealized gains on available-for-sale securities:  |               |                                  |                            |                     |                     |
| Net holding gains arising during the period, net of tax expense of \$585  | 1,408         | 1,408                            |                            | (1,408)             | 1,408               |
| Pension and postretirement benefit plans:   |               |                                  |                            |                     |                     |
| Reclassification of prior service credit for pension and postretirement benefit plans recorded to net income, net of tax expense of \$113 | (185)         | (185)                            |                            | 185                 | (185)               |
| Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$1,191 | 1,944         | 1,944                            |                            | (1,944)             | 1,944               |
| Unrealized foreign currency translation gains, net of tax expense of \$125  | 204           | 204                              | (444)                      | 240                 | 204                 |
| Other comprehensive income (loss)   | 3,371         | 3,371                            | (444)                      | (2,927)             | 3,371               |

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|                                    |             |            |            |           |             |
|------------------------------------|-------------|------------|------------|-----------|-------------|
| <b>COMPREHENSIVE (LOSS) INCOME</b> | \$ (11,416) | \$ (4,639) | \$ (7,177) | \$ 11,816 | \$ (11,416) |
|------------------------------------|-------------|------------|------------|-----------|-------------|

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****FOR THE THREE MONTHS ENDED JUNE 30, 2011**

| <i>(Amounts in thousands)</i>  | <b>Parent</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|----------------------------------|----------------------------|---------------------|---------------------|
| <b>NET INCOME (LOSS)</b>   | \$ 26,404     | \$ 30,978                        | \$ (2,022)                 | \$ (28,956)         | \$ 26,404           |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>   |               |                                  |                            |                     |                     |
| Net unrealized gains on available-for-sale securities:   |               |                                  |                            |                     |                     |
| Net holding gains arising during the period, net of tax expense of \$0   | 3,083         | 3,083                            |                            | (3,083)             | 3,083               |
| Reclassification adjustment for net realized losses included in net income, net of tax benefit of \$0                                    | 4             | 4                                |                            | (4)                 | 4                   |
| Pension and postretirement benefit plans:  |               |                                  |                            |                     |                     |
| Reclassification of prior service credit for pension and postretirement benefit plans recorded to net income, net of tax expense of \$57 | (92)          | (92)                             |                            | 92                  | (92)                |
| Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$620  | 1,012         | 1,012                            |                            | (1,012)             | 1,012               |
| Unrealized foreign currency translation gains, net of tax expense of \$205   | 334           | 471                              | 182                        | (653)               | 334                 |
| Other comprehensive income (loss)  | 4,341         | 4,478                            | 182                        | (4,660)             | 4,341               |
| <b>COMPREHENSIVE INCOME (LOSS)</b>   | \$ 30,745     | \$ 35,456                        | \$ (1,840)                 | \$ (33,616)         | \$ 30,745           |

**MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****FOR THE SIX MONTHS ENDED JUNE 30, 2011**

| <i>(Amounts in thousands)</i>   | <b>Parent</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------|----------------------------------|----------------------------|---------------------|---------------------|
| <b>NET INCOME (LOSS)</b>  | \$ 40,449     | \$ 45,669                        | \$ 5,053                   | \$ (50,722)         | \$ 40,449           |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>  |               |                                  |                            |                     |                     |
| Net unrealized gains on available-for-sale securities:  |               |                                  |                            |                     |                     |
| Net holding gains arising during the period, net of tax expense of \$0  | 5,028         | 5,028                            |                            | (5,028)             | 5,028               |
| Reclassification adjustment for net realized losses included in net income, net of tax expense of \$0                                     | 4             | 4                                |                            | (4)                 | 4                   |
| Pension and postretirement benefit plans:   |               |                                  |                            |                     |                     |
| Reclassification of prior service credit for pension and postretirement benefit plans recorded to net income, net of tax expense of \$114 | (185)         | (185)                            |                            | 185                 | (185)               |
| Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$1,242 | 2,024         | 2,024                            |                            | (2,024)             | 2,024               |
| Unrealized foreign currency translation gains, net of tax expense of \$648  | 1,058         | 1,520                            | 551                        | (2,071)             | 1,058               |

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|                                    |                  |                  |                 |                    |                  |
|------------------------------------|------------------|------------------|-----------------|--------------------|------------------|
| Other comprehensive income (loss)  | 7,929            | 8,391            | 551             | (8,942)            | 7,929            |
| <b>COMPREHENSIVE INCOME (LOSS)</b> | <b>\$ 48,378</b> | <b>\$ 54,060</b> | <b>\$ 5,604</b> | <b>\$ (59,664)</b> | <b>\$ 48,378</b> |

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED JUNE 30, 2012**

| <i>(Amounts in thousands)</i>  | <b>Parent</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|----------------------------------|----------------------------|---------------------|---------------------|
| <b>NET CASH PROVIDED BY (USED IN) OPERATING<br/>ACTIVITIES</b>                           | \$ 13,406     | \$ (10,339)                      | \$ (488)                   | \$                  | \$ 2,579            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |               |                                  |                            |                     |                     |
| Proceeds from maturities of available-for-sale investments<br>(substantially restricted) |               | 8,447                            |                            |                     | 8,447               |
| Purchases of short-term investments (substantially restricted)                           |               | (100,000)                        | (12,733)                   |                     | (112,733)           |
| Proceeds from maturities of short-term investments<br>(substantially restricted)         |               | 100,000                          | 13,525                     |                     | 113,525             |
| Purchases of property and equipment, net of disposals                                    |               | (8,986)                          | (2,677)                    |                     | (11,663)            |
| Proceeds from disposal of assets and businesses  |               | 219                              |                            |                     | 219                 |
| Capital contribution from subsidiary guarantors  |               | (2,373)                          |                            | 2,373               |                     |
| Net cash (used in) provided by investing activities                                      |               | (2,693)                          | (1,885)                    | 2,373               | (2,205)             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |               |                                  |                            |                     |                     |
| Payment on debt  |               | (375)                            |                            |                     | (375)               |
| Proceeds from exercise of stock options  | 1             |                                  |                            |                     | 1                   |
| Intercompany financings  | (13,407)      | 13,407                           |                            |                     |                     |
| Capital contribution to non-guarantors   |               |                                  | 2,373                      | (2,373)             |                     |
| Net cash (used in) provided by financing activities                                      | (13,406)      | 13,032                           | 2,373                      | (2,373)             | (374)               |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   |               |                                  |                            |                     |                     |
| <b>CASH AND CASH EQUIVALENTS - Beginning of<br/>period</b>                               |               |                                  |                            |                     |                     |
| <b>CASH AND CASH EQUIVALENTS - End of period</b>   | \$            | \$                               | \$                         | \$                  | \$                  |

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2012**

| <i>(Amounts in thousands)</i>  | <b>Parent</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|----------------------------------|----------------------------|---------------------|---------------------|
| <b>NET CASH PROVIDED BY (USED IN) OPERATING<br/>ACTIVITIES</b>                           | \$ 23,493     | \$ (15,573)                      | \$ 4,295                   | \$                  | \$ 12,215           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |               |                                  |                            |                     |                     |
| Proceeds from maturities of available-for-sale investments<br>(substantially restricted) |               | 19,267                           |                            |                     | 19,267              |
| Purchases of short-term investments (substantially restricted)                           |               | (300,000)                        | (24,489)                   |                     | (324,489)           |
| Proceeds from maturities of short-term investments<br>(substantially restricted)         |               | 300,000                          | 23,638                     |                     | 323,638             |
| Purchases of property and equipment, net of disposals                                    |               | (23,811)                         | (6,484)                    |                     | (30,295)            |
| Proceeds from disposal of assets and businesses  |               | 391                              |                            |                     | 391                 |
| Capital contribution from subsidiary guarantors  |               | (3,040)                          |                            | 3,040               |                     |
| Net cash (used in) provided by investing activities                                      |               | (7,193)                          | (7,335)                    | 3,040               | (11,488)            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |               |                                  |                            |                     |                     |
| Payment on debt  |               | (750)                            |                            |                     | (750)               |
| Proceeds from exercise of stock options  | 23            |                                  |                            |                     | 23                  |
| Intercompany financings  | (23,516)      | 23,516                           |                            |                     |                     |
| Capital contribution to non-guarantors   |               |                                  | 3,040                      | (3,040)             |                     |
| Net cash (used in) provided by financing activities                                      | (23,493)      | 22,766                           | 3,040                      | (3,040)             | (727)               |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   |               |                                  |                            |                     |                     |
| <b>CASH AND CASH EQUIVALENTS - Beginning of<br/>period</b>                               |               |                                  |                            |                     |                     |
| <b>CASH AND CASH EQUIVALENTS - End of period</b>   | \$            | \$                               | \$                         | \$                  | \$                  |



**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED JUNE 30, 2011**

| <i>(Amounts in thousands)</i>  | Parent    | Subsidiary<br>Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|--|-----------|--------------------------|--------------------|--------------|--------------|
| <b>NET CASH PROVIDED BY OPERATING<br/>ACTIVITIES</b>                                     | \$ 3,391  | \$ 135,816               | \$ 9,889           | \$           | \$ 149,096   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |           |                          |                    |              |              |
| Proceeds from maturities of available-for-sale investments<br>(substantially restricted) |           | 14,281                   |                    |              | 14,281       |
| Proceeds from settlement of investments (substantially<br>restricted)                    |           | 19,221                   |                    |              | 19,221       |
| Purchases of short-term investments (substantially<br>restricted)                        |           | (100,000)                | (11,259)           |              | (111,259)    |
| Proceeds from maturities of short-term investments<br>(substantially restricted)         |           |                          | 5,316              |              | 5,316        |
| Purchases of property and equipment, net of disposals                                    |           | (9,898)                  | (5,319)            |              | (15,217)     |
| Cash paid for acquisitions, net of cash acquired   |           |                          | (53)               |              | (53)         |
| Dividends to parent/Capital contribution from subsidiary<br>guarantors                   | 241,315   | (1,426)                  |                    | (239,889)    |              |
| Net cash provided by (used in) investing activities                                      | 241,315   | (77,822)                 | (11,315)           | (239,889)    | (87,711)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |           |                          |                    |              |              |
| Proceeds from issuance of debt   |           | 389,025                  |                    |              | 389,025      |
| Transaction costs for issuance and amendment of debt                                     |           | (17,062)                 |                    |              | (17,062)     |
| Payment on debt  |           | (191,250)                |                    |              | (191,250)    |
| Additional consideration in connection with conversion of<br>mezzanine equity            | (218,333) |                          |                    |              | (218,333)    |
| Transaction costs for the conversion and issuance of stock                               | (3,469)   |                          |                    |              | (3,469)      |
| Cash dividends paid  | (20,477)  |                          |                    |              | (20,477)     |
| Proceeds from exercise of stock options  | 181       |                          |                    |              | 181          |
| Intercompany financings  | (2,608)   | 2,608                    |                    |              |              |
| Dividends from subsidiary guarantors/Capital contribution<br>to non-guarantors           |           | (241,315)                | 1,426              | 239,889      |              |
| Net cash (used in) provided by financing activities                                      | (244,706) | (57,994)                 | 1,426              | 239,889      | (61,385)     |
| <b>NET CHANGE IN CASH AND CASH<br/>EQUIVALENTS</b>                                       |           |                          |                    |              |              |
| <b>CASH AND CASH EQUIVALENTS - Beginning of<br/>period</b>                               |           |                          |                    |              |              |
| <b>CASH AND CASH EQUIVALENTS - End of period</b>   | \$        | \$                       | \$                 | \$           | \$           |

**Table of Contents****MONEYGRAM INTERNATIONAL, INC.****CONDENSED, CONSOLIDATING STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2011**

| <i>(Amounts in thousands)</i>  | <b>Parent</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|----------------------------------|----------------------------|---------------------|---------------------|
| <b>NET CASH PROVIDED BY OPERATING<br/>ACTIVITIES</b>                                     | \$ 675        | \$ 119,737                       | \$ 25,220                  | \$                  | \$ 145,632          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |               |                                  |                            |                     |                     |
| Proceeds from maturities of available-for-sale investments<br>(substantially restricted) |               | 31,743                           |                            |                     | 31,743              |
| Proceeds from settlement of investments (substantially<br>restricted)                    |               | 19,221                           |                            |                     | 19,221              |
| Purchases of short-term investments (substantially<br>restricted)                        |               | (294,142)                        | (22,558)                   |                     | (316,700)           |
| Proceeds from maturities of short-term investments<br>(substantially restricted)         |               | 200,500                          | 5,316                      |                     | 205,816             |
| Purchases of property and equipment  |               | (14,157)                         | (10,033)                   |                     | (24,190)            |
| Cash paid for acquisitions, net of cash acquired   |               |                                  | (53)                       |                     | (53)                |
| Dividends to parent/Capital contribution from subsidiary<br>guarantors                   | 241,315       | (2,108)                          |                            | (239,207)           |                     |
| Net cash provided by (used in) investing activities                                      | 241,315       | (58,943)                         | (27,328)                   | (239,207)           | (84,163)            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |               |                                  |                            |                     |                     |
| Proceeds from issuance of debt   |               | 389,025                          |                            |                     | 389,025             |
| Transaction costs for issuance and amendment of debt                                     |               | (17,062)                         |                            |                     | (17,062)            |
| Payment on debt  |               | (191,250)                        |                            |                     | (191,250)           |
| Additional consideration in connection with conversion of<br>mezzanine equity            | (218,333)     |                                  |                            |                     | (218,333)           |
| Transaction costs for the conversion and issuance of stock                               | (3,736)       |                                  |                            |                     | (3,736)             |
| Cash dividends paid  | (20,477)      |                                  |                            |                     | (20,477)            |
| Proceeds from exercise of stock options  | 364           |                                  |                            |                     | 364                 |
| Intercompany financings  | 192           | (192)                            |                            |                     |                     |
| Dividends from subsidiary guarantors/Capital contribution<br>to non-guarantors           |               | (241,315)                        | 2,108                      | 239,207             |                     |
| Net cash (used in) provided by financing activities                                      | (241,990)     | (60,794)                         | 2,108                      | 239,207             | (61,469)            |
| <b>NET CHANGE IN CASH AND CASH<br/>EQUIVALENTS</b>                                       |               |                                  |                            |                     |                     |
| <b>CASH AND CASH EQUIVALENTS - Beginning of<br/>period</b>                               |               |                                  |                            |                     |                     |
| <b>CASH AND CASH EQUIVALENTS - End of period</b>   | \$            | \$                               | \$                         | \$                  | \$                  |

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the Consolidated Financial Statements and related Notes of MoneyGram International, Inc. ( MoneyGram, the Company, we, us and our ). This discussion contains forward-looking statements that involve risks and uncertainties. MoneyGram's actual results could differ materially from those anticipated due to various factors discussed under Forward-Looking Statements and elsewhere in this Quarterly Report on Form 10-Q.

**RESULTS OF OPERATIONS**

| <i>(Amounts in thousands)</i>      | Three Months Ended<br>June 30, |                     | %<br>Change | Six Months Ended<br>June 30, |                     | %<br>Change |
|------------------------------------|--------------------------------|---------------------|-------------|------------------------------|---------------------|-------------|
|                                    | 2012<br>(unaudited)            | 2011<br>(unaudited) |             | 2012<br>(unaudited)          | 2011<br>(unaudited) |             |
| <b>Revenue</b>                     |                                |                     |             |                              |                     |             |
| Fee and other revenue              | \$ 326,706                     | \$ 304,074          | 7%          | \$ 641,624                   | \$ 594,083          | 8%          |
| Investment revenue                 | 3,436                          | 5,879               | (42)%       | 6,613                        | 9,894               | (33)%       |
| Total revenue                      | 330,142                        | 309,953             | 7%          | 648,237                      | 603,977             | 7%          |
| <b>Expenses</b>                    |                                |                     |             |                              |                     |             |
| Fee and other commissions expense  | 146,673                        | 135,561             | 8%          | 288,588                      | 264,621             | 9%          |
| Investment commissions expense     | 103                            | 111                 | (7)%        | 180                          | 251                 | (28)%       |
| Total commissions expense          | 146,776                        | 135,672             | 8%          | 288,768                      | 264,872             | 9%          |
| Compensation and benefits          | 59,030                         | 57,913              | 2%          | 118,094                      | 117,208             | 1%          |
| Transaction and operations support | 98,008                         | 58,594              | 67%         | 156,222                      | 109,003             | 43%         |
| Occupancy, equipment and supplies  | 12,142                         | 11,637              | 4%          | 24,353                       | 23,390              | 4%          |
| Depreciation and amortization      | 11,053                         | 11,879              | (7)%        | 21,736                       | 23,545              | (8)%        |
| Total operating expenses           | 327,009                        | 275,695             | 19%         | 609,173                      | 538,018             | 13%         |
| Operating income                   | 3,133                          | 34,258              | (91)%       | 39,064                       | 65,959              | (41)%       |
| <b>Other (income) expense</b>      |                                |                     |             |                              |                     |             |
| Net securities gains               |                                | (32,816)            | NM          |                              | (32,816)            | NM          |
| Interest expense                   | 17,637                         | 22,873              | (23)%       | 35,520                       | 43,486              | (18)%       |
| Other                              | 347                            | 14,856              | NM          | 347                          | 14,856              | NM          |
| Total other expense, net           | 17,984                         | 4,913               | NM          | 35,867                       | 25,526              | 41%         |
| (Loss) income before income taxes  | (14,851)                       | 29,345              | (151)%      | 3,197                        | 40,433              | (92)%       |
| Income tax expense (benefit)       | 10,205                         | 2,941               | 247%        | 17,984                       | (16)                | NM          |
| Net (loss) income                  | \$ (25,056)                    | \$ 26,404           | (195)%      | \$ (14,787)                  | \$ 40,449           | (137)%      |

NM = Not meaningful

Following is a summary of our operating results in the second quarter of 2012 as compared to the second quarter of 2011:

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Total fee and other revenue increased \$22.6 million, or seven percent, to \$326.7 million in the second quarter of 2012 due to an increase in money transfer fee and other revenue, partially offset by lower revenue from bill payment products and the Financial Paper Products segment. Volume growth of 13 percent drove the increase in money transfer fee and other revenue, but was partially offset by a lower euro exchange rate. Excluding a business divested in 2011, Bill Payment revenue grew \$0.1 million. See further discussion in the [Fee and Other Revenue and Commissions Expense](#) section.

Investment revenue decreased \$2.4 million, or 42 percent, to \$3.4 million in the second quarter of 2012 due to lower yields on our investments and a decline in average investable balances.

Total commissions expense increased \$11.1 million, or eight percent, in the second quarter of 2012 due to money transfer volume growth, partially offset by the lower euro exchange rate and lower commissions expense related to bill payment products and the Financial Paper Products segment.

Total operating expenses increased \$51.3 million, or 19 percent, in the second quarter of 2012, driven primarily by higher transaction and operations support expense from legal accruals, an increase in commissions expense and higher compensation and benefits expense, partially offset by a decrease in depreciation and amortization. For the three months ended June 30, 2012, operating expenses include \$4.4 million of costs associated with restructuring and reorganization activities.

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During the second quarter of 2011, the Company recognized \$32.8 million of settlements equal to all outstanding principal from two securities. These securities had previously been written down to a nominal fair value, resulting in net securities gains of \$32.8 million in the second quarter of 2011.

Interest expense decreased \$5.2 million, or 23 percent, to \$17.6 million in the second quarter of 2012, primarily due to lower interest rates from our refinancing activities in 2011.

In the second quarter of 2012, the Company recognized \$0.3 million of other expense for the Investors' payment to Walmart for the Participation Agreement.

During the second quarter of 2011, other non-operating expense includes a debt extinguishment loss of \$5.2 million recognized upon termination of our former senior credit facility, \$4.1 million of asset impairments associated with disposition activity and \$5.5 million of costs incurred to effect the Company's recapitalization transaction in May 2011, or the 2011 Recapitalization. Of the \$4.1 million of asset impairments, \$2.3 million relates to restructuring and reorganization activities.

In the second quarter of 2012, the Company had income tax expense of \$10.2 million on pre-tax loss of \$14.9 million, primarily reflecting the non-deductibility of certain legal reserves and related expenses.

The decrease in the euro exchange rate decreased total revenue by \$7.4 million and total expenses by \$5.9 million, for a net decrease to our income before income taxes of \$1.5 million.

**FEE AND OTHER REVENUE AND COMMISSIONS EXPENSE**

| <i>(Amounts in thousands)</i>                                     | Three Months Ended |            |        | Six Months Ended |            |        |
|---|--------------------|------------|--------|------------------|------------|--------|
|   | June 30,           |            | %      | June 30,         |            | %      |
|   | 2012               | 2011       | Change | 2012             | 2011       | Change |
| Fee and other revenue   | \$ 326,706         | \$ 304,074 | 7%     | \$ 641,624       | \$ 594,083 | 8%     |
| Fee and other commissions expense                                 | 146,673            | 135,561    | 8%     | 288,588          | 264,621    | 9%     |
| Fee and other commissions expense as a % of fee and other revenue | 44.9%              | 44.6%      |        | 45.0%            | 44.5%      |        |

*Fee and Other Revenue* For the three and six months ended June 30, 2012, fee and other revenue growth of \$22.6 million and \$47.5 million, respectively, was primarily driven by money transfer transaction volume growth, partially offset by a lower euro exchange rate and lower foreign exchange revenue, changes in corridor mix and lower average face value per transaction. Bill payment products primarily saw revenue declines from lower average fees per transaction while money order and official check fee and other revenue decreased due to volume declines. See the *Segment Performance* section for more detailed discussion.

*Fee and Other Commissions* For the three and six months ended June 30, 2012, fee and other commissions expense growth of \$11.1 million and \$24.0 million, respectively, was primarily due to money transfer volume growth, partially offset by a lower euro exchange rate, lower average bill payment fees per transaction and lower Financial Paper Product volumes. Commissions expense grew at a faster rate than revenue due to payment at a higher tier from volume growth achievement for certain key agents and corridor mix. Commissions expense as a percent of fee and other revenue increased in both the three and six months ended June 30, 2012, primarily from the continued shift in overall product mix towards the Global Funds Transfer segment, particularly the money transfer product. Agents in the Global Funds Transfer segment are compensated through commissions we pay to them, whereas our Financial Paper Products agents and financial institution customers primarily earn their revenue through per item fees they charge directly to the consumer. See the *Segment Performance* section for more detailed discussion.

**Table of Contents****NET INVESTMENT REVENUE ANALYSIS**

| (Amounts in thousands)                | Three Months Ended<br>June 30, |                 |              | Six Months Ended<br>June 30, |                 |              |
|---------------------------------------|--------------------------------|-----------------|--------------|------------------------------|-----------------|--------------|
|                                       | 2012                           | 2011            | %<br>Change  | 2012                         | 2011            | %<br>Change  |
| Investment revenue                    | \$ 3,436                       | \$ 5,879        | (42)%        | \$ 6,613                     | \$ 9,894        | (33)%        |
| Investment commissions expense        | (103)                          | (111)           | 7%           | (180)                        | (251)           | 28%          |
| <b>Net investment revenue</b>         | <b>\$ 3,333</b>                | <b>\$ 5,768</b> | <b>(42)%</b> | <b>\$ 6,433</b>              | <b>\$ 9,643</b> | <b>(33)%</b> |
| Average balances:                     |                                |                 |              |                              |                 |              |
| Cash equivalents and investments      | \$ 3,117,808                   | \$ 3,267,683    | (5)%         | \$ 3,128,447                 | \$ 3,326,233    | (6)%         |
| Payment service obligations           | \$ 2,177,747                   | \$ 2,320,547    | (6)%         | \$ 2,181,420                 | \$ 2,359,642    | (8)%         |
| Average yields earned and rates paid: |                                |                 |              |                              |                 |              |
| Investment yield                      | 0.44%                          | 0.72%           |              | 0.43%                        | 0.60%           |              |
| Investment commission rate            | 0.02%                          | 0.02%           |              | 0.02%                        | 0.02%           |              |
| Net investment margin                 | 0.43%                          | 0.71%           |              | 0.41%                        | 0.58%           |              |

The average investment yield is calculated by dividing investment revenue by the average cash equivalents and investment balances for the period. The average investment commissions rate is calculated by dividing investment commissions expense by the average payment service obligations for the period. The net investment margin is calculated by dividing net investment revenue by the average cash equivalents and investment balances for the period, then dividing that amount by the number of days in the period and multiplying by the number of days in the year.

*Investment revenue* Investment revenue consists of interest and dividends generated through the investment of cash balances received primarily from the sale of official checks, money orders and other payment instruments. Investment revenue decreased \$2.4 million, or 42 percent, in the three months ended June 30, 2012 due to lower yields earned on our investment portfolio and lower average investment balances from the run-off of certain official check financial institution customers terminated in prior periods.

During the six months ended June 30, 2012, investment revenue decreased \$3.3 million, or 33 percent, due to lower yields earned on our investment portfolio and lower average investment balances from the run-off of certain official check financial institution customers terminated in prior periods.

*Investment commissions expense* Investment commissions expense consists of amounts paid to financial institution customers based on short-term interest rate indices times the average outstanding cash balances of official checks sold by the financial institution. There was a nominal change in investment commissions expense for the three months ended June 30, 2012 compared to June 30, 2011. During the six months ended June 30, 2012, investment commissions expense decreased \$0.1 million, or 28 percent, primarily from lower interest rates.

*Net investment revenue and margin* As a result of the factors discussed above, net investment revenue decreased \$2.4 million, or 42 percent, for the three months ended June 30, 2012, while the net investment margin decreased 0.28 percentage points. For the six months ended June 30, 2012, net investment revenue decreased \$3.2 million, or 33 percent, while the net investment margin decreased 0.17 percentage points.

**OPERATING EXPENSES**

The following discussion relates to operating expenses, other than commissions expense, which is discussed under the section Fee and Other Revenue and Commissions Expense.

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*Compensation and benefits* Compensation and benefits includes salaries and benefits, management incentive programs, related payroll taxes and other employee related costs. Following is a summary of the change in compensation and benefits:

| <i>(Amounts in thousands)</i>      | <b>Three Months<br/>Ended</b> | <b>Six Months<br/>Ended</b> |
|------------------------------------|-------------------------------|-----------------------------|
| For the period ended June 30, 2011 | \$ 57,913                     | \$ 117,208                  |
| Change from:                       |                               |                             |
| Other employee benefits            | 1,465                         | 2,079                       |
| Salaries and related payroll taxes | 1,393                         | 455                         |
| Incentive compensation             | 1,031                         | 1,432                       |
| Impact of change in Euro currency  | (1,150)                       | (1,544)                     |
| Employee stock-based compensation  | (1,591)                       | (2,659)                     |
| Restructuring and reorganization   | (31)                          | 1,123                       |
| For the period ended June 30, 2012 | \$ 59,030                     | \$ 118,094                  |

During the three and six months ended June 30, 2012, other employee benefits increased due to executive severance and higher insurance costs, partially offset by lower expenses from our benefit plans. Salaries and related payroll taxes increased from ordinary salary increases, partially offset by lower temporary help and headcount from our restructuring and outsourcing initiatives. Incentive compensation increased primarily from higher sales incentives and ordinary salary increases that increased the compensation base as compared to the prior year. Employee stock based compensation decreased from grants fully vesting in prior periods and forfeitures, partially offset by new grants with longer vesting periods. For the six months ended June 30, 2012, restructuring and reorganization costs increased due to the centralization and relocation of certain functions, including on-going initiatives outside of the United States.

*Transaction and operations support* Transaction and operations support expense primarily includes: marketing; professional fees and other outside services; telecommunications; agent support costs, including forms related to our products; non-compensation employee costs, including training, travel and relocation; bank charges; and the impact of foreign exchange rate movements on our monetary transactions, assets and liabilities denominated in a currency other than the U.S. dollar. Following is a summary of the change in transaction and operations support:

| <i>(Amounts in thousands)</i>          | <b>Three Months<br/>Ended</b> | <b>Six Months<br/>Ended</b> |
|--|-------------------------------|-----------------------------|
| For the period ended June 30, 2011     | \$ 58,594                     | \$ 109,003                  |
| Change from:                           |                               |                             |
| Legal accruals                         | 36,663                        | 44,848                      |
| Other                                  | 4,251                         | (478)                       |
| Contractor, consultant and outsourcing | 2,437                         | 5,526                       |
| Marketing costs                        | 450                           | 2,354                       |
| Foreign exchange gains                 | (1,956)                       | (3,975)                     |
| Restructuring and reorganization       | (1,577)                       | 38                          |
| Impact of change in Euro currency      | (854)                         | (1,094)                     |
| For the period ended June 30, 2012     | \$ 98,008                     | \$ 156,222                  |

For the three and six months ended June 30, 2012, transaction and operations support expense increased from the following items:

Legal accruals increased primarily due to regulatory matters and securities litigation, partially offset by lower capital transaction activities.

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Consultant fees and outsourcing costs increased primarily due to the outsourcing of certain transactional support and information technology activities, as well as tax advisement and our continued investment in the enhancement of our operational processes and systems that support our infrastructure.

Marketing costs increased from our new loyalty program introduced in January 2012, partially offset by timing of marketing activities.

Foreign exchange gains increased due to the impact of high volatility in foreign currency exchange rates on our growing assets, liabilities, revenue and expenses not denominated in the U.S. dollar.

For the three months ended June 30, 2012, restructuring and reorganization costs decreased primarily due to less resourcing costs for the centralization and relocation of certain functions.



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*Occupancy, equipment and supplies* Occupancy, equipment and supplies includes facilities rent and maintenance costs, software and equipment maintenance costs, freight and delivery costs and supplies. Occupancy, equipment and supplies increased \$0.5 million, or four percent, and \$1.0 million, or four percent, for the three and six months ended June 30, 2012, respectively, primarily due to \$0.5 million and \$1.1 million, respectively, of facility-related costs associated with restructuring and reorganization activities. The decrease in the euro exchange rate decreased occupancy, equipment and supplies by \$0.3 million and \$0.4 million, respectively, in the three and six months ended June 30, 2012.

*Depreciation and amortization* Depreciation and amortization includes depreciation on point of sale equipment, agent signage, computer hardware and software, office furniture and equipment, along with amortization of leasehold improvements, capitalized software development costs and intangible assets. Depreciation and amortization for the three and six months ended June 30, 2012, decreased \$0.8 million and \$1.8 million, respectively, primarily from lower depreciation expense on point of sale equipment, office furniture and equipment and capitalized software, partially offset by an increase in signage depreciation. The decrease in the euro exchange rate decreased depreciation and amortization by \$0.2 million and \$0.3 million, respectively, in the three and six months ended June 30, 2012.

**OTHER EXPENSE**

*Net securities gains* The three and six months ended June 30, 2011 reflect a realized gain of \$32.8 million related to the receipt of a \$19.2 million and a \$13.6 million settlement equal to all outstanding principal from two securities classified in other asset-backed securities. These securities had previously been written down to a nominal fair value.

| <i>(Amounts in thousands)</i>  | Three Months Ended<br>June 30, |                    | Six Months Ended<br>June 30, |                    |
|--|--------------------------------|--------------------|------------------------------|--------------------|
|  | 2012                           | 2011               | 2012                         | 2011               |
| Realized gains from available-for-sale investments                   | \$                             | \$ (32,820)        | \$                           | \$ (32,820)        |
| Other-than-temporary impairments from available-for-sale investments |                                | 4                  |                              | 4                  |
| <b>Net securities gains</b>  | <b>\$</b>                      | <b>\$ (32,816)</b> | <b>\$</b>                    | <b>\$ (32,816)</b> |

*Interest expense* Interest expense decreased \$5.2 million, or 23 percent, and \$8.0 million, or 18 percent, for the three and six months ended June 30, 2012, respectively, due to lower interest rates from our refinancing activities in 2011.

*Other* Other expense was \$0.3 million for the three and six months ended June 30, 2012 due to the Investors' payment to Walmart for the Participation Agreement. See Note 1 *Basis of Presentation* of the Notes to Consolidated Financial Statements for further information.

Other expense was \$14.9 million for the three and six months ended June 30, 2011. The Company recognized \$5.5 million of costs associated with our recapitalization initiatives. In connection with the termination of the 2008 senior facility on May 18, 2011, we recognized a debt extinguishment loss of \$5.2 million. The Company recognized \$4.1 million of asset impairments in the three and six months ended June 30, 2011 related to disposition activity, of which \$2.3 million was associated with restructuring and reorganization activities.

*Income taxes* 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, resulting from the non-deductibility of certain legal accruals and related expenses.

For the three months ended June 30, 2011, the Company had \$2.9 million of income tax expense on pre-tax income of \$29.3 million, primarily reflecting \$2.9 million of tax on an investment security settlement received in the second quarter of 2011. For the six months ended June 30, 2011, the Company had nominal income tax benefit on pre-tax income of \$40.4 million, reflecting a discrete benefit of \$3.5 million for the reversal of a portion of the valuation allowance on domestic deferred tax assets, which was partially offset by the \$2.9 million of tax on an investment security settlement.

**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ( EBITDA ) AND****ADJUSTED EBITDA**

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We believe that EBITDA (earnings before interest, taxes, depreciation and amortization, including agent signing bonus amortization) and Adjusted EBITDA (EBITDA adjusted for significant items) provide useful information to investors because they are indicators of the strength and performance of ongoing business operations, including our ability to service debt and fund capital expenditures, acquisitions and operations. These calculations are commonly used as a basis for investors, analysts and credit rating agencies to evaluate and compare the operating performance and value of companies within our industry. In addition, our debt agreements require compliance with financial measures similar to Adjusted EBITDA. Finally, EBITDA and Adjusted EBITDA are financial measures used by management in reviewing results of operations, forecasting, assessing cash flow and capital, allocating resources and establishing employee incentive programs.

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Although we believe EBITDA and Adjusted EBITDA enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an exclusive alternative to accompanying GAAP financial measures. The following table is a reconciliation of these non-GAAP financial measures to the related GAAP financial measures.

| <i>(Amounts in thousands)</i>          | Three Months Ended<br>June 30, |                  |              | Six Months Ended<br>June 30, |                   |              |
|--|--------------------------------|------------------|--------------|------------------------------|-------------------|--------------|
|  | 2012                           | 2011             | %<br>Change  | 2012                         | 2011              | %<br>Change  |
| (Loss) income before income taxes      | \$ (14,851)                    | \$ 29,345        | (151)%       | \$ 3,197                     | \$ 40,433         | (92)%        |
| Interest expense                       | 17,637                         | 22,873           | (23)%        | 35,520                       | 43,486            | (18)%        |
| Depreciation and amortization          | 11,053                         | 11,879           | (7)%         | 21,736                       | 23,545            | (8)%         |
| Amortization of agent signing bonuses  | 8,041                          | 8,119            | (1)%         | 16,384                       | 16,067            | 2%           |
| <b>EBITDA</b>                          | <b>21,880</b>                  | <b>72,216</b>    | <b>(70)%</b> | <b>76,837</b>                | <b>123,531</b>    | <b>(38)%</b> |
| Significant items impacting EBITDA:    |                                |                  |              |                              |                   |              |
| Net securities gains                   |                                | (32,816)         | NM           |                              | (32,816)          | NM           |
| Severance and related costs            | 577                            |                  | NM           | 1,029                        | (31)              | NM           |
| Restructuring and reorganization costs | 4,370                          | 7,945            | (45)%        | 10,214                       | 10,884            | (6)%         |
| Capital transaction costs              |                                | 4,045            | NM           |                              | 5,521             | NM           |
| Asset impairment charges               |                                | 1,802            | NM           |                              | 1,802             | NM           |
| Contribution from investors            | 347                            |                  | NM           | 347                          |                   | NM           |
| Debt extinguishment                    |                                | 5,220            | NM           |                              | 5,220             | NM           |
| Stock-based compensation expense       | 1,628                          | 3,164            | (49)%        | 5,160                        | 7,763             | (34)%        |
| Legal expenses                         | 39,660                         | 2,613            | 1418%        | 43,248                       | 2,613             | 1555%        |
| <b>Adjusted EBITDA</b>                 | <b>\$ 68,462</b>               | <b>\$ 64,189</b> | <b>7%</b>    | <b>\$ 136,835</b>            | <b>\$ 124,487</b> | <b>10%</b>   |

NM = Not meaningful

For the three months ended June 30, 2012, EBITDA decreased \$50.3 million, or 70 percent, to \$21.9 from \$72.2 million primarily due to the significant items impacting EBITDA in the table herein. Adjusted EBITDA for the three months ended June 30, 2012 increased \$4.3 million, or seven percent, to \$68.5 million from \$64.2 million, primarily due to money transfer growth, partially offset by the declining euro and lower investment revenue.

For the six months ended June 30, 2012, EBITDA decreased \$46.7 million, or 38 percent, to \$76.8 from \$123.5 million. Adjusted EBITDA for the three months ended June 30, 2012 increased \$12.3 million, or 10 percent, to \$136.8 million from \$124.5 million, primarily due to money transfer growth, partially offset by the declining euro, lower investment revenue, the timing of marketing spend and other investment initiatives.

**SEGMENT PERFORMANCE**

Our reporting segments are primarily organized based on the nature of products and services offered and the type of consumer served. We primarily manage our business through 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 our retail and financial institution locations in the United States and Puerto Rico, and provides official check services to financial institutions in the United States. Businesses that are not operated within these segments are categorized as Other and primarily relate to discontinued products and businesses. Segment pre-tax operating income and segment operating margin are used to review operating performance and allocate resources.

We manage our investment portfolio on a consolidated level, with no specific investment security assigned to a particular segment. However, investment revenue is allocated to each segment based on the average investment balances generated by that segment's sale of payment instruments during the period. Net securities (gains) losses are not allocated to the segments as the investment portfolio is managed at a consolidated level. While the derivatives portfolio is also managed on a consolidated level, each derivative instrument is utilized in a manner that can be identified to a particular segment. Forward foreign exchange contracts are identified with the money transfer product in the Global Funds Transfer segment.

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Also excluded from operating income for Global Funds Transfer and Financial Paper Products are interest and other expenses related to our credit agreements, items related to our preferred stock, operating income from businesses categorized as Other, certain pension and benefit obligation expenses, director deferred compensation plan expenses, executive severance and related costs and certain legal and corporate costs not related to the performance of the segments.

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| <i>(Amounts in thousands)</i>            | Three Months Ended<br>June 30, |                  |                    | Six Months Ended<br>June 30, |                  |                    |
|--|--------------------------------|------------------|--------------------|------------------------------|------------------|--------------------|
|  | 2012                           | 2011             | Change             | 2012                         | 2011             | Change             |
| <b>Operating income:</b>                 |                                |                  |                    |                              |                  |                    |
| Global Funds Transfer                    | \$ 38,626                      | \$ 25,911        | \$ 12,715          | \$ 71,908                    | \$ 52,358        | \$ 19,550          |
| Financial Paper Products                 | 8,080                          | 9,344            | (1,264)            | 17,070                       | 17,724           | (654)              |
| Other                                    | (488)                          | (400)            | (88)               | (1,057)                      | (663)            | (394)              |
| <b>Total segment operating income</b>    | <b>46,218</b>                  | <b>34,855</b>    | <b>11,363</b>      | <b>87,921</b>                | <b>69,419</b>    | <b>18,502</b>      |
| Other unallocated expenses               | 43,085                         | 597              | 42,488             | 48,857                       | 3,460            | 45,397             |
| <b>Total operating income</b>            | <b>3,133</b>                   | <b>34,258</b>    | <b>(31,125)</b>    | <b>39,064</b>                | <b>65,959</b>    | <b>(26,895)</b>    |
| Net securities gains                     |                                | (32,816)         | 32,816             |                              | (32,816)         | 32,816             |
| Interest expense                         | 17,637                         | 22,873           | (5,236)            | 35,520                       | 43,486           | (7,966)            |
| Other                                    | 347                            | 14,856           | (14,509)           | 347                          | 14,856           | (14,509)           |
| <b>(Loss) income before income taxes</b> | <b>\$ (14,851)</b>             | <b>\$ 29,345</b> | <b>\$ (44,196)</b> | <b>\$ 3,197</b>              | <b>\$ 40,433</b> | <b>\$ (37,236)</b> |

**GLOBAL FUNDS TRANSFER SEGMENT**

| <i>(Amounts in thousands)</i>               | Three Months Ended<br>June 30, |                   |             | Six Months Ended<br>June 30, |                   |             |
|---|--------------------------------|-------------------|-------------|------------------------------|-------------------|-------------|
|   | 2012                           | 2011              | %<br>Change | 2012                         | 2011              | %<br>Change |
| <b>Money transfer revenue:</b>              |                                |                   |             |                              |                   |             |
| Fee and other revenue                       | \$ 282,064                     | \$ 256,161        | 10%         | \$ 550,323                   | \$ 495,791        | 11%         |
| Investment revenue                          | 198                            | 124               | 60%         | 430                          | 198               | 117%        |
| <b>Total money transfer revenue</b>         | <b>282,262</b>                 | <b>256,285</b>    | <b>10%</b>  | <b>550,753</b>               | <b>495,989</b>    | <b>11%</b>  |
| <b>Bill payment revenue:</b>                |                                |                   |             |                              |                   |             |
| Fee and other revenue                       | 26,008                         | 27,554            | (6)%        | 53,652                       | 57,627            | (7)%        |
| Investment revenue                          |                                |                   | NM          |                              | 4                 | (100)%      |
| <b>Total bill payment revenue</b>           | <b>26,008</b>                  | <b>27,554</b>     | <b>(6)%</b> | <b>53,652</b>                | <b>57,631</b>     | <b>(7)%</b> |
| <b>Total Global Funds Transfer revenue:</b> |                                |                   |             |                              |                   |             |
| Fee and other revenue                       | 308,072                        | 283,715           | 9%          | 603,975                      | 553,418           | 9%          |
| Investment revenue                          | 198                            | 124               | 60%         | 430                          | 202               | 113%        |
| <b>Total Global Funds Transfer revenue</b>  | <b>\$ 308,270</b>              | <b>\$ 283,839</b> | <b>9%</b>   | <b>\$ 604,405</b>            | <b>\$ 553,620</b> | <b>9%</b>   |
| Commissions expense                         | \$ 146,281                     | \$ 134,903        | 8%          | \$ 287,803                   | \$ 263,292        | 9%          |
| Operating income                            | \$ 38,626                      | \$ 25,911         | 49%         | \$ 71,908                    | \$ 52,358         | 37%         |
| Operating margin                            | 12.5%                          | 9.1%              |             | 11.9%                        | 9.5%              |             |

*Global Funds Transfer revenue* Total revenue in the Global Funds Transfer segment consists primarily of fees on money transfers and bill payment transactions. For the three and six months ended June 30, 2012, Global Funds Transfer total revenue increased \$24.4 million and \$50.8 million, respectively, driven by money transfer volume growth, partially offset by a decline in bill payment revenue. Bill payment fee and other revenue for the three months ended June 30, 2012 decreased \$1.5 million due to \$1.7 million of lower average fees per transaction, partially offset by volume increases of \$0.2 million. For the six months ended June 30, 2012, bill payment fee and other revenue decreased \$4.0 million due to lower average fees per transaction of \$3.4 million and lower volumes of \$0.6 million. Bill Payment revenue from divested businesses was \$1.6 million and \$3.2 million, respectively, for the three and six months ended June 30, 2011.

For the three and six months ended June 30, 2012, money transfer fee and other revenue increased 10 percent and 11 percent, respectively, driven by the items noted in the following table.



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| <b>Money Transfer Fee and Other Revenue</b><br><i>(Amounts in thousands)</i> | <b>Three Months<br/>Ended</b> | <b>Six Months<br/>Ended</b> |
|--|-------------------------------|-----------------------------|
| For the period ended June 30, 2011   | \$ 256,161                    | \$ 495,791                  |
| Change from:   |                               |                             |
| Volume   | 33,331                        | 68,605                      |
| Euro exchange rate   | (7,402)                       | (9,922)                     |
| Corridor mix and average face value per transaction                          | (915)                         | (4,717)                     |
| Other  | 889                           | 566                         |
| <br>For the period ended June 30, 2012                                       | <br>\$ 282,064                | <br>\$ 550,323              |

Transactions and the related fee revenue are viewed as originating from the send side of a transaction. Accordingly, discussion of transactions by geographic location refers to the region originating a transaction. Money transfer transaction growth for the three and six months ended June 30, 2012 as compared to the same period in the prior year is as follows:

|  | <b>Three Months<br/>Ended</b> | <b>Six Months<br/>Ended</b> |
|--|-------------------------------|-----------------------------|
| Total transactions   | 13%                           | 14%                         |
| Transactions originating outside of the United States                        | 18%                           | 17%                         |
| Transactions originating in the United States                                | 11%                           | 12%                         |
| Transactions originating in the United States excluding those sent to Mexico | 9%                            | 9%                          |

Money transfer transactions originating in the United States, excluding transactions sent to Mexico, increased due primarily to an increase in intra United States remittances. Transactions sent to Mexico grew by 20 percent and 19 percent, respectively, in the three and six months ended June 30, 2012. Mexico represented approximately 10 percent and 9 percent, respectively, of our total transactions for the three and six months ended June 30, 2012. The money transfer agent base expanded 16 percent to approximately 284,000 locations in the second quarter of 2012, primarily due to expansion in the Indian subcontinent, Eastern Europe, Western Europe and Asia Pacific.

*Global Funds Transfer commissions expense* Commissions expense consists primarily of fees paid to our third party agents for money transfer and bill payment services, as well as the amortization of capitalized agent signing bonuses. For the three and six months ended June 30, 2012, fee and other commissions expense increased eight percent and nine percent, respectively, driven by the items noted in the following table.

| <b>Global Funds Transfer Fee and Other Commissions Expense</b><br><i>(Amounts in thousands)</i> | <b>Three Months<br/>Ended</b> | <b>Six Months<br/>Ended</b> |
|---|-------------------------------|-----------------------------|
| For the period ended June 30, 2011  | \$ 134,903                    | \$ 263,292                  |
| Change from:  |                               |                             |
| Money Transfer volume growth  | 17,046                        | 32,569                      |
| Euro exchange rate  | (3,379)                       | (4,525)                     |
| Bill payment volumes  | (1,052)                       | (2,467)                     |
| Money transfer commission rates   | 801                           | 936                         |
| Signing bonus amortization  | (35)                          | 435                         |
| Bill payment commission rates   | (124)                         | (502)                       |
| Other   | (1,879)                       | (1,935)                     |
| <br>For the three months ended June 30, 2012  | <br>\$ 146,281                | <br>\$ 287,803              |

*Operating Margin* Operating margin in the Global Funds Transfer segment increased to 12.5 percent and 11.9 percent for the three and six months ended June 30, 2012, respectively, from 9.1 percent and 9.5 percent for the three and six months ended June 30, 2011. The higher margin in 2012 reflects the growth in money transfer revenue, partially offset by commissions expense, restructuring and reorganization costs and higher legal and marketing expense.





**Table of Contents****FINANCIAL PAPER PRODUCTS SEGEMENT**

| <i>(Amounts in thousands)</i>           | Three Months Ended |           | %<br>Change | Six Months Ended |           | %<br>Change |
|---|--------------------|-----------|-------------|------------------|-----------|-------------|
|   | June 30,           |           |             | June 30,         |           |             |
|   | 2012               | 2011      |             | 2012             | 2011      |             |
| Money order revenue:                    |                    |           |             |                  |           |             |
| Fee and other revenue                   | \$ 13,946          | \$ 14,483 | (4)%        | \$ 28,311        | \$ 29,387 | (4)%        |
| Investment revenue                      | 572                | 1,140     | (50)%       | 1,097            | 1,966     | (44)%       |
| Total money order revenue               | 14,518             | 15,623    | (7)%        | 29,408           | 31,353    | (6)%        |
| Official check revenue:                 |                    |           |             |                  |           |             |
| Fee and other revenue                   | 4,670              | 5,853     | (20)%       | 9,342            | 11,215    | (17)%       |
| Investment revenue                      | 2,331              | 4,163     | (44)%       | 4,437            | 6,967     | (36)%       |
| Total official check revenue            | 7,001              | 10,016    | (30)%       | 13,779           | 18,182    | (24)%       |
| Total Financial Paper Products revenue: |                    |           |             |                  |           |             |
| Fee and other revenue                   | 18,616             | 20,336    | (8)%        | 37,653           | 40,602    | (7)%        |
| Investment revenue                      | 2,903              | 5,303     | (45)%       | 5,534            | 8,933     | (38)%       |
| Total Financial Paper Products revenue  | \$ 21,519          | \$ 25,639 | (16)%       | \$ 43,187        | \$ 49,535 | (13)%       |
| Commissions expense                     | \$ 495             | \$ 769    | (36)%       | \$ 966           | \$ 1,580  | (39)%       |
| Operating income                        | \$ 8,080           | \$ 9,344  | (14)%       | \$ 17,070        | \$ 17,724 | (4)%        |
| Operating margin                        | 37.5%              | 36.4%     |             | 39.5%            | 35.8%     |             |

*Financial Paper Products revenue* Total revenue in the Financial Paper Products segment consists of per item fees charged to our financial institution customers and retail agents and investment revenue.

| <i>(Amounts in thousands)</i>        | Three Months<br>Ended | Six Months<br>Ended |
|--------------------------------------|-----------------------|---------------------|
| For the period ended June 30, 2011   | \$ 25,639             | \$ 49,535           |
| Change in:                           |                       |                     |
| Investment Revenue                   |                       |                     |
| Lower yields                         | (2,193)               | (2,693)             |
| Average investable balances          | (270)                 | (588)               |
| Other investment revenue             | 63                    | (119)               |
| Money order fee and other revenue    | (536)                 | (1,075)             |
| Official check fee and other revenue | (1,184)               | (1,873)             |
| For the period ended June 30, 2012   | \$ 21,519             | \$ 43,187           |

Money order fee and other revenue decreased in the three and six months ended June 30, 2012 due to a five percent and three percent, respectively, decline in volumes attributed to the attrition of agents from repricing initiatives, the continued migration by consumers to other payment methods, consumer pricing increases as agents pass along fee increases and the general economic environment. See the Net Investment Revenue Analysis section for discussion related to changes in investment revenue.

*Financial Paper Products commissions expense* Commissions expense in the Financial Paper Products segment includes payments made to financial institution customers based on amounts generated by the sale of official checks times short term interest rate indices, payments on money order transactions and amortization of signing bonuses. Commissions expense decreased 36 percent and 39 percent, respectively, for the three and six months ended June 30, 2012, due to the items in the following table. See the Net Investment Revenue Analysis section for further

discussion of investment commissions expense.

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| <i>(Amounts in thousands)</i>                        | <b>Three Months<br/>Ended</b> | <b>Six Months<br/>Ended</b> |
|--|-------------------------------|-----------------------------|
| For the period ended June 30, 2011                   | \$ 769                        | \$ 1,580                    |
| Change in:   |                               |                             |
| Money order agent rebates from repricing initiatives | (219)                         | (435)                       |
| Signing bonus amortization                           | (46)                          | (107)                       |
| Investable balances                                  | (7)                           | (19)                        |
| Investment rate                                      | (2)                           | (53)                        |
| <b>For the period ended June 30, 2012</b>            | <b>\$ 495</b>                 | <b>\$ 966</b>               |

*Operating Margin* The operating margin for the Financial Paper Products segment increased to 37.5 percent and 39.5 percent, respectively, in the three and six months ended June 30, 2012 from 36.4 percent and 35.8 percent, respectively, in the three and six months ended June 30, 2011 due to lower commissions, partially offset by lower investment revenue.

**LIQUIDITY AND CAPITAL RESOURCES**

We have various resources available to us for purposes of managing liquidity and capital needs, including our investment portfolio, credit facilities and letters of credit. We refer to our cash and cash equivalents, short-term investments and available-for-sale investments collectively as our investment portfolio. Our primary sources of liquidity include cash flows generated by the sale of our payment instruments, our cash and cash equivalent and short-term balances, proceeds from our investment portfolio and credit capacity under our credit facilities. Our primary operating liquidity needs relate to the settlement of payment service obligations to our agents and financial institution customers, as well as general operating expenses.

*Assets in Excess of Payment Service Obligations* We utilize the assets in excess of payment service obligations measure shown below in various liquidity and capital assessments. While assets in excess of payment service obligations, as defined, is a capital measure, it also serves as the foundation for various liquidity analyses.

| <i>(Amounts in thousands)</i>                             | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|--------------------------|------------------------------|
| Cash and cash equivalents (substantially restricted)      | \$ 2,548,257             | \$ 2,572,174                 |
| Receivables, net (substantially restricted)               | 1,266,882                | 1,220,065                    |
| Short-term investments (substantially restricted)         | 524,055                  | 522,024                      |
| Available-for-sale investments (substantially restricted) | 85,281                   | 102,771                      |
|   | 4,424,475                | 4,417,034                    |
| Payment service obligations                               | (4,155,880)              | (4,205,375)                  |
| <b>Assets in excess of payment service obligations</b>    | <b>\$ 268,595</b>        | <b>\$ 211,659</b>            |

*Cash and Cash Equivalents and Short-term investments* To ensure we maintain adequate liquidity to meet our operating needs at all times, we keep a significant portion of our investment portfolio in cash and cash equivalents and short-term investments at financial institutions rated Aa3 or better by Moody's Investor Service, or Moody's, and AA- or better by Standard & Poors, or S&P, and in United States government money market funds rated Aaa by Moody's and AAA by S&P. As of June 30, 2012, cash and cash equivalents and short-term investments totaled \$3.1 billion, representing 69 percent of our total investment portfolio. Cash equivalents and short-term investments consist of money market funds that invest in United States government and government agency securities, time deposits and certificates of deposit.

*Credit Facilities* Our credit facilities consist of a senior secured facility, which consists of a \$150 million five-year revolver, a \$390 million six-and-a-half year term loan and a \$150 million incremental term loan, and second lien notes. See Note 8 *Debt* of the Notes to Consolidated Financial Statements for further information. Outside of payments relating to refinance debt, we have paid down \$428.1 million of our outstanding debt since January 1, 2009. We continue to evaluate further reductions of our outstanding debt ahead of scheduled maturities. Our revolving credit facility has \$137.3 million of borrowing capacity as of June 30, 2012, net of \$12.7 million of outstanding letters of credit.

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Our credit facilities contain 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. We are in compliance with all covenants as of June 30, 2012. We continue to monitor our covenants and make necessary adjustments to our plans to ensure compliance. We believe that we will remain in compliance with our debt covenants

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during 2012. The terms of our credit facilities also place restrictions on certain types of payments we may make, including dividends to our preferred and common stockholders, acquisitions, and the funding of foreign subsidiaries, among others. We do not anticipate these restrictions to limit our ability to grow the business either domestically or internationally. In addition, we may only make dividend payments to common stockholders subject to an incremental build-up based on our consolidated net income in future periods. No dividends were paid on our common stock in the three and six months ended June 30, 2012 and we do not anticipate declaring any dividends on our common stock during 2012.

**Credit Ratings** As of the date of the filing, our credit ratings from Moody's and S&P were B1 and BB-, respectively. Our credit facilities, regulatory capital requirements and other obligations are not impacted by the level of our credit ratings. However, higher credit ratings could increase our ability to attract capital, minimize our weighted average cost of capital and obtain more favorable terms with our lenders, agents and clearing and cash management banks.

**Regulatory Capital Requirements** We were in compliance with all financial regulatory requirements as of June 30, 2012. We believe that our liquidity and capital resources will remain sufficient to ensure on-going compliance with all financial regulatory requirements.

**Available-for-sale Investments** Our investment portfolio includes \$85.3 million of available-for-sale investments as of June 30, 2012. United States government agency residential mortgage-backed securities and United States government agency debentures compose \$58.6 million of our available-for-sale investments, while other asset-backed securities compose the remaining \$26.7 million. In completing our recapitalization transaction in March 2008, or the 2008 Recapitalization, we contemplated that our other asset-backed securities might decline further in value. Accordingly, the capital raised assumed a zero value for these securities. As a result, further unrealized losses and impairments on these securities are already funded and would not cause us to seek additional capital or financing.

**Contractual Obligations** The following table includes aggregated information about the Company's contractual obligations that impact our liquidity and capital needs. The table includes information about payments due under specified contractual obligations, aggregated by type of contractual obligation.

| <i>(Amounts in thousands)</i>             | Payments due by period |                     |                   |                   |                         |
|---|------------------------|---------------------|-------------------|-------------------|-------------------------|
|   | Total                  | Less than<br>1 year | 1-3 years         | 4-5 years         | More<br>than<br>5 years |
| Debt, including interest payments         | \$ 1,178,843           | \$ 67,165           | \$ 133,588        | \$ 131,939        | \$ 846,151              |
| Operating leases                          | 53,649                 | 13,052              | 22,939            | 8,427             | 9,231                   |
| Signing bonuses                           | 12,501                 | 6,960               | 5,013             | 528               |                         |
| Signage                                   | 431                    | 431                 |                   |                   |                         |
| Marketing                                 | 8,552                  | 8,552               |                   |                   |                         |
| Other obligations                         | 291                    | 291                 |                   |                   |                         |
| <b>Total contractual cash obligations</b> | <b>\$ 1,254,267</b>    | <b>\$ 96,451</b>    | <b>\$ 161,540</b> | <b>\$ 140,894</b> | <b>\$ 855,382</b>       |

Debt consists of amounts outstanding under the 2011 Credit Agreement and the second lien notes at June 30, 2012, as disclosed in Note 8 *Debt* of the Notes to Consolidated Financial Statements, as well as related interest payments, facility fees and annual commitment fees. Our Consolidated Balance Sheet at June 30, 2012 includes \$810.4 million of debt, net of unamortized discounts of \$3.5 million, and \$0.3 million of accrued interest on the debt. The above table reflects the principal and interest that will be paid through the maturity of the debt using the rates in effect on June 30, 2012, and assuming no prepayments of principal and the continued payment of interest on the second lien notes. Operating leases consist of various leases for buildings and equipment used in our business. Other obligations are unfunded capital commitments related to our limited partnership interests included in *Other asset-backed securities* in our investment portfolio. We have other commitments as described further below that are not included in the table above as the timing and/or amount of payments are difficult to estimate.

We have a funded, noncontributory pension plan that is frozen to both future benefit accruals and new participants. Our funding policy has historically been to contribute the minimum contribution required by applicable regulations. We made contributions of \$2.0 million and \$3.4 million to the defined benefit pension plan during the three and six months ended June 30, 2012, respectively. We anticipate a remaining minimum contribution of up to \$6.8 million to the pension plan trust in 2012. We also have certain unfunded pension and postretirement plans that require benefit payments over extended periods of time. During the three and six months ended June 30, 2012, we paid benefits totaling \$0.8 million and \$1.7 million, respectively, related to these unfunded plans. Benefit payments under these unfunded plans are expected to be \$2.4 million for the remainder of 2012. Expected contributions and benefit payments under these plans are not included in the above table, as it is difficult to estimate the timing and amount of benefit payments and required contributions beyond the next 12 months.



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As of June 30, 2012, the liability for unrecognized tax benefits was \$9.6 million. As there is a high degree of uncertainty regarding the timing of potential future cash outflows associated with liabilities, we are unable to make a reasonably reliable estimate of the amount and period in which these liabilities might be paid. In addition, the Company received a Notice of Deficiency from the Internal Revenue Service, or the IRS, disallowing certain cumulative deductions taken for 2007, referred to herein as the 2005-2007 Notice of Deficiency, and expects to receive a Notice of Deficiency for 2008 and 2009 related to net investment security losses. The Company filed a petition with the United States Tax Court contesting the adjustments in the 2005-2007 Notice of Deficiency and plans to petition the United States Tax Court for 2008 and 2009 as well. If the Company's petition is denied in its entirety, the Company would be required to make cash payments of \$110.1 million based on benefits taken through June 30, 2012. As there is a high degree of uncertainty regarding the timing of potential future cash outflows associated with liabilities, we are unable to make a reasonably reliable estimate of the amount and period in which these liabilities might be paid.

In limited circumstances, we may grant minimum commission guarantees as an incentive to new or renewing agents for a specified period of time at a contractually specified amount. Under the guarantees, we will pay to the agent the difference between the contractually specified minimum commission and the actual commissions earned by the agent. As of June 30, 2012, the minimum commission guarantees had a maximum payment of \$12.5 million over a weighted-average remaining term of 2.9 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. As of June 30, 2012, the liability for minimum commission guarantees was \$3.5 million. Minimum commission guarantees are not reflected in the table above.

*Cash flows from operating activities*

Operating activities generated net cash of \$2.6 million and \$12.2 million during the three and six months ended June 30, 2012, respectively. Our net cash provided by operating activities before changes in payment service assets and obligations was \$58.2 million and \$87.6 million, respectively. Changes in our payments service assets and obligations utilized \$55.6 million and \$75.4 million, respectively, of operating cash flows during the three and six months ended June 30, 2012, from the timing of collection and settlement of our payment service assets and obligations, as well as the changes in composition of our investment portfolio.

Operating activities generated net cash of \$149.1 million and \$145.6 million during the three and six months ended June 30, 2011, respectively. Our net cash provided by operating activities before changes in payment service assets and obligations was \$29.8 million and \$51.9 million, respectively. Changes in our payments service assets and obligations provided \$119.3 million and \$93.8 million, respectively, of operating cash flows during the three and six months ended June 30, 2011, from the timing of collection and settlement of our payment service assets and obligations, as well as the changes in composition of our investment portfolio.

| <i>(Amounts in thousands)</i>   | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |               |
|---|---------------------------|----------------|-------------------------|---------------|
|   | <b>June 30,</b>           |                | <b>June 30,</b>         |               |
|   | <b>2012</b>               | <b>2011</b>    | <b>2012</b>             | <b>2011</b>   |
| Net (loss) income   | \$ (25,056)               | \$ 26,404      | \$ (14,787)             | \$ 40,449     |
| Total adjustments to reconcile net (loss) income  | 83,259                    | 3,424          | 102,377                 | 11,429        |
| <b>Net cash provided by operating activities before changes in payment service assets and obligations</b> | <b>58,203</b>             | <b>29,828</b>  | <b>87,590</b>           | <b>51,878</b> |
| Change in cash and cash equivalents (substantially restricted)  | (1,007)                   | 90,343         | 23,917                  | 180,275       |
| Change in receivables, net (substantially restricted)   | (57,893)                  | (68,771)       | (49,797)                | (44,746)      |
| Change in payment service obligations   | 3,276                     | 97,696         | (49,495)                | (41,775)      |
| <b>Net change in payment service assets and obligations</b>   | <b>(55,624)</b>           | <b>119,268</b> | <b>(75,375)</b>         | <b>93,754</b> |
| Net cash provided by operating activities   | \$ 2,579                  | \$ 149,096     | \$ 12,215               | \$ 145,632    |

*Cash flows from investing activities* - Investing activities used cash of \$2.2 million and \$11.5 million during the three and six months ended June 30, 2012, respectively, primarily for the purchase of short-term investments of \$112.7 million and \$324.5 million, respectively, and \$11.7 million and \$30.3 million, respectively, of capital expenditures, partially offset by proceeds of \$122.0 million and \$342.9 million, respectively, from the normal maturity of investments which were reinvested into short-term investments. Investing activities used cash of \$87.7 million and \$84.2 million during the three and six months ended June 30, 2011, respectively, primarily for the purchase of \$111.3 million

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and \$316.7 million, respectively, of short-term investments, and \$15.2 million and \$24.2 million, respectively, of capital expenditures, partially offset by proceeds of \$38.8 million and \$256.8 million, respectively, from the normal maturity and settlements of investments which were reinvested into short-term investments.



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| <i>(Amounts in thousands)</i>                     | Three Months Ended<br>June 30, |                    | Six Months Ended<br>June 30, |                    |
|---|--------------------------------|--------------------|------------------------------|--------------------|
|   | 2012                           | 2011               | 2012                         | 2011               |
| Net investment activity                           | \$ 9,239                       | \$ (72,441)        | \$ 18,416                    | \$ (59,920)        |
| Purchases of property and equipment               | (11,663)                       | (15,217)           | (30,295)                     | (24,190)           |
| Proceeds from disposals of property and equipment | 219                            |                    | 391                          |                    |
| Cash paid for acquisitions, net of cash acquired  |                                | (53)               |                              | (53)               |
| <b>Net cash used in investing activities</b>      | <b>\$ (2,205)</b>              | <b>\$ (87,711)</b> | <b>\$ (11,488)</b>           | <b>\$ (84,163)</b> |

*Cash flows from financing activities* - For the three and six months ended June 30, 2012 financing activities used cash of \$0.4 million and \$0.7 million, respectively, associated with the required quarterly payment of debt and the exercise of stock options. For the three and six months ended June 30, 2011, financing activities used \$61.4 million and \$61.5 million, respectively, primarily associated with the debt prepayment and the 2011 Recapitalization.

| <i>(Amounts in thousands)</i>  | Three Months Ended<br>June 30, |                    | Six Months Ended<br>June 30, |                    |
|--|--------------------------------|--------------------|------------------------------|--------------------|
|  | 2012                           | 2011               | 2012                         | 2011               |
| Proceeds from issuance of debt   | \$                             | \$ 389,025         | \$                           | \$ 389,025         |
| Transaction costs for issuance and amendment of debt                       |                                | (17,062)           |                              | (17,062)           |
| Payments on debt   | (375)                          | (191,250)          | (750)                        | (191,250)          |
| Additional consideration in connection with conversion of mezzanine equity |                                | (218,333)          |                              | (218,333)          |
| Transaction costs for the conversion and issuance of stock                 |                                | (3,469)            |                              | (3,736)            |
| Cash dividends paid  |                                | (20,477)           |                              | (20,477)           |
| Proceeds from exercise of stock options                                    | 1                              | 181                | 23                           | 364                |
| <b>Net cash used in financing activities</b>                               | <b>\$ (374)</b>                | <b>\$ (61,385)</b> | <b>\$ (727)</b>              | <b>\$ (61,469)</b> |

**CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures in the consolidated financial statements. Actual results could differ from those estimates. On a regular basis, management reviews the accounting policies, assumptions and estimates to ensure that our financial statements are presented fairly and in accordance with GAAP.

Critical accounting policies are those policies that management believes are most important to the portrayal of our financial position and results of operations, and that require management to make estimates that are difficult, subjective or complex. There were no changes to our critical accounting policies during the quarter ended June 30, 2012. For further information regarding our critical accounting policies, refer to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein may contain forward-looking statements with respect to the financial condition, results of operation, plans, objectives, future performance and business of MoneyGram and its subsidiaries. Statements preceded by, followed by or that include words such as may, will, expect, anticipate, continue, estimate, project, believes expressions are intended to identify some of the forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are included, along with this statement, for purposes of complying with the safe harbor provisions of that Act. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the risks and uncertainties described in Part I, Item 1A under the caption Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011, as well as the various factors described herein. These forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update publicly or revise any forward-looking statements for any reason, whether as a result of new information, future events or otherwise, except as required by federal securities law.



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These forward-looking statements are based on management's current expectations, beliefs and assumptions and are subject to certain risks, uncertainties and changes in circumstances due to a number of factors. These factors include, but are not limited to:

ongoing investigations involving MoneyGram by the U.S. federal government and several state governments, which could result in criminal or civil penalties, revocation of required licenses or registrations, termination of contracts, other administrative actions or lawsuits and negative publicity;

our ability to maintain key agent or biller relationships or a reduction in transaction volume from these relationships;

continued weakness in economic conditions, in both the United States and global markets;

consumers' confidence in our business;

a material slow down or complete disruption of international migration patterns;

the ability of us and our agents to comply with U.S. and international laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act;

litigation involving MoneyGram or its agents, which could result in material settlements, fines or penalties;

our offering of money transfer services through agents in regions that are politically volatile or, in a limited number of cases, that are subject to certain restrictions of the U.S. Treasury Department's Office of Foreign Assets Control (OFAC);

our substantial debt service obligations, significant debt covenant requirements and credit rating;

sustained financial market illiquidity, or illiquidity at our clearing, cash management and custodial financial institutions;

our ability to maintain sufficient capital;

our ability to manage credit risks from our retail agents and official check financial institution customers;

the ability of MoneyGram and its agents to maintain adequate banking relationships;

our ability to retain partners to operate our official check and money order businesses;

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our ability to manage fraud risks from consumers or agents;

our ability to compete effectively;

our ability to successfully develop and timely introduce new and enhanced products and services;

our investments in new products, services or infrastructure changes;

our ability to manage risks associated with our international sales and operations;

our ability to attract and retain key employees;

our ability to adequately protect our brand and intellectual property rights and to avoid infringing on the rights of others;

a security or privacy breach in our systems;

disruptions to our computer systems and data centers;

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our ability to effectively operate and adapt our technology to match our business growth;

our ability to manage risks related to the operation of retail locations and the acquisition or start-up of businesses;

the European debt crisis and market perceptions concerning the euro, the potential re-introduction of individual currencies within the Eurozone or the potential dissolution of the euro;

changes in tax laws or an unfavorable outcome with respect to tax positions, or a failure by us to establish adequate reserves for tax events;

our ability to maintain effective internal controls;

our capital structure and the special voting rights provided to designees of Thomas H. Lee Partners and certain of its affiliates, referred to collectively herein as THL, on our Board of Directors; and

the risks and uncertainties described in this Quarterly Report on Form 10-Q, and those set forth in the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections of our Annual Report on Form 10-K for the year ended December 31, 2011, as well as any additional risk factors that may be described in our other filings with the Securities and Exchange Commission, or SEC, from time to time.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risk since December 31, 2011. For further information on market risk, refer to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Enterprise Risk Management in the Company's Annual Report on form 10-K for the year ended December 31, 2011.

### **ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information that the Company is required to disclose in such reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

*Changes in Internal Control over Financial Reporting* There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

coverage for many claims and litigations alleged.

Litigation Commenced Against the Company:

*Stockholder Litigation* On April 15, 2011 a complaint was filed in the Court of Chancery of the State of Delaware by Willie R. Pittman purporting to be a class action complaint on behalf of all stockholders and a stockholder derivative complaint against the Company, THL, affiliates of Goldman, Sachs & Co., or Goldman Sachs, and each of the Company's directors. Ms. Pittman alleged in her complaint that she is a

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stockholder of the Company and asserted, among other things, (i) breach of fiduciary duty and disclosure claims against the Company's directors, THL and Goldman Sachs, (ii) breach of the Company's certificate of incorporation claims against the Company, THL and Goldman Sachs, and (iii) claims for aiding and abetting breach of fiduciary duties against Goldman Sachs. Ms. Pittman purported to sue on her own behalf and on behalf of the Company and its stockholders. Pittman sought to, among other things, enjoin or rescind the 2011 Recapitalization. On April 29, 2011 the plaintiff filed an amended complaint to add two additional plaintiffs, Susan Seales and Stephen Selzer. On May 16, 2011 a hearing to enjoin or rescind the 2011 Recapitalization was held in the Court of Chancery of the State of Delaware, referred to herein as the Delaware Court, and at the hearing, the plaintiffs' request for a preliminary injunction was denied. The 2011 Recapitalization was completed on May 18, 2011. Since that time, Ms. Pittman has withdrawn as a putative class representative; Ms. Seales and Mr. Selzer remain as plaintiffs. The plaintiffs sought to recover damages of some or all of the cash and stock payments made to THL and Goldman Sachs by the Company in connection with the 2011 Recapitalization.

On May 12, 2011 a complaint was filed in the County Court at Law No. 3 in Dallas County, Texas by Hilary Kramer purporting to be a class action complaint on behalf of all stockholders and a stockholder derivative complaint against the Company, THL, Goldman Sachs and each of the Company's directors. Ms. Kramer alleged in her complaint that she is a stockholder of the Company and asserted, among other things, (i) breach of fiduciary duty claims against the Company's directors, THL and Goldman Sachs and (ii) claims for aiding and abetting breach of fiduciary duties against Goldman Sachs. Ms. Kramer purported to sue on her own behalf and on behalf of the Company and its stockholders. Ms. Kramer sought to, among other things, enjoin the 2011 Recapitalization. The defendants have moved for the Texas court to stay this litigation in favor of the Pittman litigation in Delaware, which has an overlapping class definition.

On July 20, 2012, the parties in the Pittman litigation applied for preliminary approval of a proposed settlement, the terms of which are set forth in a Stipulation and Agreement of Compromise and Settlement, dated as of July 19, 2012, referred to herein as the Stipulation. The Stipulation, which is still subject to preliminary and final approval by the Delaware Court, provides for a settlement payment of \$10.0 million, to be distributed pro rata to certain stockholders, net of any attorneys' fees awarded by the Delaware Court. During the three and six months ended June 30, 2012, the Company recognized \$6.5 million of expense for the proposed settlement. The Company, THL, Goldman Sachs, the Company's directors and other parties agreed to share financial responsibility for funding the settlement payment as follows: (i) the Company will contribute \$3.5 million; (ii) the Company's insurer will contribute \$2.8 million under the Company's director and officer liability policy; (iii) THL and the individuals nominated by THL as directors of the Company, referred to collectively herein as the THL Directors, will waive all future rights to receive cash or equity compensation from the Company for services by the THL Directors or any other directors nominated by THL, and the Company will contribute \$2.0 million toward the settlement payment in recognition of such waiver; (iv) Goldman Sachs has agreed to waive reimbursements of \$1.0 million of legal fees and expenses associated with the Company's 2011 Recapitalization, and the Company will contribute this amount toward the settlement payment; and (v) other parties with rights related to the 2011 Recapitalization have agreed to waive reimbursement of \$0.8 million of legal fees and expenses, and the Company will contribute this amount toward the settlement payment.

The Stipulation also includes a release by the putative class of stockholders of all claims with respect to the allegations in the action or relating to the 2011 Recapitalization. The Delaware Court has set a hearing on October 10, 2012 to consider final approval of the settlement and entry of judgment. If the settlement is approved, the action will be dismissed with prejudice on the merits, and the Company will seek to dismiss the Texas action as well.

*Other Matters* 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:**

*MDPA/DOJ Matter* MoneyGram has been served with subpoenas to produce documents and testify before a grand jury in the U.S. District Court for the Middle District of Pennsylvania. The subpoenas sought information related to, inter alia, MoneyGram's U.S. and Canadian agents, as well as certain transactions involving such agents, fraud complaint data, and MoneyGram's consumer anti-fraud program during the period from 2004 to 2009. MoneyGram has provided information requested pursuant to the subpoenas and continues to provide additional information relating to the investigation. In addition, the Company was provided with subpoenas for the testimony of certain current and former employees in connection with the investigation. Interviews of one former executive officer and one former chief executive officer of the Company have taken place. The U.S. Department of the Treasury Financial Crimes Enforcement Network, or FinCEN, also requested information, which information was subsequently provided by MoneyGram, concerning MoneyGram's reporting of fraudulent transactions during this period. In November 2010, MoneyGram met with representatives from the U.S. Attorney's Office for the Middle District of Pennsylvania, or the MDPA USAO, and representatives of FinCEN to discuss the investigation. In July 2011, MoneyGram had further discussions with the MDPA USAO and representatives of the Asset Forfeiture and Money Laundering Section of the U.S. Department of Justice, or the US DOJ. MoneyGram has been informed that it is being investigated by the federal grand jury in connection with these matters for the period 2004 to early 2009 as well as

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MoneyGram's anti-money laundering program during that period. In January 2012, meetings were held between representatives of the Company, the MDPA USAO and the Criminal Division of the US DOJ to discuss the investigation. During the course of these discussions, the Company was advised that consideration was being given to a range of possible outcomes, including the seeking of criminal penalties against the Company.



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On March 19, 2012, the Company entered into a tolling agreement with the U.S. Attorney's Office for the Middle District of Pennsylvania and the Asset Forfeiture and Money Laundering Section of the Criminal Division of the Department of Justice that tolled the statute of limitations applicable to any criminal proceedings that the government might later initiate to include the period from March 23, 2012 through and including December 31, 2012.

MoneyGram continues to engage in discussions and to cooperate with the government representatives regarding the investigation. However, the Company is unable to determine at this time what the final resolution of the investigation will be, including the nature of any proceeding and the manner in which it will be resolved. In the second quarter, the Company recorded an accrual of \$30.0 million in connection with a possible resolution of this matter, based on the facts and circumstances known at this time. However, the Company is unable at this time to reasonably estimate the ultimate loss and no assurance can be given that costs and payments made in connection with this matter will not exceed the amount currently recorded or that the government will not also seek to impose non-monetary remedies or penalties.

*State Civil Investigative Demands* MoneyGram has also received Civil Investigative Demands from a working group of nine state attorneys general who have initiated an investigation into whether the Company has taken 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 at this time.

*Other Matters* The Company is involved in various government inquiries and other matters that arise from time to time. 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.

### **Action 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 sold to MoneyGram during the 2005 through 2007 timeframe. The Company alleges, among other things, that Goldman 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 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 currently owned by Goldman and its affiliates.

*Tax Litigation* On May 14, 2012, the Company filed a petition in the United States Tax Court challenging the 2005-2007 Notice of Deficiency, 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. If the Company's petition is denied in its entirety, the Company would be required to make cash payments of \$110.1 million based on benefits taken through June 30, 2012. The IRS filed a response to the Company's petition on July 18, 2012 reasserting its original position.

## **ITEM 1A. RISK FACTORS**

There have been no changes in the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. For further information, refer to Part I, Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company's Board of Directors has authorized the repurchase of a total of 12,000,000 common shares. The repurchase authorization is effective until such time as the Company has repurchased 12,000,000 common shares. Common stock tendered to the Company in connection with the exercise of stock options or vesting of restricted stock are not considered repurchased shares under the terms of the repurchase authorization. As of June 30, 2012, the Company has repurchased 6,795,017 common shares under this authorization and has remaining authorization to repurchase up to 5,204,983 shares. The Company did not repurchase any shares during the three months ended June 30, 2012. However, the Company may consider repurchasing shares from time-to-time, subject to limitations in its debt agreements.



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**ITEM 6. EXHIBITS**

Exhibits are filed with this Quarterly Report on Form 10-Q as listed in the accompanying Exhibit Index.

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**SIGNATURES**

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

**MoneyGram International, Inc.**  
(Registrant)

August 9, 2012

By: /s/ W. ALEXANDER HOLMES  
**W. Alexander Holmes**  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)

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| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 3.1                   | Amended and Restated Certificate of Incorporation of MoneyGram International, Inc., as amended (Incorporated by reference from Exhibit 3.1 to Registrant's Annual Report on Form 10-K filed on March 15, 2010).   |
| 3.2                   | Certificate of Amendment of Amended and Restated Certificate of Incorporation of MoneyGram International, Inc., dated May 18, 2011 (Incorporated by reference from Exhibit 3.1 to Registrant's Current Report on Form 8-K filed May 23, 2011).  |
| 3.3                   | Certificate of Amendment of Amended and Restated Certificate of Incorporation of MoneyGram International, Inc., filed with the Secretary of State of the State of Delaware on November 14, 2011 (Incorporated by reference from Exhibit 3.1 to Registrant's Current Report on Form 8-K filed November 14, 2011).  |
| 3.4                   | Bylaws of MoneyGram International, Inc., as amended and restated September 10, 2009 (Incorporated by reference from Exhibit 3.01 to Registrant's Current Report on Form 8-K filed on September 16, 2009).   |
| 3.5                   | Amendment to Bylaws of MoneyGram International, Inc., dated as of January 25, 2012 (Incorporated by reference from Exhibit 3.1 to Registrant's Current Report on Form 8-K filed January 27, 2012).  |
| 3.6                   | Amended and Restated Certificate of Designations, Preferences and Rights of Series D Participating Convertible Preferred Stock of MoneyGram International, Inc., dated May 18, 2011 (Incorporated by reference from Exhibit 3.2 to Registrant's Current Report on Form 8-K filed May 23, 2011).   |
| 31.1*                 | Section 302 Certification of Chief Executive Officer  |
| 31.2*                 | Section 302 Certification of Chief Financial Officer  |
| 32.1*                 | Section 906 Certification of Chief Executive Officer  |
| 32.2*                 | Section 906 Certification of Chief Financial Officer  |
| 101**                 | The following financial statements, formatted in Extensible Business Reporting Language (XBRL) will be filed by amendment within 30 days of the filing date of this Form 10-Q, as permitted by Rule 405(a)(2)ii of Regulation S-T: (i) Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011; (iv) Consolidated Statements of Cash Flows for the three and six months ended June 30, 2012 and 2011; (v) Consolidated Statements of Stockholders' Deficit as of June 30, 2012; and (vi) Notes to Consolidated Financial Statements. |

\* Filed herewith.

\*\* Furnished herewith.