

MONEYGRAM INTERNATIONAL INC
Form 10-Q
October 30, 2013
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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 September 30, 2013

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____
Commission File Number: 001-31950

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

Delaware
(State or other jurisdiction of incorporation or organization)
2828 N. Harwood St., 15th Floor
Dallas, Texas
(Address of principal executive offices)
(214) 999-7552
(Registrant's telephone number, including area code)

16-1690064
(I.R.S. Employer Identification No.)
75201
(Zip 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 October 28, 2013, 57,962,493 shares of common stock, \$0.01 par value, were outstanding.

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

| (Amounts in millions, except share data) | September 30, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$— | \$— |
| Cash and cash equivalents (substantially restricted) | 2,222.4 | 2,683.2 |
| Receivables, net (substantially restricted) | 959.7 | 1,206.5 |
| Interest-bearing investments (substantially restricted) | 941.8 | 450.1 |
| Available-for-sale investments (substantially restricted) | 50.7 | 63.5 |
| Property and equipment, net | 125.9 | 127.9 |
| Goodwill | 431.8 | 428.7 |
| Other assets | 190.9 | 190.7 |
| Total assets | \$4,923.2 | \$5,150.6 |
| LIABILITIES | | |
| Payment service obligations | \$3,864.9 | \$4,175.4 |
| Debt | 845.0 | 809.9 |
| Pension and other postretirement benefits | 119.8 | 126.8 |
| Accounts payable and other liabilities | 209.8 | 199.9 |
| Total liabilities | 5,039.5 | 5,312.0 |
| COMMITMENTS AND CONTINGENCIES (NOTE 13) | | |
| STOCKHOLDERS' DEFICIT | | |
| Participating Convertible Preferred Stock - Series D, \$0.01 par value, 200,000 shares authorized, 109,239 issued at September 30, 2013 and December 31, 2012, respectively | 281.9 | 281.9 |
| Common Stock, \$0.01 par value, 162,500,000 shares authorized, 62,263,963 shares issued at September 30, 2013 and December 31, 2012, respectively | 0.6 | 0.6 |
| Additional paid-in capital | 1,008.4 | 1,001.0 |
| Retained loss | (1,237.8 |) (1,265.9 |
| Accumulated other comprehensive loss | (45.5 |) (52.3 |
| Treasury stock: 4,302,724 and 4,407,038 shares at September 30, 2013 and December 31, 2012, respectively | (123.9 |) (126.7 |
| Total stockholders' deficit | (116.3 |) (161.4 |
| Total liabilities and stockholders' deficit | \$4,923.2 | \$5,150.6 |

See Notes to Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

| (Amounts in millions, except per share data) | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| REVENUE | | | | |
| Fee and other revenue | \$375.8 | \$335.7 | \$1,075.1 | \$977.3 |
| Investment revenue | 7.2 | 2.9 | 13.5 | 9.5 |
| Total revenue | 383.0 | 338.6 | 1,088.6 | 986.8 |
| OPERATING EXPENSES | | | | |
| Fee and other commissions expense | 178.6 | 152.3 | 502.5 | 440.9 |
| Investment commissions expense | 0.1 | 0.1 | 0.3 | 0.3 |
| Total commissions expense | 178.7 | 152.4 | 502.8 | 441.2 |
| Compensation and benefits | 66.2 | 54.8 | 198.1 | 172.9 |
| Transaction and operations support | 65.4 | 135.6 | 179.3 | 291.8 |
| Occupancy, equipment and supplies | 12.1 | 12.2 | 37.0 | 36.6 |
| Depreciation and amortization | 12.5 | 10.9 | 36.5 | 32.6 |
| Total operating expenses | 334.9 | 365.9 | 953.7 | 975.1 |
| OPERATING INCOME (LOSS) | 48.1 | (27.3) | 134.9 | 11.7 |
| OTHER EXPENSE | | | | |
| Interest expense | 10.0 | 17.7 | 37.3 | 53.2 |
| Debt extinguishment costs | — | — | 45.3 | — |
| Other | — | 0.1 | — | 0.4 |
| Total other expense | 10.0 | 17.8 | 82.6 | 53.6 |
| Income (loss) before income taxes | 38.1 | (45.1) | 52.3 | (41.9) |
| Income tax expense | 15.6 | 9.6 | 23.3 | 27.6 |
| NET INCOME (LOSS) | \$22.5 | \$(54.7) | \$29.0 | \$(69.5) |
| EARNINGS (LOSS) PER COMMON SHARE | | | | |
| Basic | \$0.31 | \$(0.77) | \$0.41 | \$(0.97) |
| Diluted | \$0.31 | \$(0.77) | \$0.40 | \$(0.97) |
| Weighted-average outstanding common shares and equivalents used in computing earnings (loss) per share | | | | |
| Basic | 71.6 | 71.5 | 71.6 | 71.5 |
| Diluted | 72.0 | 71.5 | 71.8 | 71.5 |

See Notes to Consolidated Financial Statements

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

| (Amounts in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|-----------|------------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| NET INCOME (LOSS) | \$22.5 | \$(54.7) | \$29.0 | \$(69.5) |
| OTHER COMPREHENSIVE INCOME | | | | |
| Net unrealized gains on available-for-sale securities: | | | | |
| Net holding gains arising during the period, net of tax expense of \$0.5 and \$0 for the three months ended September 30, 2013 and 2012, respectively, and \$0.1 and \$0.6 for the nine months ended September 30, 2013 and 2012, respectively | 3.3 | 0.9 | 3.0 | 2.3 |
| Pension and postretirement benefit plans: | | | | |
| Amortization of prior service credit for pension and postretirement benefit plans recorded to net income (loss), net of tax expense of \$0.1 for the three months ended September 30, 2013 and 2012 and \$0.2 for the nine months ended September 30, 2013 and 2012 | (0.1) | (0.1) | (0.3) | (0.3) |
| Amortization of net actuarial loss for pension and postretirement benefit plans recorded to net income (loss), net of tax benefit of \$0.7 and \$0.6 for the three months ended September 30, 2013 and 2012, respectively, and \$2.3 and \$1.8 for the nine months ended September 30, 2013 and 2012, respectively | 1.2 | 1.0 | 3.8 | 2.9 |
| Unrealized foreign currency translation gains, net of tax expense of \$1.0 and \$0.1 for the three months ended September 30, 2013 and 2012, respectively, and \$0.2 for the nine months ended September 30, 2013 and 2012, respectively | 1.6 | 0.1 | 0.3 | 0.3 |
| Other comprehensive income | 6.0 | 1.9 | 6.8 | 5.2 |
| COMPREHENSIVE INCOME (LOSS) | \$28.5 | \$(52.8) | \$35.8 | \$(64.3) |

See Notes to Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

| | Three Months | | Nine Months | |
|---|-----------------|----------|-----------------|----------|
| | Ended September | | Ended September | |
| | 30, | | 30, | |
| (Amounts in millions) | 2013 | 2012 | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net income (loss) | \$22.5 | \$(54.7) | \$29.0 | \$(69.5) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 12.5 | 10.9 | 36.5 | 32.6 |
| Signing bonus amortization | 12.0 | 8.3 | 30.8 | 24.7 |
| Signing bonus payments | (8.8) | (16.3) | (19.0) | (22.6) |
| Loss on debt extinguishment | — | — | 45.3 | — |
| Amortization of debt discount and deferred financing costs | 0.6 | 1.4 | 2.7 | 4.2 |
| Provision for uncollectible receivables | 3.9 | 1.8 | 8.9 | 4.8 |
| Non-cash compensation and pension expense | 5.0 | 4.5 | 14.7 | 13.8 |
| Legal accruals | (2.1) | 62.0 | (38.8) | 100.0 |
| Changes in foreign currency translation adjustments | 1.6 | 0.1 | 0.3 | 0.3 |
| Change in other assets | (6.9) | (2.5) | (20.5) | (0.7) |
| Change in accounts payable and other liabilities | 27.1 | (4.1) | 38.1 | 11.3 |
| Other non-cash items, net | (0.3) | (1.0) | 0.3 | (0.9) |
| Total adjustments | 44.6 | 65.1 | 99.3 | 167.5 |
| Change in cash and cash equivalents (substantially restricted) | (20.0) | 8.4 | 460.8 | 32.3 |
| Change in receivables (substantially restricted) | 214.9 | (64.9) | 237.9 | (114.7) |
| Change in payment service obligations | (211.5) | 52.2 | (310.5) | 2.7 |
| Net cash provided by operating activities | 50.5 | 6.1 | 516.5 | 18.3 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Proceeds from maturities of investments classified as available-for-sale (substantially restricted) | 3.0 | 6.2 | 14.6 | 25.5 |
| Purchases of interest-bearing investments (substantially restricted) | (112.9) | (11.1) | (877.6) | (335.6) |