

MONEYGRAM INTERNATIONAL INC
Form 10-Q
October 31, 2016
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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, 2016
 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	16-1690064
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2828 N. Harwood St., 15 th Floor Dallas, Texas	75201
(Address of principal executive offices) (Zip Code)	
(214) 999-7552	
(Registrant's telephone number, including area code)	
Not applicable	
(Former name, former address and former fiscal year, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, 2016, 53,074,238 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.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 UNAUDITED

(Amounts in millions, except share data)	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 173.1	\$ 164.5
Settlement assets	3,440.4	3,505.6
Property and equipment, net	201.3	199.7
Goodwill	442.2	442.2
Other assets	169.1	193.2
Total assets	\$ 4,426.1	\$ 4,505.2
LIABILITIES		
Payment service obligations	\$ 3,440.4	\$ 3,505.6
Debt	937.3	942.6
Pension and other postretirement benefits	86.5	96.3
Accounts payable and other liabilities	170.4	183.5
Total liabilities	4,634.6	4,728.0
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' DEFICIT		
Participating convertible preferred stock - series D, \$0.01 par value, 200,000 shares authorized, 71,282 issued at September 30, 2016 and December 31, 2015	183.9	183.9
Common stock, \$0.01 par value, 162,500,000 shares authorized, 58,823,567 shares issued at September 30, 2016 and December 31, 2015	0.6	0.6
Additional paid-in capital	1,016.1	1,002.4
Retained loss	(1,251.7)	(1,226.8)
Accumulated other comprehensive loss	(47.1)	(48.7)
Treasury stock: 5,757,015 and 5,612,188 shares at September 30, 2016 and December 31, 2015, respectively	(110.3)	(134.2)
Total stockholders' deficit	(208.5)	(222.8)
Total liabilities and stockholders' deficit	\$ 4,426.1	\$ 4,505.2
See Notes to the Condensed Consolidated Financial Statements		

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MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 UNAUDITED

(Amounts in millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
REVENUE				
Fee and other revenue	\$378.5	\$365.8	\$1,112.5	\$1,049.5
Investment revenue	4.6	2.8	12.7	8.5
Total revenue	383.1	368.6	1,125.2	1,058.0
EXPENSES				
Fee and other commissions expense	170.2	168.7	505.4	485.3
Investment commissions expense	0.6	0.2	1.7	0.5
Total commissions expense	170.8	168.9	507.1	485.8
Compensation and benefits	72.4	73.1	218.5	235.6
Transaction and operations support	79.5	78.2	227.1	238.9
Occupancy, equipment and supplies	15.6	15.0	46.8	46.3
Depreciation and amortization	18.6	16.8	60.2	48.8
Total operating expenses	356.9	352.0	1,059.7	1,055.4
OPERATING INCOME	26.2	16.6	65.5	2.6
Other expense				
Interest expense	11.3	11.2	33.8	33.7
Total other expense	11.3	11.2	33.8	33.7
Income (loss) before income taxes	14.9	5.4	31.7	(31.1)
Income tax expense	4.7	0.5	22.6	48.4
NET INCOME (LOSS)	\$10.2	\$4.9	\$9.1	\$(79.5)
INCOME (LOSS) PER COMMON SHARE				
Basic	\$0.16	\$0.08	\$0.15	\$(1.28)
Diluted	\$0.15	\$0.08	\$0.14	\$(1.28)
Weighted-average outstanding common shares and equivalents used in computing income (loss) per common share				
Basic	62.2	62.1	62.4	62.1
Diluted	66.4	63.8	66.2	62.1
See Notes to the Condensed Consolidated Financial Statements				

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

	Three Months Ended September 30, 2016		2015 2016 2015 September 30, 2015	
(Amounts in millions)				
NET INCOME (LOSS)	\$10.2	\$4.9	\$9.1	\$(79.5)
OTHER COMPREHENSIVE INCOME (LOSS)				
Net change in unrealized holding gains on available-for-sale securities arising during the period, net of tax benefit of \$0.0 and \$0.1 for the three months ended September 30, 2016 and 2015, respectively, and \$0.1 and \$0.0 for the nine months ended September 30, 2016 and 2015, respectively	—	(0.2)	(0.2)	(0.2)
Net change in pension liability due to amortization of prior service cost and net actuarial losses, net of tax benefit of \$0.4 and \$0.6 for the three months ended September 30, 2016 and 2015, respectively, and \$1.4 and \$2.2 for the nine months ended September 30, 2016 and 2015, respectively	0.9	1.2	2.5	4.0
Valuation adjustment for pension and postretirement benefits, net of tax (benefit) expense of \$0.0 and (\$2.1) for the three months ended September 30, 2016 and 2015, respectively, and \$0.0 and \$1.6 for the nine months ended September 30, 2016 and 2015, respectively	—	(3.6)	—	2.7
Pension settlement charge, net of tax benefit of \$0.0 for both the three months ended September 30, 2016 and 2015, and \$0.0 and \$5.0 for the nine months ended September 30, 2016 and 2015, respectively	—	—	—	8.8
Unrealized foreign currency translation adjustments, net of tax expense (benefit) of \$0.2 and (\$1.4) for the three months ended September 30, 2016 and 2015, respectively, and \$2.0 and (\$5.9) for the nine months ended September 30, 2016 and 2015, respectively	0.4	(2.4)	(0.7)	(10.2)
Other comprehensive income (loss)	1.3	(5.0)	1.6	5.1
COMPREHENSIVE INCOME (LOSS)	\$11.5	\$(0.1)	\$10.7	\$(74.4)
See Notes to the Condensed Consolidated Financial Statements				

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MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 UNAUDITED

	Nine Months Ended September 30,	
	2016	2015
(Amounts in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$9.1	\$(79.5)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	60.2	48.8
Signing bonus amortization	41.0	45.3
Signing bonus payments	(17.2)	(71.3)
Amortization of debt issuance costs and debt discount	2.5	2.2
Non-cash compensation and pension expense	18.7	37.7
Change in other assets	2.7	52.9
Change in accounts payable and other liabilities	(32.0)	(38.7)
Other non-cash items, net	(0.5)	0.1
Net cash provided by (used in) operating activities	84.5	(2.5)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(60.4)	(88.8)
Proceeds from disposal of assets	—	0.1
Net cash used in investing activities	(60.4)	(88.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(7.3)	(7.4)
Stock repurchases	(7.5)	(0.4)
Payment for contingent consideration	(0.7)	—
Net cash used in financing activities	(15.5)	(7.8)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8.6	(99.0)
CASH AND CASH EQUIVALENTS—Beginning of period	164.5	250.6
CASH AND CASH EQUIVALENTS—End of period	\$173.1	\$151.6
Supplemental cash flow information:		
Cash payments for interest	\$31.4	\$31.6
Cash taxes, net	\$7.1	\$67.2
See Notes to the Condensed Consolidated Financial Statements		

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MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
 UNAUDITED

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2016	\$ 183.9	\$ 0.6	\$ 1,002.4	\$(1,226.8)	\$ (48.7)	\$(134.2)	\$(222.8)
Net income	—	—	—	9.1	—	—	9.1
Stock-based compensation activity	—	—	13.7	(34.0)	—	31.4	11.1
Stock repurchases	—	—	—	—	—	(7.5)	(7.5)
Other comprehensive income	—	—	—	—	1.6	—	1.6
September 30, 2016	\$ 183.9	\$ 0.6	\$ 1,016.1	\$(1,251.7)	\$ (47.1)	\$(110.3)	\$(208.5)

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2015	\$ 183.9	\$ 0.6	\$ 982.8	\$(1,144.6)	\$ (67.1)	\$(138.3)	\$(182.7)
Net loss	—	—	—	(79.5)	—	—	(79.5)
Stock-based compensation activity	—	—	13.9	(4.9)	—	4.3	13.3
Stock repurchases	—	—	—	—	—	(0.4)	(0.4)
Other comprehensive income	—	—	—	—	5.1	—	5.1
September 30, 2015	\$ 183.9	\$ 0.6	\$ 996.7	\$(1,229.0)	\$ (62.0)	\$(134.4)	\$(244.2)
See Notes to the Condensed Consolidated Financial Statements							

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

Note 1 — Description of the Business and Basis of Presentation

References to “MoneyGram,” the “Company,” “we,” “us” and “our” are to MoneyGram International, Inc. and its subsidiaries.

Nature of Operations — MoneyGram offers products and services under its two reporting segments: Global Funds Transfer and Financial Paper Products. The Global Funds Transfer segment provides global money transfer services and bill payment services to consumers. We primarily offer services through third-party agents, including retail chains, independent retailers, post offices and other financial institutions. We also offer Digital solutions such as moneygram.com, mobile solutions, account deposit and kiosk-based services. Additionally, we have Company-operated retail locations in the U.S. and Western Europe. The Financial Paper Products segment provides official check outsourcing services and money orders through financial institutions and agent locations.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements of MoneyGram are prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) 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 nine months ended September 30, 2016 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, 2015.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience, future expectations and other factors and assumptions the Company believes to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis and are revised when necessary. Changes in estimates are recorded in the period of change. Actual amounts may differ from these estimates.

Recent Accounting Pronouncements and Related Developments — In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance sets forth a five-step revenue recognition model which replaces the current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. To further assist with adoption and implementation of ASU 2014-09, the FASB issued the following ASUs:

- ▲ASU 2016-08 (Issued March 2016) — Principal versus Agent Consideration (Reporting Revenue Gross versus Net)
- ▲ASU 2016-10 (Issued April 2016) — Identifying Performance Obligations and Licensing
- ▲ASU 2016-12 (Issued May 2016) — Narrow-Scope Improvements and Practical Expedients

These ASUs are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. The Company will not be early adopting these standards and will use the cumulative effect transition method upon adoption. The Company continues to evaluate the impact these standards will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires organizations to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous lease guidance. The FASB retained the distinction between finance leases and operating leases, leaving the

effect of leases in the statement of comprehensive income and the statement of cash flows largely unchanged from previous GAAP. ASU 2016-02 mandates a modified retrospective transition method and is effective for fiscal years beginning after December 15, 2018. Early adoption of the amendment is permitted. The Company is currently evaluating the impact this standard will have on the consolidated financial statements.

In April 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. Under the new ASU, companies are allowed to withhold up to the employees' maximum statutory tax rates in the applicable jurisdictions without resulting in liability classification. Further, the ASU requires that cash payments to tax authorities

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in connection with shares withheld to meet statutory tax withholding requirements be presented as a financing activity in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016 and early adoption of the amendment is permitted. The Company currently presents cash payments to tax authorities in connection with shares withheld to meet statutory tax withholdings requirements as an operating activity in its statement of cash flows and upon adoption of this ASU we will present these payments as a financing activity, which will be applied retrospectively. The Company does not expect this ASU to have significant impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new credit impairment standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking expected loss model that generally will result in the earlier recognition of allowances for credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and early adoption of the amendment is permitted. The adoption of ASU 2016-13 will not have a significant impact on our consolidated financial statements.

The Company has determined that there have been no other recently adopted or issued accounting standards that had, or will have, a material impact on its consolidated financial statements.

Note 2 — Reorganization and Restructuring Costs

In the first quarter of 2014, the Company announced the implementation of a global transformation program (the "2014 Global Transformation Program"), which included certain reorganization and restructuring activities centered around facilities and headcount rationalization, system efficiencies and headcount right-shoring and outsourcing. The Company completed these reorganization and restructuring activities as of June 30, 2016. In the third quarter of 2015, the Company initiated other reorganization and restructuring activities to further improve operational efficiencies and concluded these activities as of June 30, 2016.

The following table is a roll-forward of the restructuring costs accrual as of September 30, 2016:

(Amounts in millions)	2014 Global Transformation Program Severance, Outplacement and Related Benefits	Other ⁽¹⁾	Other Restructuring Severance, Outplacement and Related Benefits	Total
Balance, December 31, 2015	\$ 3.8	\$ —	\$ 0.2	\$4.0
Expenses	0.2	0.1	—	0.3
Cash payments	(4.0)	(0.1)	(0.2)	(4.3)
Balance, September 30, 2016	\$ —	\$ —	\$ —	\$—

⁽¹⁾ Other primarily relates to expenses for facilities relocation and professional fees. Such costs are expensed as incurred.

The following table is a summary of the cumulative restructuring costs incurred to date in operating expenses as of September 30, 2016:

(Amounts in millions)	2014 Global Transformation Program Severance	Other Restructuring Severance,	Total
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	Outplacement and Related Benefits	Outplacement and Related Benefits
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Restructuring costs

Cumulative restructuring costs incurred to date in operating expenses	\$ 17.9	\$ 3.1	\$ 0.6	\$ 21.6
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⁽¹⁾ Other primarily relates to expenses for facilities relocation and professional fees. Such costs are expensed as incurred.

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The following table summarizes the reorganization and restructuring costs recorded:

(Amounts in millions)	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	2015	2015
Restructuring costs in operating expenses:				
Compensation and benefits	\$ —	\$ 0.7	\$ 0.2	\$ 3.4
Transaction and operations support	—	0.3	0.1	0.9
Total restructuring costs in operating expenses	—	1.0	0.3	4.3
Reorganization costs in operating expenses:				
Compensation and benefits	—	0.5	—	6.4
Transaction and operations support	—	0.9	0.1	5.2
Occupancy, equipment and supplies	—	0.5	0.1	1.5
Total reorganization costs in operating expenses	—	1.9	0.2	13.1
Total reorganization and restructuring costs	\$ —	\$ 2.9	\$ 0.5	\$ 17.4

The following table is a summary of the total cumulative restructuring costs incurred to date in operating expenses by reportable segment as of September 30, 2016:

(Amounts in millions)	Global Funds Transfer	Financial Paper Products	Other	Total
2014 Global Transformation Program				
Balance, December 31, 2015	\$ 17.8	\$ 2.2	\$ 0.7	\$ 20.7
First quarter 2016	0.3	—		