

MONEYGRAM INTERNATIONAL INC

Form 10-Q

May 10, 2007

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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 March 31, 2007**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_ .**

**Commission File Number: 001-31950  
MONEYGRAM INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)**

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

1550 Utica Avenue South, Suite 100,  
Minneapolis, Minnesota  
(Address of principal executive offices)

55416  
(Zip Code)

(952) 591-3000  
(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 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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 May 4, 2007, 83,442,331 shares of Common Stock, \$0.01 par value, were outstanding.

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Section 906 Certification of Chief Financial Officer

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CONSOLIDATED BALANCE SHEETS  
UNAUDITED**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<i>(Amounts in thousands, except share data)</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$	\$
Cash and cash equivalents (substantially restricted)	1,274,768	973,931
Receivables (substantially restricted)	1,599,654	1,758,682
Trading investments (substantially restricted)	107,000	145,500
Available for sale investments (substantially restricted)	5,490,141	5,690,600
Property and equipment	152,909	148,849
Deferred tax assets	32,398	11,677
Derivative financial instruments	17,155	24,191
Intangible assets	14,475	15,453
Goodwill	421,371	421,316
Other assets	81,895	85,938
Total assets	\$9,191,766	\$9,276,137
<b>LIABILITIES</b>		
Payment service obligations	\$8,129,757	\$8,209,789
Debt	150,000	150,000
Derivative financial instruments	5,775	3,490
Pension and other postretirement benefits	104,598	103,947
Accounts payable and other liabilities	159,535	139,848
Total liabilities	8,549,665	8,607,074
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>STOCKHOLDERS EQUITY</b>		
Preferred shares undesignated, \$0.01 par value, 5,000,000 authorized, none issued		
Preferred shares junior participating, \$0.01 par value, 2,000,000 authorized, none issued		
Common shares, \$.01 par value: 250,000,000 shares authorized, 88,556,077 shares issued	886	886
Additional paid-in capital	71,372	71,900
Retained income	726,756	723,106
Unearned employee benefits	(10,708)	(17,185)
Accumulated other comprehensive loss	(25,985)	(6,292)
Treasury stock: 4,857,448 and 4,285,783 shares at March 31, 2007 and December 31, 2006, respectively	(120,220)	(103,352)

Total stockholders' equity	642,101	669,063
Total liabilities and stockholders' equity	\$9,191,766	\$9,276,137

See Notes to Consolidated Financial Statements

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**MONEYGRAM INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
UNAUDITED**

<b>FOR THE THREE MONTHS ENDED MARCH 31,</b> <i>(Amounts in thousands, except per share data)</i>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>		
Fee and other revenue	\$213,133	\$ 169,132
Investment revenue	96,054	94,960
Net securities gains (losses)	864	(420)
 Total revenue	 310,051	 263,672
Fee commissions expense	90,012	67,484
Investment commissions expense	62,248	58,789
 Total commissions expense	 152,260	 126,273
 Net revenue	 157,791	 137,399
 <b>EXPENSES</b>		
Compensation and benefits	50,031	40,627
Transaction and operations support	39,614	32,087
Depreciation and amortization	11,680	8,432
Occupancy, equipment and supplies	10,417	8,618
Interest expense	1,958	1,947
 Total expenses	 113,700	 91,711
 Income before income taxes	 44,091	 45,688
Income tax expense	14,252	14,753
 <b>NET INCOME</b>	 \$ 29,839	 \$ 30,935
 <b>BASIC EARNINGS PER SHARE</b>	 \$ 0.36	 \$ 0.37
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 0.35</b>	<b>\$ 0.36</b>
 Average outstanding common shares	 83,469	 84,369
Additional dilutive shares related to stock-based compensation	1,323	1,589
 Average outstanding and potentially dilutive common shares	 84,792	 85,958

See Notes to Consolidated Financial Statements

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**MONEYGRAM INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**UNAUDITED**

<b>FOR THE THREE MONTHS ENDED MARCH 31,</b> <i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>NET INCOME</b>	\$ 29,839	\$ 30,935
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>		
Net unrealized (losses) on available-for-sale securities:		
Net holding (losses) arising during the period, net of tax (benefit) of (\$8,891) and (\$18,880), respectively	(14,504)	(30,804)
Reclassification adjustment for net realized (gains) losses included in net income, net of tax (expense) benefit of (\$328) and \$160, respectively	(536)	260
	(15,040)	(30,544)
Net unrealized (losses) gains on derivative financial instruments:		
Net holding (losses) gains arising during the period, net of tax (benefit) expense of (\$1,630) and \$4,620, respectively	(2,658)	7,538
Reclassification adjustment for net unrealized (gains) losses included in net income, net of tax (expense) benefit of (\$1,828) and \$427, respectively	(2,982)	697
	(5,640)	8,235
Prior service costs for pension and postretirement benefit plans:		
Reclassification of prior service costs for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$18 and \$0, respectively	29	
	29	
Net actuarial loss for pension and postretirement benefit plans:		
Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$417 and \$0, respectively	662	
\	662	
Unrealized foreign currency translation gains, net of tax expense of \$182 and \$822, respectively	296	1,340
Other comprehensive loss	(19,693)	(20,969)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 10,146</b>	<b>\$ 9,966</b>

See Notes to Consolidated Financial Statements.

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

<b>FOR THE THREE MONTHS ENDED MARCH 31,</b> <i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 29,839	\$ 30,935
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	11,680	8,432
Investment impairment charges	978	792
Provision of deferred income taxes		1,285
Net gain on sale of investments	(1,842)	(372)
Net amortization of investment premiums and discounts	(3,682)	(451)
Provision for uncollectible receivables	1,909	741
Other non-cash items, net	3,348	(3,389)
Changes in foreign currency translation adjustments	296	1,340
Changes in other assets	3,609	(5,013)
Changes in accounts payable and other liabilities	(7,806)	66
 Total adjustments	 8,490	 3,431
Change in cash and cash equivalents (substantially restricted)	(296,356)	(130,306)
Change in trading investments, net (substantially restricted)	38,500	105,700
Change in receivables, net (substantially restricted)	157,119	(32,812)
Change in payment service obligations	(80,032)	(71,589)
 Net cash used in operating activities	 (142,440)	 (94,641)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments classified as available-for-sale	309,575	92,939
Proceeds from maturities of investments classified as available-for-sale	201,821	192,719
Purchases of investments classified as available-for-sale	(336,785)	(163,022)
Purchases of property and equipment	(14,929)	(20,597)
Cash paid for acquisitions	(55)	
 Net cash provided by investing activities	 159,627	 102,039
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds and tax benefit from exercise of share-based compensation	1,772	9,551
Purchase of treasury stock	(14,733)	(13,536)
Cash dividends paid	(4,226)	(3,413)
 Net cash used in financing activities	 (17,187)	 (7,398)
<b>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 STATEMENTS OF STOCKHOLDERS' EQUITY**  
**UNAUDITED**

<i>(Amounts in thousands, except per share data)</i>	<b>Common</b>	<b>Additional</b>	<b>Retained</b>	<b>Unearned Employee Benefit and Other</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Common Stock in Treasury</b>	<b>Total</b>
<b>December 31, 2006</b>	\$886	\$71,900	\$723,106	\$(17,185)	\$ (6,292)	\$(103,352)	\$669,063
Cumulative effect of adoption of FIN 48			(21,963)				(21,963)
Net income			29,839				29,839
Dividends (\$0.05 per share)			(4,226)				(4,226)
Employee benefit plans		(528)		6,477		(2,135)	3,814
Treasury shares acquired						(14,733)	(14,733)
Unrealized foreign currency translation adjustment					296		296
Unrealized loss on available-for-sale securities					(15,040)		(15,040)
Unrealized loss on derivative financial instruments					(5,640)		(5,640)
Prior service cost for pension and postretirement benefits, net of tax					29		29
Unrealized net actuarial losses on pension and postretirement benefits, net of tax					662		662
<b>March 31, 2007</b>	\$886	\$71,372	\$726,756	\$(10,708)	\$(25,985)	\$(120,220)	\$642,101

See Notes to Consolidated Financial Statements

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

**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 month period ended March 31, 2007 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, 2006.

**2. Acquisition**

On May 31, 2006, MoneyGram completed the acquisition of Money Express, the Company s former super agent in Italy. In connection with the acquisition, the Company formed MoneyGram Payment Systems Italy, a wholly-owned subsidiary, to operate the former Money Express network. The acquisition provides the Company with the opportunity for further network expansion and more control of marketing and promotional activities in the region.

MoneyGram acquired Money Express for \$15.0 million, subject to purchase price adjustments. The acquisition cost includes \$1.3 million of transaction costs and the forgiveness of \$0.7 million of liabilities. The Company is in the process of finalizing the valuation of intangible assets, among other items from this acquisition, which may result in adjustment to the purchase price allocation. Purchased intangible assets of \$7.2 million, consisting primarily of agent contracts and a non-compete agreement, will be amortized over useful lives ranging from three to five years.

Preliminary goodwill of \$17.0 million was recorded and assigned to the Company s Global Funds Transfer segment. The Company will finalize the purchase price allocation during the second quarter of 2007.

The operating results of Money Express subsequent to May 31, 2006 are included in the Company s Consolidated Statements of Income. The financial impact of the acquisition is not material to the Consolidated Balance Sheets or Consolidated Statements of Income.

**3. Unrestricted Assets**

The Company is regulated by various state agencies which generally require us to maintain liquid assets and investments with an investment rating of A or higher in an amount generally equal to the payment service obligation for those regulated payment instruments, namely teller checks, agent checks, money orders and money transfers. Consequently, a significant amount of cash and cash equivalents, receivables and investments are restricted to satisfy the liability to pay the face amount of regulated payment service obligations upon presentment. The Company is not regulated by state agencies for payment service obligations resulting from outstanding cashier s checks. However, the Company restricts a portion of the funds related to these payment instruments due to contractual arrangements and Company policy. Assets restricted for regulatory or contractual reasons are not available to satisfy working capital or other financing requirements. The regulatory and contractual requirements do not require the Company to specify individual assets held to meet the Company s payment service obligations, nor is the Company required to deposit specific assets into a trust, escrow or other special account. Rather, the Company must maintain a pool of liquid assets. No third party places limitations, legal or otherwise, on the Company regarding the use of its individual liquid assets. The Company is able to withdraw, deposit and/or sell its individual liquid assets at will, with no prior notice or penalty, provided the Company maintains a total pool of liquid assets sufficient to meet the regulatory and contractual requirements.

The Company has unrestricted cash and cash equivalents, receivables and investments to the extent those assets exceed all payment service obligations. These amounts are generally available. However, management considers a portion of these amounts as providing additional assurance that regulatory requirements are maintained during the normal fluctuations in the value of investments. The following table shows the total amount of unrestricted assets at March 31, 2007 and December 31, 2006, respectively:



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<i>(Amounts in thousands)</i>	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Cash and cash equivalents (substantially restricted)	\$ 1,274,768	\$ 973,931
Receivables (substantially restricted)	1,599,654	1,758,682
Trading investments (substantially restricted)	107,000	145,500
Available for sale investments (substantially restricted)	5,490,141	5,690,600
	8,471,563	8,568,713
Amounts restricted to cover payment service obligations	(8,129,757)	(8,209,789)
Unrestricted assets	\$ 341,806	\$ 358,924

**4. Investments (Substantially Restricted)**

The amortized cost and fair value of available-for-sale investments were as follows at March 31, 2007:

<i>(Amounts in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Obligations of states and political subdivisions	\$ 624,034	\$21,211	\$ (181)	\$ 645,064
Commercial mortgage-backed securities	383,307	5,861	(1,020)	388,148
Residential mortgage-backed securities	1,602,965	4,494	(18,628)	1,588,831
Other asset-backed securities	2,220,120	31,964	(31,093)	2,220,991
U.S. government agencies	342,982	2,413	(4,763)	340,632
Corporate debt securities	271,126	7,461	(396)	278,191
Preferred and common stock	30,175	3	(1,894)	28,284
Total	\$5,474,709	\$73,407	\$(57,975)	\$5,490,141

The amortized cost and fair value of available-for-sale investments were as follows at December 31, 2006:

<i>(Amounts in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Obligations of states and political subdivisions	\$ 765,525	\$25,006	\$ (490)	\$ 790,041
Commercial mortgage-backed securities	585,611	6,659	(2,148)	590,122
Residential mortgage-backed securities	1,623,220	3,876	(23,219)	1,603,877
Other asset-backed securities	1,992,164	36,920	(7,839)	2,021,245
U.S. government agencies	342,749	2,564	(6,589)	338,724
Corporate debt securities	311,465	7,745	(470)	318,740
Preferred and common stock	30,175	13	(2,337)	27,851
Total	\$5,650,909	\$82,783	\$(43,092)	\$5,690,600

At March 31, 2007 and December 31, 2006, no investments were classified as held-to-maturity. Trading investments have contractual maturities ranging from the year 2029 to 2049, with auction dates typically 28 days after the date the Company purchases the security. The amortized cost and fair value of available-for-sale securities at March 31, 2007, 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.

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<i>(Amounts in thousands)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
In one year or less	\$ 20,222	\$ 20,279
After one year through five years	443,202	448,415
After five years through ten years	505,951	518,814
After ten years	268,767	276,379
Mortgage-backed and other asset-backed securities	4,206,392	4,197,970
Preferred and common stock	30,175	28,284
<b>Total</b>	<b>\$5,474,709</b>	<b>\$5,490,141</b>

At March 31, 2007 and December 31, 2006, net unrealized gains of \$15.4 million (\$9.6 million net of tax) and \$39.7 million (\$24.6 million net of tax), respectively, are included in the Consolidated Balance Sheets in Accumulated other comprehensive loss. During the three months ended March 31, 2007 and 2006, gains (losses) of \$0.5 million and \$(0.3) million, respectively, were reclassified from Accumulated other comprehensive loss to earnings in connection with the sale of the underlying securities.

Gross realized gains and losses on sales of investments, using the specific identification method, and other-than-temporary impairments were as follows:

<b>Three Months Ended March 31,</b> <i>(Amounts in Thousands)</i>	<b>2007</b>	<b>2006</b>
Gross realized gains	\$ 3,793	\$ 1,637
Gross realized losses	(1,951)	(1,265)
Other-than-temporary impairments	(978)	(792)
<b>Net securities gains (losses)</b>	<b>\$ 864</b>	<b>\$ (420)</b>

In the first quarter of 2007, impairments related to investments backed by home equity loans. In the first quarter of 2006, impairments related primarily to investments backed by automobile and aircraft collateral.

At March 31, 2007, the available-for-sale investment portfolio had the following aged unrealized losses:

<i>(Amounts in Thousands)</i>	<b>Less than 12 months</b>		<b>12 months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of states and political subdivisions	\$ 5,264	\$ (26)	\$ 5,192	\$ (155)	\$ 10,456	\$ (181)
Commercial mortgage-backed securities	44,602	(398)	38,161	(622)	82,763	(1,020)
Residential mortgage-backed securities	228,585	(779)	1,093,686	(17,849)	1,322,271	(18,628)
Other asset-backed securities	732,568	(24,710)	292,473	(6,383)	1,025,041	(31,093)
U.S. government agencies			322,941	(4,763)	322,941	(4,763)

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Corporate debt securities	30,774	(14)	14,619	(382)	45,393	(396)
Preferred and common stock	15,540	(167)	12,738	(1,727)	28,278	(1,894)
	\$1,057,333	\$(26,094)	\$1,779,810	\$(31,881)	\$2,837,143	\$(57,975)



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At December 31, 2006, the available-for-sale investment portfolio had the following aged unrealized losses:

<i>(Amounts in Thousands)</i>	<b>Less than 12 months</b>		<b>12 months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of states and political subdivisions	\$ 22,467	\$ (180)	\$ 25,075	\$ (310)	\$ 47,542	\$ (490)
Commercial mortgage-backed securities	97,747	(812)	110,859	(1,336)	208,606	(2,148)
Residential mortgage-backed securities	173,179	(653)	1,213,278	(22,566)	1,386,457	(23,219)
Other asset-backed securities	292,742	(2,066)	318,944	(5,773)	611,686	(7,839)
U.S. government agencies			321,117	(6,589)	321,117	(6,589)
Corporate debt securities	6,306	(7)	60,832	(463)		