

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., 15th 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>	June 30, 2012	December 31, 2011
ASSETS		
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
 Total assets	 \$ 5,185,062	 \$ 5,175,578
LIABILITIES		
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
 Total liabilities	 5,301,165	 5,285,776
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS DEFICIT		
Participating Convertible Preferred Stock - Series D, \$0.01 par value, 200,000 shares authorized, 109,239 issued at June 30, 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)
 Total stockholders deficit	 (116,103)	 (110,198)
 Total liabilities and stockholders deficit	 \$ 5,185,062	 \$ 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>	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
REVENUE				
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
EXPENSES				
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
OPERATING INCOME	3,133	34,258	39,064	65,959
Other (income) expense				
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)
NET (LOSS) INCOME	\$ (25,056)	\$ 26,404	\$ (14,787)	\$ 40,449
LOSS PER COMMON SHARE				
Basic and diluted	\$ (0.35)	\$ (10.97)	\$ (0.21)	\$ (18.10)
Net loss available to common stockholders:				
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)
Net loss available to common stockholders	\$ (25,056)	\$ (438,335)	\$ (14,787)	\$ (457,782)

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

Basic and diluted	71,502	39,959	71,496	25,288
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See Notes to Consolidated Financial Statements

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

<i>(Amounts in thousands)</i>	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
NET (LOSS) INCOME	\$ (25,056)	\$ 26,404	\$ (14,787)	\$ 40,449
OTHER COMPREHENSIVE (LOSS) INCOME				
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
COMPREHENSIVE (LOSS) INCOME	\$ (25,582)	\$ 30,745	\$ (11,416)	\$ 48,378

See Notes to Consolidated Financial Statements

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

<i>(Amounts in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
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
CASH FLOWS FROM INVESTING ACTIVITIES:				
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)
CASH FLOWS FROM FINANCING ACTIVITIES:				
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)
NET CHANGE IN CASH AND CASH EQUIVALENTS				
CASH AND CASH EQUIVALENTS - Beginning of period				
CASH AND CASH EQUIVALENTS - End of period				
	\$	\$	\$	\$

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 Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
December 31, 2011	\$ 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
June 30, 2012	\$ 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>	June 30, 2012	December 31, 2011
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.

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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	
Financial assets:				
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
Financial liabilities:				
Forward contracts	\$	\$ 214	\$	\$ 214

<i>(Amounts in thousands)</i>	Fair Value at December 31, 2011			Total
	Level 1	Level 2	Level 3	
Financial assets:				
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
Financial liabilities:				
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 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 June 30,		Six Months Ended 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>	June 30, 2012	December 31, 2011
Cash	\$ 2,126,441	\$ 2,016,451
Money markets	421,794	555,659
Deposits	22	64
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
Total investment portfolio	\$ 3,157,593	\$ 3,196,969

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				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Net Average Price
<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				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Net Average Price
<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 June 30,		Six Months Ended 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>	June 30, 2012	December 31, 2011
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)
Total property and equipment	\$ 117,032	\$ 116,341

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

<i>(Amounts in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
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
Total depreciation expense	\$ 10,980	\$ 11,537	\$ 21,501	\$ 22,867

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		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Amortization of debt discount	\$ 117	\$ 93	\$ 227	\$ 237
Write-off of debt discount upon prepayments		123		123
Total amortization of discount	\$ 117	\$ 216	\$ 227	\$ 360

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:

	Interest Coverage Minimum Ratio	Total Leverage Not To Exceed
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>	2011 Credit Agreement			Second Lien Notes	Total Deferred Financing Costs
	Senior secured credit facility	Senior secured incremental term	Senior revolving credit facility		
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>	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
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
Net periodic benefit expense	\$ 2,148	\$ 2,364	\$ 4,295	\$ 4,729

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 June 30,		Six Months Ended 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)
Net amortization from accumulated other comprehensive income	\$ 915	\$ 980	\$ 1,831	\$ 1,958

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

<i>(Amounts in thousands)</i>	Three Months Ended June 30,		Six Months Ended 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
Net periodic benefit expense	\$ (36)	\$ (82)	\$ (70)	\$ (165)

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 June 30,		Six Months Ended 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
Net amortization from accumulated other comprehensive income	\$ (37)	\$ (60)	\$ (73)	\$ (119)

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:

<i>(Amounts in thousands)</i>	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:

<i>(Amounts in thousands)</i>	June 30, 2012	December 31, 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 June 30,		Six Months Ended 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 ⁽¹⁾	0.0%
Expected volatility ⁽²⁾	71.2% -71.8%
Risk-free interest rate ⁽³⁾	1.2% -1.5%
Expected life ⁽⁴⁾	6.3 years
Weighted-average grant-date fair value per option	\$ 11.04

- ⁽¹⁾ Expected dividend yield represents the level of dividends expected to be paid on the Company's common stock over the expected term of the option. The Company does not anticipate declaring any dividends at this time.
- ⁽²⁾ Expected volatility is the amount by which the Company's stock price has fluctuated or will fluctuate during the expected term of the option. The Company's expected volatility is calculated based on the historical volatility of the price of the Company's common stock since the spin-off from Viad Corporation on June 30, 2004. The Company also considers any known or anticipated factors that will likely impact future volatility.
- ⁽³⁾ The risk-free interest rate for the Black-Scholes model is based on the United States Treasury yield curve in effect at the time of grant for periods within the expected term of the option.
- ⁽⁴⁾ Expected life represents the period of time that options are expected to be outstanding. The expected life was determined using the simplified method as the pattern of changes in the value of the Company's common stock and exercise activity since late 2007 has been inconsistent and substantially different from historical patterns. Additionally, there have been minimal stock option exercises which would be representative of the Company's normal exercise activity since 2007. Accordingly, the Company does not believe that historical terms are relevant to the assessment of the expected term of the grant. Based on these factors, the Company does not believe that it has the ability to make a more refined estimate than the use of the simplified method.

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 June 30,		Six Months Ended 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 Shares	Weighted Average 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
Total	\$ 53,649

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Depreciation and amortization:				
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
Total depreciation and amortization	\$ 11,053	\$ 11,879	\$ 21,736	\$ 23,545
Capital expenditures:				
Global Funds Transfer	\$ 10,416	\$ 11,601	\$ 19,953	\$ 18,492
Financial Paper Products	1,292	2,611	3,325	3,485
Total capital expenditures	\$ 11,708	\$ 14,212	\$ 23,278	\$ 21,977

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

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 June 30,		Six Months Ended 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
Total revenue	\$ 330,142	\$ 309,953	\$ 648,237	\$ 603,977

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 Guarantors	Non- Guarantors	Eliminations	Consolidated
ASSETS					
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
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY					
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 Guarantors	Non- Guarantors	Eliminations	Consolidated
ASSETS					
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
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY					
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 Guarantors	Non- Guarantors	Eliminations	Consolidated
REVENUE					
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
EXPENSES					
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					