

MONEYGRAM INTERNATIONAL INC

Form 10-Q

November 09, 2012

[Table of Contents](#)

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

Washington, D.C. 20549

**FORM 10-Q**

(mark one)

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

Edgar Filing: MONEYGRAM INTERNATIONAL INC - Form 10-Q

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

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

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

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

**75201**  
(Zip Code)

**(214) 999-7552**  
(Registrant's telephone number, including area code)

**Not applicable**  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

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

**Table of Contents**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of (Loss) Income</u>	4
<u>Consolidated Statements of Comprehensive (Loss) Income</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Consolidated Statement of Stockholders' Deficit</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	50
<u>Item 4. Controls and Procedures</u>	51

**PART II. OTHER INFORMATION**

<u>Item 1. Legal Proceedings</u>	51
<u>Item 1A. Risk Factors</u>	53
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
<u>Item 6. Exhibits</u>	55
<u>Signatures</u>	56
<u>Exhibit Index</u>	57
<u>EX-10.1</u>	
<u>EX-10.2</u>	
<u>EX-10.3</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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

<i>(Amounts in thousands, except share data)</i>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	\$
Cash and cash equivalents (substantially restricted)	2,539,844	2,572,174
Receivables, net (substantially restricted)	1,330,018	1,220,065
Short-term investments (substantially restricted)	524,428	522,024
Available-for-sale investments (substantially restricted)	79,907	102,771
Property and equipment	119,906	116,341
Goodwill	428,691	428,691
Other assets	224,201	213,512
 Total assets	 \$ 5,246,995	 \$ 5,175,578
<b>LIABILITIES</b>		
Payment service obligations	\$ 4,208,052	\$ 4,205,375
Debt	810,112	810,888
Pension and other postretirement benefits	110,931	120,252
Accounts payable and other liabilities	281,513	149,261
 Total liabilities	 5,410,608	 5,285,776
<b>COMMITMENTS AND CONTINGENCIES (NOTE 13)</b>		
<b>STOCKHOLDERS DEFICIT</b>		
Participating Convertible Preferred Stock - Series D, \$0.01 par value, 200,000 shares authorized, 109,239 issued at September 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 September 30, 2012 and December 31, 2011, respectively	623	623
Additional paid-in capital	999,464	989,188
Retained loss	(1,286,065)	(1,216,543)
Accumulated other comprehensive loss	(32,794)	(38,028)
Treasury stock: 4,407,038 and 4,429,184 shares at September 30, 2012 and December 31, 2011, respectively	(126,739)	(127,336)
 Total stockholders deficit	 (163,613)	 (110,198)
 Total liabilities and stockholders deficit	 \$ 5,246,995	 \$ 5,175,578

See Notes to Consolidated Financial Statements

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

<i>(Amounts in thousands, except per share data)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>REVENUE</b>				
Fee and other revenue	\$ 335,630	\$ 318,022	\$ 977,254	\$ 912,105
Investment revenue	2,920	3,925	9,533	13,819
Total revenue	338,550	321,947	986,787	925,924
<b>EXPENSES</b>				
Fee and other commissions expense	152,372	141,010	440,960	405,631
Investment commissions expense	94	99	274	350
Total commissions expense	152,466	141,109	441,234	405,981
Compensation and benefits	54,744	60,635	172,838	177,843
Transaction and operations support	135,604	57,375	291,826	166,378
Occupancy, equipment and supplies	12,270	11,090	36,623	34,480
Depreciation and amortization	10,840	11,413	32,576	34,958
Total operating expenses	365,924	281,622	975,097	819,640
<b>OPERATING (LOSS) INCOME</b>	(27,374)	40,325	11,690	106,284
<b>Other (income) expense</b>				
Net securities gains				(32,816)
Interest expense	17,710	22,234	53,230	65,720
Other	50	770	397	15,626
Total other expenses, net	17,760	23,004	53,627	48,530
(Loss) income before income taxes	(45,134)	17,321	(41,937)	57,754
Income tax expense	9,626	1,487	27,610	1,471
<b>NET (LOSS) INCOME</b>	\$ (54,760)	\$ 15,834	\$ (69,547)	\$ 56,283
<b>(LOSS) INCOME PER COMMON SHARE</b>				
Basic	\$ (0.77)	\$ 0.22	\$ (0.97)	\$ (10.82)
Diluted	\$ (0.77)	\$ 0.22	\$ (0.97)	\$ (10.82)
<b>Net (loss) income available to common stockholders:</b>				
Net (loss) income as reported	\$ (54,760)	\$ 15,834	\$ (69,547)	\$ 56,283
Accrued dividends on mezzanine equity				(30,934)
Accretion on mezzanine equity				(80,023)
Additional consideration issued in connection with conversion of mezzanine equity				(366,797)
Cash dividends paid on mezzanine equity				(20,477)
<b>Net (loss) income available to common stockholders</b>	\$ (54,760)	\$ 15,834	\$ (69,547)	\$ (441,948)

**Weighted-average outstanding common shares and equivalents used in computing (loss) income per share**

Basic	71,512	71,478	71,501	40,854
Diluted	71,512	72,176	71,501	40,854

See Notes to Consolidated Financial Statements

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

<i>(Amounts in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>NET (LOSS) INCOME</b>	\$ (54,760)	\$ 15,834	\$ (69,547)	\$ 56,283
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Net unrealized gains (losses) on available-for-sale securities:				
Net holding gains (losses) arising during the period, net of tax expense of \$61 and \$0 for the three months ended September 30, 2012 and 2011, respectively and \$646 and \$0 for the nine months ended September 30, 2012 and 2011, respectively	873	(2,903)	2,281	2,125
Reclassification adjustment for net realized losses included in net income, net of tax benefit of \$0 for the three and nine months ended September 30, 2012 and 2011				4
	873	(2,903)	2,281	2,129
Pension and postretirement benefit plans:				
Reclassification of prior service credit recorded to net income, net of tax expense of \$57 and \$57 for the three months ended September 30, 2012 and 2011, respectively, and \$170 and \$170 for the nine months ended September 30, 2012 and 2011, respectively	(92)	(92)	(277)	(277)
Reclassification of net actuarial loss recorded to net income, net of tax benefit of \$596 and \$621, for the three months ended September 30, 2012 and 2011, respectively, and \$1,787 and \$1,862 for the nine months ended September 30, 2012 and 2011, respectively	972	1,012	2,916	3,036
Unrealized foreign currency translation gains (losses), net of tax expense (benefit) of \$67 and \$(513) for the three months ended September 30, 2012 and 2011, respectively, and \$192 and \$(103) for the nine months ended September 30, 2012 and 2011, respectively	110	(1,324)	314	(266)
Other comprehensive income (loss)	1,863	(3,307)	5,234	4,622
<b>COMPREHENSIVE (LOSS) INCOME</b>	\$ (52,897)	\$ 12,527	\$ (64,313)	\$ 60,905

See Notes to Consolidated Financial Statements

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

<i>(Amounts in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net (loss) income	\$ (54,760)	\$ 15,834	\$ (69,547)	\$ 56,283
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Depreciation and amortization	10,840	11,413	32,576	34,958
Net securities gains				(32,820)
Asset impairments and net losses upon disposal	133	800	610	4,772
Loss on debt extinguishment				5,221
Amortization of debt discount and deferred financing costs	1,418	1,539	4,212	5,936
Provision for uncollectible receivables	1,782	2,669	4,762	4,567
Non-cash compensation and pension expense	4,532	6,931	13,839	19,624
Legal accruals	61,999		100,033	
Other non-cash items, net	(1,193)	1,054	(1,613)	1,210
Changes in foreign currency translation adjustments	113	(1,324)	317	(266)
Signing bonus amortization	8,377	8,115	24,761	24,182
Signing bonus payments	(16,297)	(7,568)	(22,637)	(20,371)
Change in other assets	(2,455)	12,800	(648)	4,606
Change in accounts payable and other liabilities	(4,115)	(21,325)	11,299	(25,086)
Total adjustments	65,134	15,104	167,511	26,533
Change in cash and cash equivalents (substantially restricted)	8,413	102,191	32,330	282,466
Change in receivables (substantially restricted)	(64,918)	(63,387)	(114,715)	(108,133)
Change in payment service obligations	52,172	(84,770)	2,677	(126,545)
Net cash provided by (used in) operating activities	6,041	(15,028)	18,256	130,604
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from maturities of investments classified as available-for-sale (substantially restricted)	6,202	12,538	25,469	44,281
Proceeds from settlement of investments		13,599		32,820
Purchases of short-term investments (substantially restricted)	(11,057)	(10,113)	(335,546)	(326,813)
Proceeds from maturities of short-term investments (substantially restricted)	11,752	5,394	335,390	211,210
Purchases of property and equipment	(12,918)	(7,243)	(43,213)	(31,433)
Proceeds from disposal of property and equipment	355	501	746	501
Cash paid for acquisitions, net of cash acquired				(53)
Net cash (used in) provided by investing activities	(5,666)	14,676	(17,154)	(69,487)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of debt				389,025
Transaction costs for issuance and amendment of debt				(17,062)
Payments on debt	(375)		(1,125)	(191,250)
Additional consideration issued in connection with conversion of mezzanine equity				(218,333)
Transaction costs for the conversion and issuance of stock				(3,736)



Edgar Filing: MONEYGRAM INTERNATIONAL INC - Form 10-Q

Cash dividends paid on mezzanine equity				(20,477)
Proceeds from exercise of stock options		352	23	716
Net cash (used in) provided by financing activities	(375)	352	(1,102)	(61,117)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>				
<b>CASH AND CASH EQUIVALENTS Beginning of period</b>				
<b>CASH AND CASH EQUIVALENTS End of period</b>				
	\$	\$	\$	\$

See Notes to Consolidated Financial Statements

Table of Contents

## 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
<b>December 31, 2011</b>	\$ 281,898	\$ 623	\$ 989,188	\$ (1,216,543)	\$ (38,028)	\$ (127,336)	\$ (110,198)
Net loss				(69,547)			(69,547)
Employee benefit plans			6,929	25		597	7,551
Capital contribution from investors			3,347				3,347
Net unrealized gain on available-for-sale securities, net of tax					2,281		2,281
Amortization of prior service cost for pension and postretirement benefits, net of tax					(277)		(277)
Amortization of unrealized losses on pension and postretirement benefits, net of tax					2,916		2,916
Unrealized foreign currency translation adjustment, net of tax					314		314
<b>September 30, 2012</b>	\$ 281,898	\$ 623	\$ 999,464	\$ (1,286,065)	\$ (32,794)	\$ (126,739)	\$ (163,613)

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 nine months ended September 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 second quarter of 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 September 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 nine months ended September 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 September 30, 2012 and December 31, 2011:

<i>(Amounts in thousands)</i>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Cash and cash equivalents (substantially restricted)	\$ 2,539,844	\$ 2,572,174
Receivables, net (substantially restricted)	1,330,018	1,220,065
Short-term investments (substantially restricted)	524,428	522,024
Available-for-sale investments (substantially restricted)	79,907	102,771
	4,474,197	4,417,034
Payment service obligations	(4,208,052)	(4,205,375)
<b>Assets in excess of payment service obligations</b>	<b>\$ 266,145</b>	<b>\$ 211,659</b>

## Edgar Filing: MONEYGRAM INTERNATIONAL INC - Form 10-Q

The Company was in compliance with its contractual and financial regulatory requirements as of September 30, 2012 and December 31, 2011. We continue to monitor our covenants and make necessary adjustments to ensure compliance. We believe that we will remain in compliance with our debt covenants during 2012.

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

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

<i>(Amounts in thousands)</i>	<b>Fair Value at September 30, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets:</b>				
Available-for-sale investments (substantially restricted):				
United States government agencies	\$	\$ 8,913	\$	\$ 8,913
Residential mortgage-backed securities - agencies		43,176		43,176
Other asset-backed securities			27,818	27,818
Investment related to deferred compensation trust	8,314			8,314
Forward contracts		356		356
<b>Total financial assets</b>	<b>\$ 8,314</b>	<b>\$ 52,445</b>	<b>\$ 27,818</b>	<b>\$ 88,577</b>
<b>Financial liabilities:</b>				
Forward contracts	\$	\$ 103	\$	\$ 103

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

For other asset backed securities, market quotes are generally not available. If available, the Company will utilize a fair value measurement from a pricing service. The pricing service utilizes a pricing model based on market observable data and indices, such as quotes for comparable securities, yield curves, default indices, interest rates and historical prepayment speeds. If a fair value measurement is not available from the pricing service, the Company will utilize a broker quote if available. Due to a general lack of transparency in the process that the brokers use to develop prices, most valuations that are based on brokers' quotes are classified as Level 3. If no broker quote is available, or if such quote cannot be corroborated by market data or internal valuations, the Company will perform internal valuations utilizing externally developed cash flow models. These pricing models are based on market observable spreads and, when available, observable market indices. The pricing models also use inputs such as the rate of future prepayments and expected default rates on the principal, which are derived by the Company based on the characteristics of the underlying structure and historical prepayment speeds experienced at the interest rate levels projected for the underlying collateral. The pricing models for certain asset backed securities also include significant non-observable inputs such as internally assessed credit ratings for non-rated securities, combined with externally provided credit spreads. Observability of market inputs to the valuation models used for pricing certain of the Company's investments deteriorated with the disruption to the credit markets as 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.

**Table of Contents**

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

<i>(Amounts in thousands except net average price)</i>	Unobservable Input	Pricing Source	September 30, 2012		December 31, 2011	
			Market Value	Net Average Price	Market Value	Net Average Price
Alt-A	Price	Third party pricing service	\$ 123	\$ 12.48	\$ 210	\$ 14.57
Home Equity	Price	Third party pricing service	223	44.81	185	23.35
Bank Loans and Trust Preferred	Price	Broker	4	0.01	4	0.01
Direct Exposure to Subprime	Price	Third party pricing service	24	0.67	61	0.86
Indirect Exposure - High Grade	Discount margin	Manual	3,926	3.26	3,776	3.14
Indirect Exposure - Mezzanine	Price	Broker	16,846	7.47	13,010	5.63
Other	Discount margin	Manual	6,672	35.81	6,986	37.50
Total			\$ 27,818	\$ 6.43	\$ 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 nine months ended September 30, 2012 and 2011:

<i>(Amounts in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Beginning balance	\$ 26,697	\$ 29,674	\$ 24,232	\$ 23,710
Principal paydowns	(66)	(93)	(200)	(597)
Other-than-temporary impairments				(4)
Unrealized gains - instruments still held at the reporting date	1,538	139	5,245	9,667
Unrealized losses - instruments still held at the reporting date	(351)	(2,320)	(1,459)	(5,376)
Ending balance	\$ 27,818	\$ 27,400	\$ 27,818	\$ 27,400

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 September 30, 2012, the fair value of the senior secured facility is \$486.7 million compared to the carrying value of \$485.1 million. As of September 30, 2012, the fair value of the Company's second lien notes is estimated at \$339.6 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, 2011, 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.

**Table of Contents****Note 4 Investment Portfolio**

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

<i>(Amounts in thousands)</i>	September 30, 2012	December 31, 2011
Cash	\$ 2,092,374	\$ 2,016,451
Money markets	447,469	555,659
Deposits	1	64
Cash and cash equivalents (substantially restricted)	2,539,844	2,572,174
Short-term investments (substantially restricted)	524,428	522,024
Available-for-sale investments (substantially restricted)	79,907	102,771
<b>Total investment portfolio</b>	<b>\$ 3,144,179</b>	<b>\$ 3,196,969</b>

*Cash and Cash Equivalents (substantially restricted)* Cash and cash equivalents consist of cash, money-market securities and deposits. Cash primarily consists of interest-bearing deposit accounts and non-interest bearing transaction accounts. The Company's money-market securities are invested in six funds, all of which are AAA rated and consist of United States Treasury bills, notes or other obligations issued or guaranteed by the United States government and its agencies, as well as repurchase agreements secured by such instruments. Substantially all 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.

*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 A 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 September 30, 2012:

<i>(Amounts in thousands, except net average price)</i>	September 30, 2012				Net Average Price
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
Residential mortgage-backed securities-agencies	\$ 39,575	\$ 3,601	\$	\$ 43,176	\$ 109.87
Other asset-backed securities	8,437	19,381		27,818	6.43
United States government agencies	8,081	832		8,913	99.03
Total	\$ 56,093	\$ 23,814	\$	\$ 79,907	\$ 16.62

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

<i>(Amounts in thousands, except net average price)</i>	December 31, 2011				Net Average Price
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
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

## Edgar Filing: MONEYGRAM INTERNATIONAL INC - Form 10-Q

United States government agencies	7,723	1,104	8,827	98.08
Total	\$ 81,885	\$ 20,886	\$ 102,771	\$ 21.83

At September 30, 2012 and December 31, 2011, approximately 65 percent and 76 percent, respectively, of the available-for-sale portfolio were 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 September 30, 2012.



**Table of Contents**

*Gains and Losses and Other-Than-Temporary Impairments* At September 30, 2012 and December 31, 2011, net unrealized gains of \$23.8 million and \$21.5 million, respectively, are included in the Consolidated Balance Sheets in Accumulated other comprehensive loss. During the three and nine months ended September 30, 2012, no gains or losses were reclassified from Accumulated other comprehensive income (loss) to Net securities gains in connection with other-than-temporary impairments and realized gains and losses recognized during the period. During the nine months ended September 30, 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>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Realized gains from available-for-sale investments	\$			