

MONEYGRAM INTERNATIONAL INC
Form 10-Q
May 02, 2014
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 March 31, 2014

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

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

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

16-1690064
(I.R.S. Employer
Identification No.)
75201
(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

As of April 30, 2014, 54,583,973 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>	<u>3</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Operations</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Consolidated Statement of Stockholders' Deficit</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
<u>Item 4. Controls and Procedures</u>	<u>53</u>

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>54</u>
<u>Item 1A. Risk Factors</u>	<u>54</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>56</u>
<u>Item 6. Exhibits</u>	<u>56</u>

<u>Signatures</u>	<u>57</u>
<u>Exhibit Index</u>	<u>58</u>
EX-10.2	
EX-10.3	
EX-10.4	
EX-10.5	
EX-10.6	
EX-10.7	
EX-10.8	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101	

Table of Contents

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

(Amounts in millions, except share data)	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$—	\$—
Cash and cash equivalents (substantially restricted)	2,153.9	2,228.5
Receivables, net (substantially restricted)	890.0	767.7
Interest-bearing investments (substantially restricted)	935.8	1,011.6
Available-for-sale investments (substantially restricted)	41.6	48.1
Property and equipment, net	133.6	134.8
Goodwill	434.9	435.2
Other assets	171.6	161.0
Total assets	\$4,761.4	\$4,786.9
LIABILITIES		
Payment service obligations	\$3,691.7	\$3,737.1
Debt	840.8	842.9
Pension and other postretirement benefits	96.3	98.4
Accounts payable and other liabilities	172.1	185.5
Total liabilities	4,800.9	4,863.9
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' DEFICIT		
Participating Convertible Preferred Stock - Series D, \$0.01 par value, 200,000 shares authorized, 109,239 issued at March 31, 2014 and December 31, 2013, respectively	281.9	281.9
Common stock, \$0.01 par value, 162,500,000 shares authorized, 62,263,963 shares issued at March 31, 2014 and December 31, 2013, respectively	0.6	0.6
Additional paid-in capital	1,014.8	1,011.8
Retained loss	(1,177.2) (1,214.4
Accumulated other comprehensive loss	(37.4) (33.0
Treasury stock: 4,241,725 and 4,300,782 shares at March 31, 2014 and December 31, 2013, respectively	(122.2) (123.9
Total stockholders' deficit	(39.5) (77.0
Total liabilities and stockholders' deficit	\$4,761.4	\$4,786.9

See Notes to Consolidated Financial Statements

Table of Contents

MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

(Amounts in millions, except per share data)	Three Months Ended	
	2014	2013
REVENUE		
Fee and other revenue	\$367.7	\$337.7
Investment revenue	7.2	2.8
Total revenue	374.9	340.5
OPERATING EXPENSES		
Fee and other commissions expense	170.9	154.3
Investment commissions expense	0.1	0.1
Total commissions expense	171.0	154.4
Compensation and benefits	69.7	65.5
Transaction and operations support	71.3	51.5
Occupancy, equipment and supplies	12.8	13.0
Depreciation and amortization	13.1	11.8
Total operating expenses	337.9	296.2
OPERATING INCOME	37.0	44.3
OTHER EXPENSE		
Interest expense	9.7	17.4
Debt extinguishment costs	—	45.3
Total other expense	9.7	62.7
Income (loss) before income taxes	27.3	(18.4)
Income tax benefit	(11.7)	(5.8)
NET INCOME (LOSS)	\$39.0	\$(12.6)
EARNINGS (LOSS) PER COMMON SHARE		
Basic	\$0.54	\$(0.18)
Diluted	\$0.54	\$(0.18)
Weighted-average outstanding common shares and equivalents used in computing earnings (loss) per share		
Basic	71.6	71.5
Diluted	71.9	71.5

See Notes to Consolidated Financial Statements

Table of Contents

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

(Amounts in millions)

NET INCOME (LOSS)

OTHER COMPREHENSIVE LOSS

Three Months Ended
March 31,

2014

2013

\$39.0

\$ (12.6)

Please contact
your Merrill
Lynch financial
advisor if you
have any
questions about
the application
of these
provisions to
your specific
circumstances or
think you are
eligible.

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Dow Jones
Industrial
AverageSM, due
October , 2022

Structuring the
Notes
The notes are
our unsecured
senior debt
securities, the
return on which
is linked to the
performance of
the Index. As is
the case for all
of our debt
securities,
including our
market-linked
notes, the
economic terms
of the notes
reflect our actual
or perceived
creditworthiness
at the time of
pricing. The
internal funding
rate we use in
pricing the
market-linked
note is typically
lower than the
rate we would
pay when we
issue
conventional
fixed-rate debt
securities of
comparable
maturity. This
generally
relatively lower
internal funding
rate, which is
reflected in the
economic terms

of the notes, along with the fees and charges associated with market-linked notes, typically results in the initial estimated value of the notes on the pricing date being less than their public offering price. At maturity, we are required to pay the Redemption Amount to holders of the notes, which will be calculated based on the performance of the Index and the \$10 per unit principal amount. In order to meet these payment obligations, at the time we issue the notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of its affiliates. The terms of these hedging arrangements are determined by seeking bids from market

participants, including MLPF&S and its affiliates, and take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Index, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements. MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately \$0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging

arrangements
may be realized
by MLPF&S or
any third party
hedge providers.
For further
information, see
“Risk
Factors—General
Risks Relating
to LIRNs”
beginning on
page PS-6 and
“Use of Proceeds
and Hedging” on
page PS-16 of
product
prospectus
supplement
EQUITY
INDICES
LIRN-1.
Summary of
Canadian
Federal Income
Tax
Consequences
An investor
should read
carefully the
description of
principal
Canadian federal
income tax
considerations
under “Canadian
Taxation” in the
accompanying
prospectus
relevant to a
holder (as
defined on page
19 of the
prospectus)
owning debt
securities, and
the description
of principal
Canadian federal
income tax
considerations

under
“Supplemental
Discussion of
Canadian
Federal Income
Tax
Consequences” in
the applicable
product
prospectus
supplement.
Summary of
U.S. Federal
Income Tax
Consequences
The following is
a general
description of
certain U.S.
federal tax
considerations
relating to the
notes.
Prospective
purchasers of
the notes should
consult their tax
advisors as to
the
consequences
under the tax
laws of the
country of
which they are
residents for tax
purposes and the
tax laws of the
U.S. of
acquiring,
holding and
disposing of the
notes and
receiving
payments under
the notes. This
summary is
based upon the
law as in effect
on the date of
this pricing
supplement and

is subject to any change in law that may take effect after such date. We urge you to read the more detailed discussion in the “Supplemental Discussion of U.S. Federal Income Tax Consequences” section beginning on page PS-28 of product prospectus supplement EQUITY INDICES LIRN-1. No statutory, judicial or administrative authority directly discusses how the notes should be treated for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of your investment in the notes are uncertain. Accordingly, we urge you to consult your tax advisor as to the tax consequences of your investment in the notes (and of having agreed to the required tax treatment of

your notes described below) and as to the application of state, local or other tax laws to your investment in your notes and the possible effects of changes in federal or other tax laws. Pursuant to the terms of the notes, BNS and you agree, in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary, to characterize your notes as a pre-paid derivative contract with respect to the Index. If your notes are so treated, you should generally recognize long-term capital gain or loss if you hold your notes for more than one year (and otherwise, short-term capital gain or loss) upon the sale, exchange, redemption or maturity of your notes in an amount equal to the difference between the

amount you receive at such time and the amount you paid for your notes.

The deductibility of capital losses is subject to limitations.

In the opinion of our counsel, Cadwalader, Wickersham & Taft LLP, it would be reasonable to treat your notes in the manner described above.

However, because there is no authority that specifically addresses the tax treatment of the notes, it is possible that your notes could alternatively be treated for tax purposes as a single contingent payment debt instrument or pursuant to some other characterization, such that the timing and character of your income from the notes could differ materially from the treatment described above. Possible Change in Law. In 2007, the Internal

Revenue Service (the "IRS") released a notice that may affect the taxation of holders of the notes. According to the notice, the IRS and the U.S. Treasury Department are actively considering whether a holder of an instrument such as the notes should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The IRS and the U.S. Treasury Department are also considering other relevant issues, including whether

additional

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gain or loss from
such instruments
should be
treated as
ordinary or
capital, whether
foreign holders
of such
instruments
should be
subject to
withholding tax
on any deemed
income accruals,
and whether the
special
“constructive
ownership rules”
of Section 1260
of the Internal
Revenue Code
of 1986, as
amended (the
“Code”) should be
applied to such
instruments.
Medicare Tax
on Net
Investment
Income. U.S.
holders that are
individuals or
estates and
certain trusts are
subject to an
additional 3.8%
tax on all or a
portion of their
“net investment
income,” or
“undistributed net
investment

income” in the case of an estate or trust, which may include any income or gain with respect to the notes, to the extent of their net investment income or undistributed net investment income (as the case may be) that, when added to their other modified adjusted gross income, exceeds \$200,000 for an unmarried individual, \$250,000 for a married taxpayer filing a joint return (or a surviving spouse), \$125,000 for a married individual filing a separate return, or the dollar amount at which the highest tax bracket begins for an estate or trust (which, in 2017, is \$12,500). The 3.8% Medicare tax is determined in a different manner than the regular income tax. U.S. holders should consult their advisors with respect to the

3.8% Medicare tax. Specified Foreign Financial Assets. U.S. holders may be subject to reporting obligations with respect to their notes if they do not hold their notes in an account maintained by a financial institution and the aggregate value of their notes and certain other "specified foreign financial assets" (applying certain attribution rules) exceeds \$50,000. Significant penalties can apply if a U.S. holder is required to disclose its notes and fails to do so. Backup Withholding and Information Reporting. The proceeds received from a sale, exchange, redemption or maturity of the notes will be subject to information reporting unless you are an "exempt recipient"

and may also be subject to backup withholding at the rate specified in the Code if you fail to provide certain identifying information (such as an accurate taxpayer number, if you are a U.S. holder) or meet certain other conditions. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is furnished to the IRS. Non-U.S. Holders. This section applies only if you are a non-U.S. holder. For these purposes, you are a non-U.S. holder if you are the beneficial owner of the notes and are, for U.S. federal income tax purposes:

a non-resident
alien
individual;

a foreign
corporation; or

an estate or
trust that, in
either case, is
not subject to
U.S. federal
income tax on a
net income
basis on income
or gain from the
notes.

If you are a
non-U.S. holder,
subject to
Section 871(m)
and FATCA
discussed below,
you should
generally not be
subject to
generally
applicable
information
reporting and
backup
withholding
requirements
with respect to
payments on
your notes if you
comply with
certain
certification and
identification
requirements as
to your foreign
status including
providing us
(and/or the
applicable
withholding
agent) a
properly
executed and
fully completed

applicable IRS Form W-8. Subject to Section 897 and Section 871(m), discussed below, gain from the sale, exchange or redemption of the notes or settlement at maturity generally will not be subject to U.S. tax unless such gain is effectively connected with a trade or business conducted by you in the U.S. or unless you are a non-resident alien individual and are present in the U.S. for 183 days or more during the taxable year of such sale, exchange or settlement and certain other conditions are satisfied. We will not attempt to ascertain whether the issuer of any underlying equity constituent of the Index would be treated as a “United States real property holding corporation” (“USRPHC”) within the

meaning of Section 897 of the Code. If an issuer of any underlying equity constituent of the Index or the notes were so treated, certain adverse U.S. federal income tax consequences could possibly apply, including subjecting any gain realized by a non-U.S. holder in respect of the notes upon a sale, exchange, early redemption or other taxable disposition (including cash settlement) of the notes to U.S. federal income tax on a net basis, and the proceeds from such a taxable disposition to a withholding tax. Non-U.S. holders should consult their tax advisors regarding the potential treatment of any underlying equity constituent for their notes as a United States real property holding corporation or

the notes as United States real property interests. Section 871 (m). A 30% withholding tax (which may be reduced by an applicable income tax treaty) is imposed under Section 871(m) of the Code on certain "dividend equivalents" paid or deemed paid to a non-U.S. holder with respect to a "specified equity-linked instrument" that references one or more dividend-paying U.S. equity securities or indices containing U.S. equity securities. The withholding tax can apply even if the instrument does not provide for payments that reference dividends. Treasury regulations provide that the withholding tax applies to all dividend equivalents paid or deemed paid on specified equity-linked instruments that

have a delta of one (“delta one specified equity-linked instruments”) issued after 2016 and to all dividend equivalents paid or deemed paid on all other specified equity-linked instruments issued after 2018.

Based on our determination that the notes are not “delta-one” with respect to the Index or any U.S. Index components, our counsel is of the opinion that the notes should not be delta-one specified equity-linked instruments and thus should not be subject to withholding on dividend equivalents. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Furthermore, the application of Section 871(m) of the Code will depend on our determinations made upon issuance of the

notes. If withholding is required, we will not make payments of any additional amounts.

Nevertheless, after issuance, it is possible that your notes could be deemed to be reissued for tax purposes upon the occurrence of certain events affecting the Index or Index components or your notes, and following such occurrence your notes could be treated as

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delta-one specified equity-linked instruments that are subject to withholding on dividend equivalents. It is also possible that withholding tax or other tax under Section 871(m) of the Code could apply to the notes under these rules if a non-U.S. holder enters, or has entered, into certain other transactions in respect of the Index or Index components or the notes. A non-U.S. holder that enters, or has entered, into other transactions in respect of the Index or Index components or the notes should consult its tax advisor regarding the application of Section 871(m) of the Code to its notes in the context of its other transactions.

Because of the uncertainty regarding the application of the 30% withholding tax on dividend equivalents to the notes, you are urged to consult your tax advisor regarding the potential application of Section 871(m) of the Code and the 30% withholding tax to an investment in the notes.

U.S. Federal Estate Tax Treatment of Non-U.S. Holders. A note may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the note at the time of his or her death. The gross estate of a non-U.S. holder domiciled outside the U.S. includes only property situated in the U.S. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the notes at death.

FATCA. The Foreign Account Tax Compliance Act (“FATCA”) was enacted on March 18, 2010, and imposes a 30% U.S. withholding tax on “withholdable payments” (i.e., certain U.S.-source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S.-source interest or dividends) and “passthru payments” (i.e., certain payments attributable to withholdable payments) made to certain foreign financial institutions (and certain of their affiliates) unless the payee foreign financial institution agrees (or is required), among other things, to disclose the identity of any U.S. individual with an account at the institution (or the relevant affiliate) and to annually report certain information about such account. FATCA also requires withholding agents making withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any substantial U.S. owners (or do not certify that they do not have any substantial U.S. owners) to withhold tax at a rate of 30%. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

Pursuant to final and temporary Treasury regulations and other IRS guidance, the withholding and reporting requirements under FATCA will generally apply to certain “withholdable payments” made on or after July 1, 2014, certain gross proceeds on a sale or disposition occurring after December 31, 2018, and certain foreign passthru payments made after December 31, 2018 (or, if later, the date that final regulations defining the term “foreign passthru payment” are published). If withholding is required, we (or the applicable paying agent) will not be required to pay additional amounts with respect to the amounts so withheld. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions (or if they hold their notes through a non-U.S. entity) under the FATCA rules.

Both U.S. and non-U.S. holders should consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the notes, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction (including that of BNS).

Where You Can Find More Information

We have filed a registration statement (including a product prospectus supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents that we have filed with the SEC, for more complete information about us and this offering. You may get these documents without cost by visiting EDGAR on

the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

MLPF&S classifies certain market-linked investments (the “Market-Linked Investments”) into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance. Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.

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Leveraged Index Return Notes® TS-13