

MONEYGRAM INTERNATIONAL INC

Form 10-Q

May 03, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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(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, 2016

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

Commission File Number: 001-31950

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MONEYGRAM INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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Delaware	16-1690064
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2828 N. Harwood St., 15 <sup>th</sup> Floor	75201
Dallas, Texas	

(Address of principal executive offices) (Zip Code)

(214) 999-7552

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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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 May 2, 2016, 53,771,809 shares of common stock, \$0.01 par value, were outstanding.



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

(Amounts in millions, except share data)	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$141.5	\$164.5
Settlement assets	3,311.2	3,505.6
Property and equipment, net	195.5	199.7
Goodwill	442.2	442.2
Other assets	189.6	193.2
Total assets	\$4,280.0	\$4,505.2
<b>LIABILITIES</b>		
Payment service obligations	\$3,311.2	\$3,505.6
Debt	940.8	942.6
Pension and other postretirement benefits	94.0	96.3
Accounts payable and other liabilities	158.3	183.5
Total liabilities	4,504.3	4,728.0
<b>COMMITMENTS AND CONTINGENCIES (NOTE 12)</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Participating convertible preferred stock - series D, \$0.01 par value, 200,000 shares authorized, 71,282 issued at March 31, 2016 and December 31, 2015	183.9	183.9
Common stock, \$0.01 par value, 162,500,000 shares authorized, 58,823,567 shares issued at March 31, 2016 and December 31, 2015	0.6	0.6
Additional paid-in capital	1,007.4	1,002.4
Retained loss	(1,260.1 )	(1,226.8 )
Accumulated other comprehensive loss	(46.7 )	(48.7 )
Treasury stock: 5,061,263 and 5,612,188 shares at March 31, 2016 and December 31, 2015, respectively	(109.4 )	(134.2 )
Total stockholders' deficit	(224.3 )	(222.8 )
Total liabilities and stockholders' deficit	\$4,280.0	\$4,505.2
See Notes to the Condensed Consolidated Financial Statements		

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MONEYGRAM INTERNATIONAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 UNAUDITED

	Three Months Ended March 31,	
	2016	2015
(Amounts in millions, except per share data)		
REVENUE		
Fee and other revenue	\$354.7	\$327.7
Investment revenue	3.7	2.9
Total revenue	358.4	330.6
EXPENSES		
Fee and other commissions expense	162.3	153.4
Investment commissions expense	0.5	0.1
Total commissions expense	162.8	153.5
Compensation and benefits	71.7	74.7
Transaction and operations support	64.5	70.4
Occupancy, equipment and supplies	15.2	15.5
Depreciation and amortization	21.1	14.8
Total operating expenses	335.3	328.9
OPERATING INCOME	23.1	1.7
Other expense		
Interest expense	11.3	11.1
Total other expense	11.3	11.1
Income (loss) before income taxes	11.8	(9.4 )
Income tax expense	16.0	62.6
NET LOSS	\$(4.2 )	\$(72.0 )
LOSS PER COMMON SHARE		
Basic	\$(0.07 )	\$(1.16 )
Diluted	\$(0.07 )	\$(1.16 )
Weighted-average outstanding common shares and equivalents used in computing loss per common share		
Basic	62.4	62.0
Diluted	62.4	62.0
See Notes to the Condensed Consolidated Financial Statements		

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

	Three Months Ended March 31,	
(Amounts in millions)	2016	2015
NET LOSS	\$(4.2)	\$(72.0)
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in unrealized holding gains on available-for-sale securities arising during the period, net of tax (benefit) expense of \$0.0 for the three months ended March 31, 2016 and 2015	—	0.1
Net change in pension liability due to amortization of prior service cost and net actuarial loss, net of tax benefit of \$0.5 and \$0.8 for the three months ended March 31, 2016 and 2015, respectively	0.8	1.4
Unrealized foreign currency translation adjustments, net of tax expense (benefit) of \$2.8 and (\$6.9) for the three months ended March 31, 2016 and 2015, respectively	1.2	(12.1 )
Other comprehensive income (loss)	2.0	(10.6 )
COMPREHENSIVE LOSS	\$(2.2)	\$(82.6)
See Notes to the Condensed Consolidated Financial Statements		

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

	Three Months Ended March 31,	
(Amounts in millions)	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(4.2 )	\$(72.0 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	21.1	14.8
Signing bonus amortization	14.3	14.6
Signing bonus payments	(7.4 )	(44.0 )
Amortization of debt issuance costs and debt discount	0.9	0.7
Non-cash compensation and pension expense	6.7	6.9
Change in other assets	(1.2 )	20.2
Change in accounts payable and other liabilities	(30.8 )	12.9
Other non-cash items, net	—	(0.1 )
Net cash used in operating activities	(0.6 )	(46.0 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(18.0 )	(26.9 )
Net cash used in investing activities	(18.0 )	(26.9 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on debt	(2.5 )	(2.5 )
Stock repurchase	(1.9 )	—
Net cash used in financing activities	(4.4 )	(2.5 )
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(23.0 )</b>	<b>(75.4 )</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of period</b>	<b>164.5</b>	<b>250.6</b>
<b>CASH AND CASH EQUIVALENTS—End of period</b>	<b>\$141.5</b>	<b>\$175.2</b>
Supplemental cash flow information:		
Cash payments for interest	\$10.4	\$10.4
Cash taxes, net	\$2.4	\$7.6
See Notes to the Condensed Consolidated Financial Statements		

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## MONEYGRAM INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
UNAUDITED

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2016	\$ 183.9	\$ 0.6	\$ 1,002.4	\$(1,226.8)	\$ (48.7 )	\$(134.2)	\$(222.8)
Net loss	—	—	—	(4.2 )	—	—	(4.2 )
Stock-based compensation activity	—	—	5.0	(29.1 )	—	26.7	2.6
Stock repurchase	—	—	—	—	—	(1.9 )	(1.9 )
Other comprehensive income	—	—	—	—	2.0	—	2.0
March 31, 2016	\$ 183.9	\$ 0.6	\$ 1,007.4	\$(1,260.1)	\$ (46.7 )	\$(109.4)	\$(224.3)

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2015	\$ 183.9	\$ 0.6	\$ 982.8	\$(1,144.6)	\$ (67.1 )	\$(138.3)	\$(182.7)
Net loss	—	—	—	(72.0 )	—	—	(72.0 )
Stock-based compensation activity	—	—	4.0	(3.3 )	—	2.8	3.5
Other comprehensive loss	—	—	—	—	(10.6 )	—	(10.6 )
March 31, 2015	\$ 183.9	\$ 0.6	\$ 986.8	\$(1,219.9)	\$ (77.7 )	\$(135.5)	\$(261.8)
See Notes to the Condensed Consolidated Financial Statements							



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

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Note 1 — Description of the Business and Basis of Presentation

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

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

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements of MoneyGram are prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for future periods. For further information, refer to the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

Recent Accounting Pronouncements and Related Developments — In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance sets forth a five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in GAAP and requires more detailed disclosures. In March 2016, FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Consideration (Reporting Revenue Gross versus Net). The amendments in this update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. These ASUs are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this standard will have on the consolidated financial statements. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires organizations to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The FASB retained the distinction between finance leases and operating leases, leaving the effect of leases in the statement of comprehensive income and the statement of cash flows largely unchanged from previous GAAP. ASU 2016-02 mandates a modified retrospective transition method and is effective for fiscal years beginning after December 15, 2018. Early adoption of the amendment is permitted. The Company is currently

evaluating the impact this standard will have on the consolidated financial statements.

In April 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. Further, the ASU requires that cash payments to tax authorities in connection with shares withheld to meet statutory tax withholding requirements be presented as a financing activity in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016 and early adoption of the amendment is permitted. The Company is currently evaluating the impact this standard will have on the consolidated financial statements.

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## Note 2 — Reorganization and Restructuring Costs

In the first quarter of 2014, the Company announced the implementation of a global transformation program (the "2014 Global Transformation Program"), which includes certain reorganization and restructuring activities centered around facilities and headcount rationalization, system efficiencies and headcount right-shoring and outsourcing. The Company is near completion of these reorganization and restructuring activities as of March 31, 2016. In the third quarter of 2015, the Company initiated additional reorganization and restructuring activities to further improve operational efficiencies. The Company projects that these other restructuring activities will conclude at or near the end of 2016.

The following table is a roll-forward of the restructuring costs accrual as of March 31, 2016:

(Amounts in millions)	2014 Global Transformation Program Severance, Outplacement and Related Benefits	Other (1)	Other Restructuring Severance, Outplacement and Related Benefits	Total
Balance, December 31, 2015	\$ 3.8	\$ —	\$ 0.2	\$4.0
Expenses	0.2	0.1	—	0.3
Cash payments	—	(0.1)	—	(0.1 )
Balance, March 31, 2016	\$ 4.0	\$ —	\$ 0.2	\$4.2

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

The following table is a summary of the cumulative restructuring costs incurred to date in operating expenses and the estimated remaining restructuring costs to be incurred as of March 31, 2016:

(Amounts in millions)	2014 Global Transformation Program Severance, Outplacement and Related Benefits	Other (1)	Other Restructuring Severance, Outplacement and Related Benefits	Total
Restructuring costs				
Cumulative restructuring costs incurred to date in operating expenses	\$ 17.9	\$ 3.1	\$ 0.6	\$21.6
Estimated additional restructuring costs to be incurred	1.5	0.2	0.3	2.0
Total restructuring costs incurred and to be incurred	\$ 19.4	\$ 3.3	\$ 0.9	\$23.6

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

The following table summarizes the reorganization and restructuring costs recorded:

(Amounts in millions)	Three Months Ended March 31, 2016	2015
Restructuring costs in operating expenses:		

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Compensation and benefits	\$0.2	\$2.2
Transaction and operations support	0.1	0.2
Total restructuring costs in operating expenses	\$0.3	\$2.4
Reorganization costs in operating expenses:		
Compensation and benefits	\$—	\$4.0
Transaction and operations support	0.1	2.7
Occupancy, equipment and supplies	0.1	0.8
Total reorganization costs in operating expenses	0.2	7.5
Total reorganization and restructuring costs	\$0.5	\$9.9

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The following table is a summary of the total cumulative restructuring costs incurred to date in operating expenses and the total estimated remaining restructuring costs to be incurred by reportable segment:

(Amounts in millions)	Global Funds Transfer	Financial Paper Products	Other	Total
<b>2014 Global Transformation Program</b>				
Balance, December 31, 2015	\$ 17.8	\$ 2.2	\$ 0.7	\$20.7
First quarter 2016	0.3	—	—	0.3
Total cumulative restructuring costs incurred to date in operating expenses	\$ 18.1	\$ 2.2	\$ 0.7	\$21.0
Total estimated additional restructuring costs to be incurred	1.5	0.1	0.1	1.7
	\$ 19.6	\$ 2.3	\$ 0.8	\$22.7
<b>Other Restructuring</b>				
Balance, December 31, 2015	\$ 0.6	\$ —	\$ —	\$0.6
First quarter 2016	—	—	—	—
Total cumulative restructuring costs incurred to date in operating expenses	0.6	—	—	0.6
Total estimated additional restructuring costs to be incurred	0.3	—	—	0.3
	\$ 0.9	\$ —	\$ —	\$0.9
Total restructuring costs incurred and to be incurred	\$ 20.5	\$ 2.3	\$ 0.8	\$23.6

Note 3 — Settlement Assets and Payment Service Obligations

Settlement assets represent funds received or to be received from agents for unsettled money transfers, money orders and consumer payments. The Company records corresponding payment service obligations relating to amounts payable under money transfers, money orders and consumer payment service arrangements. These obligations are recognized by the Company at the time the underlying transactions occur.

The following table summarizes the amount of Settlement assets and Payment service obligations:

(Amounts in millions)	March 31, 2016	December 31, 2015
<b>Settlement assets:</b>		
Settlement cash and cash equivalents	\$1,247.8	\$1,560.7
Receivables, net	779.8	861.4
Interest-bearing investments	1,263.1	1,062.4
Available-for-sale investments	20.5	21.1
	3,311.2	3,505.6
Payment service obligations	\$(3,311.2)	\$(3,505.6)

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Note 4 — Fair Value Measurement

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Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants on the measurement date.

The following tables summarize the Company's financial assets and liabilities measured at fair value by hierarchy level on a recurring basis:

(Amounts in millions)	Level 2	Level 3	Total
March 31, 2016			
Financial assets:			
Available-for-sale investments:			
Residential mortgage-backed securities	\$ 9.1	\$—	\$9.1
Other asset-backed securities	—	11.4	11.4
Forward contracts	0.1	—	0.1
Total financial assets	\$ 9.2	\$11.4	\$20.6
Financial liabilities:			
Forward contracts	\$		