

MONEYGRAM INTERNATIONAL INC
Form 10-Q
August 03, 2018
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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, 2018

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

(Address of principal executive offices)
(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 1, 2018, 55,606,766 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)	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$200.4	\$190.0
Settlement assets	3,516.6	3,756.9
Property and equipment, net	200.8	214.9
Goodwill	442.2	442.2
Other assets	166.8	168.5
Total assets	\$4,526.8	\$4,772.5
LIABILITIES		
Payment service obligations	\$3,516.6	\$3,756.9
Debt, net	904.6	908.1
Pension and other postretirement benefits	89.5	97.3
Accounts payable and other liabilities	252.7	255.5
Total liabilities	4,763.4	5,017.8
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' DEFICIT		
Participating convertible preferred stock - series D, \$0.01 par value, 200,000 shares authorized, 71,282 issued at June 30, 2018 and December 31, 2017	183.9	183.9
Common stock, \$0.01 par value, 162,500,000 shares authorized, 58,823,567 shares issued at June 30, 2018 and December 31, 2017	0.6	0.6
Additional paid-in capital	1,041.9	1,034.8
Retained loss	(1,365.9)	(1,336.1)
Accumulated other comprehensive loss	(68.2)	(63.0)
Treasury stock: 3,234,904 and 4,585,223 shares at June 30, 2018 and December 31, 2017, respectively	(28.9)	(65.5)
Total stockholders' deficit	(236.6)	(245.3)
Total liabilities and stockholders' deficit	\$4,526.8	\$4,772.5
See Notes to the Condensed Consolidated Financial Statements		

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MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 UNAUDITED

(Amounts in millions, except per share data)	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
REVENUE				
Fee and other revenue	\$362.5	\$391.1	\$732.6	\$771.4
Investment revenue	12.1	18.9	22.0	24.7
Total revenue	374.6	410.0	754.6	796.1
EXPENSES				
Fee and other commissions expense	178.9	194.2	355.4	380.2
Investment commissions expense	4.5	2.0	8.0	3.3
Direct transaction expense	7.0	4.8	12.5	9.9
Total commissions and direct transaction expenses	190.4	201.0	375.9	393.4
Compensation and benefits	65.1	65.5	144.4	135.7
Transaction and operations support	72.0	85.5	146.8	152.0
Occupancy, equipment and supplies	17.0	18.2	33.6	33.5
Depreciation and amortization	20.1	18.6	38.2	36.9
Total operating expenses	364.6	388.8	738.9	751.5
OPERATING INCOME	10.0	21.2	15.7	44.6
Other expenses (income)				
Interest expense	13.7	11.2	26.0	22.0
Other non-operating expense (income)	1.4	1.4	(27.1)) 2.7
Total other expenses (income)	15.1	12.6	(1.1)) 24.7
(Loss) income before income taxes	(5.1)) 8.6	16.8	19.9
Income tax (benefit) expense	(7.4)) 2.4	7.4	4.9
NET INCOME	\$2.3	\$6.2	\$9.4	\$15.0
EARNINGS PER COMMON SHARE				
Basic	\$0.04	\$0.10	\$0.15	\$0.24
Diluted	\$0.03	\$0.09	\$0.14	\$0.23
Weighted-average outstanding common shares and equivalents used in computing earnings per share				
Basic	64.5	63.0	64.1	62.6
Diluted	66.4	66.3	66.3	66.1
See Notes to the Condensed Consolidated Financial Statements				

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2018	2017	2018	2017
NET INCOME	\$2.3	\$6.2	\$9.4	\$15.0
OTHER COMPREHENSIVE (LOSS) INCOME				
Net change in unrealized holding gains on available-for-sale securities arising during the period	—	4.1	(0.2)	4.2
Net reclassification adjustment for net realized gains included in net earnings, net of tax expense of \$0.0 for the three and six months ended June 30, 2018 and 2017	—	(12.2)	—	(12.2)
Net change in pension liability due to amortization of prior service credit and net actuarial loss, net of tax benefit of \$0.4 and \$0.3 for the three months ended June 30, 2018 and 2017, respectively, and \$0.6 and \$0.7 for the six months ended June 30, 2018 and 2017, respectively	0.8	0.7	1.7	1.4
Unrealized foreign currency translation adjustments, net of tax (benefit) expense of (\$0.6) and \$0.0 for the three and six months ended June 30, 2018, respectively, and \$4.0 for the three and six months ended June 30, 2017	(9.4)	4.8	(6.7)	7.0
Other comprehensive (loss) income	(8.6)	(2.6)	(5.2)	0.4
COMPREHENSIVE (LOSS) INCOME	\$(6.3)	\$3.6	\$4.2	\$15.4
See Notes to the Condensed Consolidated Financial Statements				

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

(Amounts in millions)	Six Months	
	Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$9.4	\$15.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38.2	36.9
Signing bonus amortization	28.7	26.3
Amortization of debt discount and debt issuance costs	1.6	1.6
Non-cash compensation and pension expense	10.4	10.2
Gain on redemption of asset-backed security	—	(12.2)
Signing bonus payments	(19.6)	(18.4)
Change in other assets	(5.4)	(60.9)
Change in accounts payable and other liabilities	(14.7)	28.6
Other non-cash items, net	1.3	4.0
Net cash provided by operating activities	49.9	31.1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(28.5)	(40.1)
Net cash used in investing activities	(28.5)	(40.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(4.9)	(4.9)
Payments to tax authorities for stock-based compensation	(6.1)	—
Proceeds from exercise of stock options and other	—	1.8
Net cash used in financing activities	(11.0)	(3.1)
NET CHANGE IN CASH AND CASH EQUIVALENTS	10.4	(12.1)
CASH AND CASH EQUIVALENTS—Beginning of period	190.0	157.2
CASH AND CASH EQUIVALENTS—End of period	\$200.4	\$145.1
See Notes to the Condensed Consolidated Financial Statements		

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MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENT 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, 2018	\$ 183.9	\$ 0.6	\$ 1,034.8	\$(1,336.1)	\$ (63.0)	\$(65.5)	\$(245.3)
Net income	—	—	—	9.4	—	—	9.4
Stock-based compensation activity	—	—	7.1	(43.4)	—	36.6	0.3
Cumulative effect of adoption of ASU 2016-16	—	—	—	4.2	—	—	4.2
Other comprehensive loss	—	—	—	—	(5.2)	—	(5.2)
June 30, 2018	\$ 183.9	\$ 0.6	\$ 1,041.9	\$(1,365.9)	\$ (68.2)	\$(28.9)	\$(236.6)

See Notes to the Condensed Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Description of the Business and Basis of Presentation

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 limited Company-operated retail locations. 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 and six months ended June 30, 2018 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, 2017.

In the first quarter of 2018, the Company changed the presentation of certain operating expenses, which are now presented as part of "Direct transaction expense" on the Condensed Consolidated Statements of Operations. Direct transaction expense includes expenses related to the processing of money transfers, such as customer authentication and funding costs. Prior period amounts have been updated to reflect the change in presentation, which had no impact on operating income, net income, earnings per share, or segments operating results.

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 (the "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 current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. To further assist with adoption and implementation of ASU 2014-09, the FASB issued the following ASUs:

• ASU 2016-08 (Issued March 2016) — Principal versus Agent Consideration (Reporting Revenue Gross versus Net)

• ASU 2016-10 (Issued April 2016) — Identifying Performance Obligations and Licensing

• ASU 2016-12 (Issued May 2016) — Narrow-Scope Improvements and Practical Expedients

• ASU 2016-20 (Issued December 2016) — Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers

These ASUs are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. The Company adopted these standards in the first quarter of 2018 using the cumulative effect transition method upon adoption. See Note 15 — Revenue Recognition for more information related to the Company's revenue from contracts with customers.

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 lease 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. To further assist with adoption and implementation of ASU 2016-02, the FASB issued the following ASUs:

▲ASU 2018-10 (Issued July 2018) — Codification Improvements to Topic 842, Leases

▲ASU 2018-11 (Issued July 2018) — Leases (Topic 842): Targeted Improvements

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ASU 2018-11 provides entities with an additional transition method to adopt the new lease standard. Under this new transition method, an entity initially applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The new lease standard is effective for fiscal years beginning after December 15, 2018. Early adoption of the amendment is permitted but the Company will not be early adopting this standard. Upon adoption the Company will utilize the new transition method allowed under ASU 2018-11.

The Company's leases consist primarily of operating leases for buildings, equipment and vehicles. While the Company continues to assess potential impacts from this standard, we currently expect the most significant impact will be the recognition of right-of-use assets and lease liabilities for operating leases. We expect our accounting for capital leases to remain substantially unchanged. Additionally, we intend to elect the available practical expedients on adoption. The Company anticipates that this standard will have a material impact on the Consolidated Balance Sheets. However, management believes that this standard will not have a material impact on the Consolidated Statements of Operations. In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory. This standard requires that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this standard eliminate the exception for an intra-entity transfer of an asset other than inventory. ASU 2016-16 is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company adopted this standard in the first quarter of 2018 using the modified retrospective approach. The modified retrospective approach resulted in a cumulative effect of \$4.2 million to "Retained loss," consisting of a deferred charge of \$1.3 million offset by a recording of deferred tax balances of \$5.5 million from "Other assets" on the Condensed Consolidated Balance Sheets.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in the standard require components of net periodic benefit cost, other than service cost, to be presented outside of income from operations. The Company adopted ASU 2017-07 in the first quarter of 2018. Prior to the adoption of this ASU, the Company presented net periodic benefit costs, other than service cost, in "Compensation and benefits" on the Condensed Consolidated Statements of Operations. Upon adoption, these costs were reclassified to "Other non-operating expense (income)" on the Condensed Consolidated Statements of Operations and the prior period was updated to reflect this change. For the three and six months ended June 30, 2018, net periodic benefit costs, other than service cost, were \$1.5 million and \$2.9 million, respectively. For the three and six months ended June 30, 2017, net periodic benefit costs, other than service cost, were \$1.4 million and \$2.7 million, respectively.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in the standard allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the legislation commonly known as the "Tax Cuts and Jobs Act," and also known as H.R. 1 - 115th Congress (the "TCJA"). ASU 2018-02 will not have an impact on the Consolidated Statements of Operations. The amendments in this standard also require certain disclosures about stranded tax effects. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company will not be early adopting this standard. The impact of this ASU is still being evaluated, but management does not expect this standard to have a material impact on the Consolidated Balance Sheets.

The Company has determined that there have been no other recently adopted or issued accounting standards that had, or will have, a material impact on its consolidated financial statements.

Merger Agreement — On January 26, 2017, MoneyGram International, Inc. entered into an Agreement and Plan of Merger (as amended by the First Amendment to the Agreement and Plan of Merger, dated April 15, 2017, the "Merger Agreement") with Alipay (UK) Limited, a United Kingdom limited company ("Alipay"), Matrix Acquisition Corp., a Delaware corporation and wholly owned subsidiary of Alipay ("Merger Sub"), and, solely for purposes of certain specified provisions of the Merger Agreement, Alipay (Hong Kong) Holding Limited, a Hong Kong limited company, providing for the merger of Merger Sub with and into the Company, with the Company surviving as a wholly owned

subsidiary of Alipay (the “Merger”). The closing of the Merger was subject to certain conditions, including clearance by the Committee on Foreign Investment in the United States (“CFIUS”) under the Defense Production Act of 1950, as amended. On January 2, 2018, the parties to the Merger Agreement were advised that CFIUS clearance of the Merger would not be forthcoming, and after further discussion between the parties, they determined to cease efforts to seek CFIUS approval and entered into a Termination Agreement (the “Termination Agreement”). Pursuant to the Termination Agreement, Alipay paid the Company a termination fee of \$30.0 million on January 3, 2018, which is recorded in "Other non-operating expense (income)" on the Condensed Consolidated Statements of Operations for the six months ended June 30, 2018. The parties agreed to release each other from certain claims and liabilities arising out of or relating to the Merger Agreement or the transactions contemplated thereby.

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Note 2 — Restructuring and Reorganization Costs

In the first quarter of 2018, the Company initiated a restructuring and reorganization program (the "Digital Transformation Program") to reduce operating expenses, focus on improving profitability and better align the organization to deliver new digital touch-points for customers and agents. In connection with the Digital Transformation Program, which is expected to be substantially completed in 2019, the Company expects over 350 employees to be affected, possibly through transfers or terminations, representing approximately 14% of the Company's global workforce as of December 31, 2017. The Company expects to incur restructuring and reorganization charges between \$15.0 million to \$18.0 million, consisting primarily of severance and outplacement benefits (between \$10.5 million to \$11.0 million), real estate lease termination and other associated costs (between \$3.0 million to \$3.5 million), legal and other costs (between \$1.0 million to \$2.5 million), and reorganization costs (between \$0.5 million to \$1.0 million). The actual timing and costs of the plan may differ from the Company's current expectations and estimates.

The following table is a roll-forward of the restructuring and reorganization costs accrual as of June 30, 2018:

(Amounts in millions)	Digital Transformation Program
Balance, December 31, 2017	\$ —
Expenses	12.8
Cash payments	(9.2)
Non-cash operating expenses	(2.3)
Balance, June 30, 2018	\$ 1.3

The following table is a summary of the cumulative restructuring and reorganization costs incurred to date in operating expenses and the estimated remaining restructuring and reorganization costs to be incurred as of June 30, 2018:

(Amounts in millions)	Digital Transformation Program
Cumulative restructuring costs incurred to date in operating expenses	\$ 12.3
Estimated additional restructuring costs to be incurred	4.7
Total restructuring costs incurred and to be incurred	17.0
Cumulative reorganization costs incurred to date in operating expenses	0.5
Estimated additional reorganization costs to be incurred	0.5
Total reorganization costs incurred and to be incurred	1.0
Total restructuring and reorganization costs incurred and to be incurred	\$ 18.0

The following table summarizes the restructuring and reorganization costs recorded:

(Amounts in millions)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Restructuring costs in operating expenses:		
Compensation and benefits	\$ 3.2	\$ 9.2
Transaction and operations support	0.4	1.6
Occupancy, equipment and supplies	1.1	1.2
Depreciation	0.3	0.3
Total restructuring costs in operating expenses	5.0	12.3

Reorganization costs in operating expenses:

Compensation and benefits	0.5	0.5
Total reorganization costs in operating expenses	0.5	0.5
Total restructuring and reorganization costs in operating expenses	\$ 5.5	\$ 12.8

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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 and reorganization costs to be incurred by reporting segment:

(Amounts in millions)	Global Funds Transfer	Other	Total
Balance, December 31, 2017	\$ —	\$ —	\$ —
Restructuring costs:			
First quarter 2018	7.3	—	7.3
Second quarter 2018	5.0	—	5.0
Total cumulative restructuring costs incurred to date in operating expenses	12.3	—	12.3
Total estimated additional restructuring costs to be incurred	4.7	—	4.7
Total restructuring costs incurred and to be incurred	17.0	—	17.0
Reorganization costs:			
Second quarter 2018	—	0.5	0.5
Total cumulative reorganization costs incurred to date in operating expenses	—	0.5	0.5
Total estimated additional reorganization costs to be incurred	—	0.5	0.5
Total reorganization costs incurred and to be incurred	—	1.0	1.0
Total restructuring and reorganization costs incurred and to be incurred	\$ 17.0	\$ 1.0	\$ 18.0

Note 3 — Settlement Assets and Payment Service Obligations

The Company records 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 transaction occurs. The Company records corresponding settlement assets, which represent funds received or to be received for unsettled money transfers, money orders and consumer payments.

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

(Amounts in millions)	June 30, 2018	December 31, 2017
Settlement assets:		
Settlement cash and cash equivalents	\$ 1,353.2	\$ 1,469.9
Receivables, net	1,004.3	1,125.8
Interest-bearing investments	1,152.8	1,154.2
Available-for-sale investments	6.3	7.0
	\$ 3,516.6	\$ 3,756.9
Payment service obligations	\$(3,516.6)	\$(3,756.9)

Note 4 — Fair Value Measurement

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.

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The following table summarizes 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
June 30, 2018			
Financial assets:			
Available-for-sale investments:			
Residential mortgage-backed securities	\$ 5.0	\$ —	\$ 5.0
Asset-backed and other securities	—	1.3	1.3
Forward contracts	0.4	—	0.4
Total financial assets	\$ 5.4	\$ 1.3	\$ 6.7
Financial liabilities:			
Forward contracts	\$ 0.1	\$ —	\$ 0.1

December 31, 2017

Financial assets:			
Available-for-sale investments:			
Residential mortgage-backed securities	\$ 5.6	\$ —	\$ 5.6
Asset-backed and other securities	—	1.4	1.4
Forward contracts	0.2	—	0.2
Total financial assets	\$ 5.8	\$ 1.4	\$ 7.2
Financial liabilities:			
Forward contracts	\$ 1.0	\$ —	\$ 1.0

The following table provides a roll-forward of the asset-backed and other securities classified as Level 3, which are measured at fair value on a recurring basis:

(Amounts in millions)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Beginning balance	\$1.3	\$10.6	\$1.4	\$10.6
Principal paydowns	—	(0.7)	—	(0.8)
Change in unrealized gains (losses)	—	4.1	(0.1)	4.2
Net realized gains	—	(12.2)	—	(12.2)
Ending balance	\$1.3	\$1.8	\$1.3	\$1.8

Assets and liabilities that are disclosed at fair value — Debt and interest-bearing investments are carried at amortized cost; however, the Company estimates the fair value of debt for disclosure purposes. The fair value of debt is estimated using an observable market quotation (Level 2). The following table is a summary of the Company's fair value and carrying value of debt:

(Amounts in millions)	Fair Value		Carrying Value	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Senior secured credit facility	\$875.2	\$ 910.8	\$909.3	\$ 914.2

The carrying amounts for the Company's cash and cash equivalents, settlement cash and cash equivalents, interest-bearing investments and payment service obligations approximate fair value as of June 30, 2018 and December 31, 2017.

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Note 5 — Investment Portfolio

The following table shows the components of the investment portfolio:

(Amounts in millions)	June 30, 2018	December 31, 2017
Cash	\$1,551.2	\$ 1,654.5
Money market securities	2.4	5.4
Cash and cash equivalents ⁽¹⁾	1,553.6	1,659.9
Interest-bearing investments	1,152.8	1,154.2
Available-for-sale investments	6.3	7.0
Total investment portfolio	\$2,712.7	\$2,821.1

⁽¹⁾ For purposes of the disclosure of the investment portfolio as a whole, the cash and cash equivalents balance includes settlement cash and cash equivalents.

The following table is a summary of the amortized cost and fair value of available-for-sale investments:

(Amounts in millions)	Amortized Cost	Gross Unrealized Gains	Fair Value
June 30, 2018			
Residential mortgage-backed securities	\$ 4.7	\$ 0.3	\$ 5.0
Asset-backed and other securities	0.2	1.1	1.3
Total	\$ 4.9	\$ 1.4	\$ 6.3
December 31, 2017			
Residential mortgage-backed securities	\$ 5.2	\$ 0.4	\$ 5.6
Asset-backed and other securities	0.2	1.2	1.4
Total	\$ 5.4	\$ 1.6	\$ 7.0

As of June 30, 2018 and December 31, 2017, 79% and 80%, respectively, of the fair value of the available-for-sale portfolio were invested in residential mortgage-backed securities issued by U.S. government agencies. These securities have the implicit backing of the U.S. government, and the Company expects to receive full par value upon maturity or pay-down, as well as all interest payments.

Gains and Losses — For the three and six months ended June 30, 2018, the Company had no net realized gains or losses. For the three and six months ended June 30, 2017, the Company recognized \$12.2 million of investment income from the redemption at par value of \$12.7 million of a previously impaired asset-backed security in "Investment revenue" on the Condensed Consolidated Statement of Operations. Prior to the redemption, the security had \$0.5 million in book value with \$7.9 million in unrealized gains. The Company had nominal unrealized losses in its available-for-sale portfolio as of June 30, 2018 and December 31, 2017. See summary of net unrealized gains included in Accumulated other comprehensive loss in Note 9 — Stockholders' Deficit.

Contractual Maturities — 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 residential mortgage-backed and asset-backed and other securities depend on the repayment characteristics and experience of the underlying obligations.

Note 6 — Derivative Financial Instruments

The Company uses forward contracts to manage its foreign currency needs and foreign currency exchange risk arising from its assets and liabilities denominated in foreign currencies. While these contracts may mitigate certain foreign currency risk, they are not designated as hedges for accounting purposes and will result in gains and losses. The

Company also reports gains and losses from the spread differential between the rate set for its transactions and the actual cost of currency at the time the Company buys or sells in the open market.

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The following (losses) gains related to assets and liabilities denominated in foreign currencies are included in the "Transaction and operations support" line in the Condensed Consolidated Statements of Operations and in the "Net cash provided by operating activities" line in the Condensed Consolidated Statements of Cash Flows:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(Amounts in millions)	2018	2017	2018	2017
Net realized foreign currency (loss) gain	\$(4.3)	\$11.3	\$(3.8)	\$14.3
Net gain (loss) from the related forward contracts	5.6	(8.2)	5.1	(10.2)
Net gains from foreign currency transactions and related forward contracts	\$1.3	\$3.1	\$1.3	\$4.1

As of June 30, 2018 and December 31, 2017, the Company had \$314.8 million and \$311.5 million, respectively, of outstanding notional amounts relating to its foreign currency forward contracts. The Company reflects the following fair values of derivative forward contract instruments in its Condensed Consolidated Balance Sheets:

(Amounts in millions)	Balance Sheet Location	Gross Amount of Recognized Assets		Gross Amount of Offset		Net Amount of Assets Presented in the Condensed Consolidated Balance Sheets	
		June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Forward contracts	Other assets	\$ 0.6	\$ 0.4	\$(0.2)	\$(0.2)	\$ 0.4	\$ 0.2

(Amounts in millions)	Balance Sheet Location	Gross Amount of Recognized Liabilities		Gross Amount of Offset		Net Amount of Liabilities Presented in the Condensed Consolidated Balance Sheets	
		June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Forward contracts	Accounts payable and other liabilities	\$ 0.3	\$ 1.2	\$(0.2)	\$(0.2)	\$ 0.1	\$ 1.0

The Company's forward contracts are primarily executed with counterparties governed by International Swaps and Derivatives Association agreements that generally include standard netting arrangements. Asset and liability positions from forward contracts and all other foreign exchange transactions with the same counterparty are net settled upon maturity.

The Company is exposed to credit loss in the event of non-performance by counterparties to its derivative contracts. In the unlikely event the counterparty fails to meet the contractual terms of the derivative contract, the Company's risk is limited to the fair value of the instrument. The Company has not had any historical instances of non-performance by any counterparties, nor does it anticipate any future instances of non-performance.

Note 7 — Debt

The following is a summary of the Company's outstanding debt:

(Amounts in millions, except percentages)	June 30, 2018	December 31, 2017
	Effective Interest	Effective Interest

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	Rate		Rate	
Senior secured credit facility due 2020	5.58%	\$909.3	4.94%	\$914.2
Unamortized debt issuance costs and debt discount	(4.7)		(6.1)	
Total debt, net		\$904.6		\$908.1

The Company's effective interest rate on senior secured borrowings increased from 4.94% as of December 31, 2017 to 5.58% as of June 30, 2018, due to an increase in the Eurodollar rate.

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Revolving Credit Facility — As of June 30, 2018, the Company had no outstanding letters of credit and no borrowings under its revolving credit facility, leaving \$85.8 million of availability thereunder. Pursuant to an amendment to the credit agreement, dated December 12, 2016, among other things, the aggregate revolving credit commitments were decreased from \$150.0 million to \$125.0 million for the period beginning December 12, 2016 and ending March 27, 2018 (the remainder of the original revolving credit facility term). This amendment also extended the maturity date of the revolving credit commitments of the extending lenders, which represent commitments of \$85.8 million in the aggregate, from March 28, 2018 to September 28, 2019.

Debt Covenants and Other Restrictions — Borrowings under the credit agreement that provides for the senior secured facility due 2020 and the revolving credit facility are subject to various limitations that restrict the Company's ability to: incur additional indebtedness; create or incur additional liens; effect mergers and consolidations; make certain acquisitions or investments; sell assets or subsidiary stock; pay dividends and other restricted payments; and effect loans, advances and certain other transactions with affiliates. In addition, the revolving credit facility has covenants that place limitations on the use of proceeds from borrowings under the facility.

The revolving credit facility contains certain financial covenants, in addition to the non-financial covenants described above. The Company is required to maintain asset coverage greater than its payment service obligations. Assets used in the determination of the asset coverage covenant are cash and cash equivalents and settlement assets. The Company's assets in excess of payment service obligations used for the asset coverage calculation, which is equal to total cash and cash equivalents and settlement assets less payment service obligations, are \$200.4 million and \$190.0 million as of June 30, 2018 and December 31, 2017, respectively.

The credit agreement also has quarterly financial covenants to maintain the following interest coverage and secured leverage ratios:

	Interest Coverage Minimum Ratio	Secured Leverage Ratio Not to Exceed
January 1, 2018 through June 30, 2018	2.25:1	4.000:1
July 1, 2018 through December 31, 2018	2.25:1	3.750:1
January 1, 2019 through maturity	2.25:1	3.500:1

As of June 30, 2018, the Company was in compliance with its financial covenants: our interest coverage ratio was 6.11 to 1.00 and our secured leverage ratio was 3.227 to 1.00. We continuously monitor our compliance with our debt covenants.

Note 8 — Pension and Other Benefits

The following table is a summary of net periodic benefit expense for the Company's defined benefit pension plan ("Pension Plan") and supplemental executive retirement plans ("SERPs"), collectively referred to as "Pension":

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Amounts in millions)				
Interest cost	\$1.5	\$1.6	\$3.1	\$3.1
Expected return on plan assets	(1.2)	(1.2)	(2.5)	(2.5)
Amortization of net actuarial loss	1.1	1.1	2.2	2.2
Net periodic benefit expense	\$1.4	\$1.5	\$2.8	\$2.8

The following table is a summary of net periodic benefit income for the Company's postretirement medical benefit plan ("Postretirement Benefits"):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Amounts in millions)				

(Amounts in millions)	2018	2017	2018	2017
Amortization of prior service credit	\$—	\$(0.1)	\$—	\$(0.2)
Amortization of net actuarial loss	0.1	—	0.1	0.1
Net periodic benefit expense (income)	\$0.1	\$(0.1)	\$0.1	\$(0.1)

Net periodic benefit expense (income) for the Pension and Postretirement Benefits is recorded in "Other non-operating expense (income)" on the Condensed Consolidated Statements of Operations.

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Note 9 — Stockholders' Deficit

Common Stock — No dividends were paid during the three or six months ended June 30, 2018 or June 30, 2017.

Accumulated Other Comprehensive Loss — The following tables are a summary of the changes to Accumulated other comprehensive loss by component:

(Amounts in millions)	Net unrealized gains on securities classified as available-for-sale, net of tax	Cumulative foreign currency translation adjustments, net of tax	Pension and Postretirement Benefits adjustments, net of tax	Total
January 1, 2018	\$ 2.2	\$ (10.4)	\$ (54.8)	\$(63.0)
Other comprehensive loss before reclassification	(0.2)	(6.7)	—	(6.9)
Amounts reclassified from accumulated other comprehensive loss	—	—	1.7	1.7
Net current period other comprehensive (loss) income	(0.2)	(6.7)	1.7	(5.2)
June 30, 2018	\$ 2.0	\$ (17.1)	\$ (53.1)	\$(68.2)
(Amounts in millions)	Net unrealized gains on securities classified as available-for-sale, net of tax	Cumulative foreign currency translation adjustments, net of tax	Pension and Postretirement Benefits adjustments, net of tax	Total
January 1, 2017	\$ 10.8	\$ (19.9)	\$ (44.8)	\$(53.9)
Other comprehensive income before reclassification	4.2	7.0	—	11.2
Amounts reclassified from accumulated other comprehensive loss	(12.2)	—	1.4	(10.8)
Net current period other comprehensive (loss) income	(8.0)	7.0	1.4	0.4
June 30, 2017	\$ 2.8	\$ (12.9)	\$ (43.4)	\$(53.5)

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The following table is a summary of the significant amounts reclassified out of each component of Accumulated other comprehensive loss:

(Amounts in millions)	Three Months Ended June 30,		Six Months Ended June 30,		Statement of Operations Location
	2018	2017	2018	2017	
Net change in unrealized gains on securities classified as available-for-sale	\$—	\$(12.2)	\$—	\$(12.2)	"Investment revenue"
Pension and Postretirement Benefits adjustments:					
Amortization of prior service credit	\$—	\$(0.1)	\$—	\$(0.2)	"Compensation and benefits"
Amortization of net actuarial loss	1.2	1.1	2.3	2.3	"Compensation and benefits"
Total before tax	1.2	1.0	2.3	2.1	
Tax benefit, net	(0.4)	(0.3)	(0.6)	(0.7)	
Total, net of tax	\$0.8	\$0.7	\$1.7	\$1.4	
Total reclassified for the period, net of tax	\$0.8	\$(11.5)	\$1.7	\$(10.8)	

Note 10 — Stock-Based Compensation

The following table is a summary of the Company's stock-based compensation expense:

(Amounts in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Expense recognized related to stock options	\$—	\$0.1	\$—	\$0.4
Expense recognized related to restricted stock units	2.7	3.4	7.5	7.1
Stock-based compensation expense	\$2.7	\$3.5	\$7.5	\$7.5

Stock Options — The following table is a summary of the Company's stock option activity:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000,000)
Options outstanding at December 31, 2017	2,019,850	\$ 17.72	2.8 years	\$ 0.6
Forfeited/Expired	(163,809)	19.96		
Options outstanding, vested or expected to vest, and exercisable at June 30, 2018	1,856,041	\$ 17.53	1.8 years	\$ —

As of June 30, 2018, the Company had no unrecognized stock option expense related to outstanding options.

Restricted Stock Units — In March 2018, the Company issued time-based and performance-based restricted stock units. The time-based restricted stock units vest in three equal installments on each anniversary of the grant date. The performance-based restricted stock units are subject to performance conditions that must be satisfied. If such performance conditions are satisfied at the conclusion of a one-year performance period, the performance-based restricted stock units will vest in three equal installments on each anniversary of the grant date. With respect to the

performance-based restricted stock units, the number of restricted stock units eligible to vest is based on the performance achievement percentage determined by straight line interpolation using the aggregate of 75% based on Adjusted EBITDA and 25% based on constant currency revenue. Adjusted EBITDA is EBITDA (earnings before interest, taxes, depreciation and amortization, including agent signing bonus amortization) adjusted for certain significant items. Achievement of the threshold level of target in the aggregate for both performance conditions will result in a percentage payout of 50% of the performance-based restricted stock units. No performance-based restricted stock units will vest for performance achievement below the thresholds.

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The following table is a summary of the Company's restricted stock unit activity:

	Total Shares	Weighted Average Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000,000)
Restricted stock units outstanding at December 31, 2017	3,266,912	\$ 8.78	0.7 years	\$ 43.1
Granted	1,271,800	10.45		
Vested and converted to shares	(1,962,869)	8.30		
Forfeited	(275,982)	10.97		
Restricted stock units outstanding at June 30, 2018	2,299,861	\$ 9.85	1.3 years	\$ 15.4
Restricted stock units vested and outstanding at June 30, 2018	39,869	\$ 8.15		\$ 0.3

As of June 30, 2018, the Company's outstanding restricted stock units had unrecognized compensation expense of \$17.5 million with a remaining weighted-average vesting period of 1.4 years. Unrecognized restricted stock unit expense and the remaining weighted-average vesting period are presented using the Company's current estimate of achievement of performance goals. The Company had \$0.4 million of cash settled restricted stock units. The grant-date fair value of restricted stock units vested and converted was \$0.9 million and \$16.3 million for the three and six months ended June 30, 2018, respectively, and \$1.2 million and \$14.4 million for the three and six months ended June 30, 2017, respectively.

Note 11 — Income Taxes

For the three months ended June 30, 2018, the Company recognized income tax benefit of \$7.4 million on pre-tax loss of \$5.1 million, primarily due to a one-time \$4.0 million deferred tax benefit from a reorganization of our corporate structure and a \$2.6 million reduction of foreign uncertain tax positions, offset by an increase to the Company's provisional tax obligation for the one-time transition tax imposed by the TCJA as discussed in more detail below. For the six months ended June 30, 2018, the Company recognized income tax expense of \$7.4 million on a pre-tax income of \$16.8 million, primarily due to non-deductible expenses, including the accrual related to the deferred prosecution agreement (the "DPA"), as discussed in more detail in Note 12 — Commitments and Contingencies, and the adverse tax consequences related to the new provisions enacted under the TCJA, as discussed in more detail herein, which result in multiple taxation of a single item of income.

For the three and six months ended June 30, 2017, the Company recognized income tax expense of \$2.4 million and \$4.9 million on a pre-tax income of \$8.6 million and \$19.9 million, respectively. The recorded income tax expense differs from taxes calculated at the statutory rate for the three and six months ended June 30, 2017, primarily due to a net tax benefit recognized for the redemption of a previously impaired asset-backed security of \$3.8 million. Additionally, for the six months ended June 30, 2017, the Company recognized a tax benefit on stock-based compensation. For more information related to the redemption see Note 5 — Investment Portfolio.

On December 22, 2017, the TCJA, which significantly revises the Internal Revenue Code of 1986, as amended, was enacted. The TCJA, among other things, contains significant changes to the U.S. corporate tax laws, including i) a permanent reduction of the corporate income tax rate, ii) a limitation on the deductibility of business interest expense, iii) limitation of the deductions for certain executive compensation and other business expenses, iv) limitation of the deduction for certain net operating losses to 80% of current year taxable income, v) an indefinite net operating loss carryforward, vi) immediate deductions for new investments in certain business assets instead of deductions for depreciation expense over time, vii) modification or repeal of many business deductions and credits (including certain foreign tax credits), viii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a modified territorial system (retaining certain existing rules and containing new rules, such as the global intangible

low-taxed income provisions, designed to include in the U.S. income tax base certain income generated in non-U.S. territories whether or not that income has been repatriated to the U.S.), ix) a minimum taxing system related to payments deemed to erode the U.S. tax base referred to as a tax on base erosion payments, and x) a one-time tax on accumulated offshore earnings held in cash and illiquid assets (with the latter taxed at a lower rate). As the provisions under the TCJA interact with previously-existing U.S. tax law, separation of income into baskets and required expense allocations can restrict the taxpayer's ability to credit foreign taxes paid whereby causing double taxation. In addition, routine business expenses can be deemed to erode the U.S. tax base. As such, the TCJA has a material impact on our year to date 2018 income tax expense.

The Company has made reasonable estimates of certain effects related to the TCJA and, therefore, has recorded the below provisional amounts for the year ended December 31, 2017.

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As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the TCJA, the Company revalued its ending net deferred tax liabilities at December 31, 2017 and recognized a provisional \$19.8 million tax benefit in the Company's consolidated statement of income for the year ended December 31, 2017.

The Company recognized a provisional net \$3.0 million tax benefit for the remeasurement of previously recorded deferred tax assets and liabilities primarily associated with historical earnings in its foreign subsidiaries, which was provisionally reduced to \$2.3 million during the three months ended June 30, 2018.

As of June 30, 2018, the accounting for certain income tax effects of the TCJA is not complete. During the six months ended June 30, 2018, the Company increased its provisional tax obligation for the one-time transition tax imposed by the TCJA due to revised estimates of the Company's previously undistributed earnings of foreign subsidiaries, resulting in a charge of \$0.7 million recorded in income tax expense. The provisional amounts may change when the Company completes its review and analysis later in 2018 or if additional guidance of the relevant tax code is released. We continue to examine the impact the TCJA has on the Company, which could adversely affect our business, financial condition and results of operations. Until the analysis is complete, the Company will account for the tax effects of global intangible low-tax income as a component of income tax expense in the period the tax arises, as opposed to recognizing both the current and deferred tax consequences of the related investments in its foreign subsidiaries. The Company is continuing its analysis of the effects of the TCJA and expects to finalize its accounting policy election in the latter half of 2018.

Unrecognized tax benefits are recorded in "Accounts payable and other liabilities" in the Condensed Consolidated Balance Sheets. As of June 30, 2018 and December 31, 2017, the liability for unrecognized tax benefits was \$17.1 million and \$28.7 million, respectively, exclusive of interest and penalties. For the six months ended June 30, 2018 and 2017, the net amount of unrecognized tax benefits that if recognized could impact the effective tax rate was \$17.1 million and \$17.6 million, respectively. The Company accrues interest and penalties for unrecognized tax benefits through "Income tax expense" in the Condensed Consolidated Statements of Operations. For the six months ended June 30, 2018 and 2017, the Company's accrual for interest and penalties decreased by \$2.2 million and increased by \$1.1 million, respectively. The significant decreases in the liability for unrecognized tax benefits and interest for the six months ended June 30, 2018 were related to a decrease in foreign taxes. As of June 30, 2018 and December 31, 2017, the Company had a liability of \$6.7 million and \$8.9 million, respectively, accrued for interest and penalties within "Accounts payable and other liabilities." As a result of the Company's litigation related to its securities losses previously discussed, it is possible that there could be a significant decrease to the total amount of unrecognized tax benefits over the next 12 months. However, as of June 30, 2018, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax positions over the next 12 months.

Note 12 — Commitments and Contingencies

Legal Proceedings — The matters set forth below are subject to uncertainties and outcomes that are not predictable. 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 litigation matters. In relation to various legal matters, including those described below, the Company had \$95.5 million and \$85.5 million of liability recorded in the "Accounts payable and other liabilities" line in the Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, respectively. A nominal charge and a charge of \$10.0 million were recorded for legal proceedings during the three and six months ended June 30, 2018, respectively, in the "Transaction and operations support" line in the Condensed Consolidated Statements of Operations. A nominal charge and a charge of \$0.9 million were recorded for legal proceedings during the three and six months ended June 30, 2017, respectively, in the "Transaction and operations support" line in the Condensed Consolidated Statements of Operations.

Litigation Commenced Against the Company:

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 or cash flows.

Government Investigations:

OFAC — In 2015, we initiated an internal investigation to identify any payments processed by the Company that were violations of the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") sanctions regulations. We notified OFAC of the internal investigation, which was conducted in conjunction with the Company's outside counsel. On March 28, 2017, we filed a Voluntary Self-Disclosure with OFAC regarding the findings of our internal investigation. OFAC is currently reviewing the results of the Company's investigation. At this time, it is not possible to determine the outcome of this matter, or the significance, if any, to our business, financial condition, or operations, and we cannot predict when OFAC will conclude its review of our Voluntary Self-Disclosure.

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Deferred Prosecution Agreement — In November 2012, we announced that a settlement was reached with the U.S. Attorney's Office for the Middle District of Pennsylvania (the "MDPA") and the U.S. DOJ relating to the previously disclosed investigation of transactions involving certain of our U.S. and Canadian agents, as well as fraud complaint data and the consumer anti-fraud program, during the period from 2003 to early 2009. In connection with this settlement, we entered into the DPA with the MDPA and U.S. DOJ (collectively, the "Government") dated November 8, 2012.

On November 1, 2017, the Company agreed to a stipulation with the Government that the five-year term of the Company's DPA be extended for 90 days to February 6, 2018. On January 31, 2018, the Company agreed with the Government that the term of the DPA be extended for an additional 45 days to March 23, 2018; on March 21, 2018, the Company agreed with the Government that the term of the DPA be further extended for an additional 45 days to May 7, 2018; on May 7, 2018, the Company agreed with the Government that the term of the DPA be further extended for an additional 45 days to June 21, 2018; and on June 19, 2018, the Company agreed with the Government that the term of the DPA be further extended for an additional 90 days to September 18, 2018. Any extension of the DPA extends all terms of the DPA, including the term of the monitorship for an equivalent period. The purpose of the extensions is to provide the Company and the Government additional time to discuss whether the Company is in compliance with the DPA. There can be no assurance that the Company and the Government will continue to be able to negotiate a mutually satisfactory outcome during the latest extension (or any further short-term extension of the DPA) or that such outcome will not include a further extension of the DPA, financial penalties or additional restrictions on the Company. Furthermore, there can be no assurance that the Government will not seek any other remedy, including criminal prosecution and financial penalties, in lieu of an extension of the DPA and monitorship. The Company has recorded a \$95.0 million accrual in connection with a possible resolution of this matter, based on the facts and circumstances known at the time. However, the Company is unable to reasonably estimate the ultimate loss and no assurance can be given that future costs and payments made in connection with this matter will not materially exceed the amount currently recorded or that the Government will not also seek to impose non-monetary remedies or penalties.

Other Matters — The Company is involved in various other government inquiries and other matters that arise from time to time. Management does not believe that after final disposition any of these other matters is likely to have a material adverse impact on the Company's financial condition, results of operations or cash flows.

Actions Commenced by the Company:

Tax Litigation — The IRS completed its examination of the Company's consolidated income tax returns through 2013 and issued Notices of Deficiency for 2005-2007 and 2009, and an Examination Report for 2008. The Notices of Deficiency and Examination Report disallow, among other items, approximately \$900.0 million of ordinary deductions on securities losses in the 2007, 2008 and 2009 tax returns. In May 2012 and December 2012, the Company filed petitions in the U.S. Tax Court challenging the 2005-2007 and 2009 Notices of Deficiency, respectively. In 2013, the Company reached a partial settlement with the IRS allowing ordinary loss treatment on \$186.9 million of deductions in dispute. In January 2015, the U.S. Tax Court granted the IRS's motion for summary judgment upholding the remaining adjustments in the Notices of Deficiency. The Company filed a notice of appeal with the U.S. Tax Court on July 27, 2015 for an appeal to the U.S. Court of Appeals for the Fifth Circuit. Oral arguments were held before the Fifth Circuit on June 7, 2016, and on November 15, 2016, the Fifth Circuit vacated the Tax Court's decision and remanded the case to the Tax Court for further proceedings. The Company filed a motion for summary judgment in the Tax Court on May 31, 2017. On August 23, 2017, the IRS filed a motion for summary judgment and its response to the Company's motion for summary judgment. The Tax Court has directed the parties to agree to a joint stipulation of facts to be filed with the court, at which point the Company expects to file a revised memorandum in support of its motion for summary judgment, and the IRS is expected to file its cross motion for summary judgment.

The January 2015 Tax Court decision was a change in facts which warranted reassessment of the Company's uncertain tax position. Although the Company believes that it has substantive tax law arguments in favor of its position and has appealed the ruling, the reassessment resulted in the Company determining that it is no longer more likely than not that its existing position will be sustained. Accordingly, the Company re-characterized certain deductions relating to

securities losses to be capital in nature, rather than ordinary. The Company recorded a full valuation allowance against these losses in the quarter ended March 31, 2015. This change increased "Income tax expense" in the Consolidated Statements of Operations in the quarter ended March 31, 2015 by \$63.7 million. During 2015, the Company made payments to the IRS of \$61.0 million for federal tax payments and associated interest related to the matter. The November 2016 Fifth Circuit decision to remand the case back to the U.S. Tax Court does not change the Company's current assessment regarding the likelihood that these deductions will be sustained. Accordingly, no change in the valuation allowance was made as of June 30, 2018. Pending the outcome of the Tax Court proceeding, the Company may be required to file amended state returns and make additional cash payments of up to \$18.9 million on amounts that have previously been accrued.

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Note 13 — Earnings per Common Share

For all periods in which it is outstanding, the Series D Participating Convertible Preferred Stock (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 were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method.

The following table is a reconciliation of the weighted-average amounts used in calculating earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2018	2017	2018	2017
Basic common shares outstanding	64.5	63.0	64.1	62.6
Shares related to stock options and restricted stock units	1.9	3.3	2.2	3.5
Diluted common shares outstanding	66.4	66.3	66.3	66.1

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 following table summarizes the weighted-average potential common shares excluded from diluted earnings per common share as their effect would be anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2018	2017	2018	2017
Shares related to stock options	1.9	1.1	1.9	1.7
Shares related to restricted stock units	0.4	0.5	0.2	0.3
Shares excluded from the computation	2.3	1.6	2.1	2.0

Note 14 — 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 has two reporting segments: Global Funds Transfer and Financial Paper Products. See Note 1 — Description of the Business and Basis for Presentation for further discussion on our segments. One of the Company's agents for the total of the Global Funds Transfer and Financial Paper Products segments accounted for 16% and 17% of total revenue for the three and six months ended June 30, 2018, respectively, and 17% and 18% of total revenue for the three and six months ended June 30, 2017, respectively.

The following table is a summary of the total revenue by segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2018	2017	2018	2017
Global Funds Transfer revenue				
Money transfer revenue	\$329.7	\$356.9	\$666.3	\$698.6
Bill payment revenue	19.5	20.7	40.3	45.8
Total Global Funds Transfer revenue	349.2	377.6	706.6	744.4

Financial Paper Products revenue

Money order revenue	14.2	16.7	27.6	29.2
Official check revenue	11.2	15.7	20.4	22.5
Total Financial Paper Products revenue	25.4	32.4	48.0	51.7
Total revenue	\$374.6	\$410.0	\$754.6	\$796.1

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The following table is a summary of the operating income by segment and detail of the income before income taxes:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(Amounts in millions)	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
Global Funds Transfer operating income	\$5.7	\$12.3	\$7.1	\$37.5
Financial Paper Products operating income	7.1	17.4	12.7	22.1
Total segment operating income	12.8	29.7	19.8	59.6
Other operating loss	(2.8)	(8.5)	(4.1)	(15.0)
Total operating income	10.0	21.2	15.7	44.6
Interest expense	13.7	11.2	26.0	22.0
Other non-operating expense (income)	1.4	1.4	(27.1)	2.7
(Loss) income before income taxes	\$(5.1)	\$8.6	\$16.8	\$19.9

(1) In the fourth quarter of 2017, the Company's management determined that there was an error with respect to the allocation of certain expenses between the reporting segments in the first three quarters of 2017. The Company assessed the materiality of the misstatement both quantitatively and qualitatively and determined that the error was immaterial to all prior consolidated financial statements, taken as a whole. Accordingly, prior period amounts have been adjusted to reflect the correction of the error. This correction resulted in a decrease to Global Funds Transfer operating income of \$2.4 million, an increase to Financial Paper Products operating income of \$0.2 million and a decrease to Other operating loss of \$2.2 million for the three months ended June 30, 2017. This correction also resulted in a decrease to Global Funds Transfer operating income of \$3.3 million, an increase to Financial Paper Products operating income of \$0.1 million and a decrease to Other operating loss of \$3.2 million for the six months ended June 30, 2017. There was no impact on total operating income or other reported financial statement amount.

Total assets by segment — In the second quarter of 2018, the Company changed its accounting policy related to the presentation of segment assets to be aligned with a change in the reporting package provided to our Chief Operating Decision Maker. The presentation change had no impact on the segments' operations. Under the new policy, payment service obligations are specifically identified to each reporting segment. Settlement assets, with the exception of interest-bearing and available-for-sale investments which belong to the Financial Paper Product segment, are allocated to cover the segments' corresponding payment service obligations. Reported cash and cash equivalents, which are the assets in excess of payment service obligations as further discussed in Note 7 — Debt, are used by the Global Funds Transfer segment to fulfill its working capital needs. Property and equipment is specifically identified to each reporting segment. The net carrying value of goodwill and intangibles relates to the Global Funds Transfer segment. While the derivatives portfolio is managed on a consolidated level, each derivative instrument is utilized in a manner that can be identified to the Global Funds Transfer segment. All assets that are not specifically identified or allocated to a reporting segment are reported as "Other." These assets primarily include taxes and various other corporate assets. The following table sets forth assets by segment with prior year financial information adjusted retrospectively to reflect the updated presentation:

(Amounts in millions)	June 30, 2018	December 31, 2017
Global Funds Transfer	\$1,413.7	\$1,533.8
Financial Paper Products	3,041.0	3,174.5
Other	72.1	64.2
Total assets	\$4,526.8	\$4,772.5

Note 15 — Revenue Recognition

In the first quarter of 2018, the Company adopted ASU 2014-09 using the cumulative effect transition method for all

contracts. There was no transition impact on the Condensed Consolidated Financial Statements from the adoption of this ASU. The Company earns revenues from consideration specified in contracts with customers and recognizes revenue when it satisfies its performance obligations by transferring control over its services and products to customers. The following is a description of the principal activities, separated by reporting segments, from which the Company generates revenues. For more information about the Company's reporting segments, see Note 14 — Segment Information.

Global Funds Transfer Segment

Money transfer fee revenue — The Company earns money transfer revenues primarily from consumer transaction fees and the management of currency exchange spreads on money transfer transactions involving different “send” and “receive” currencies. Fees are collected from consumers at the time of transaction. In a cash-to-cash money transfer transaction, both the agent initiating the transaction and the receiving agent earn a commission that is generally a fixed fee or is based on a percentage of the fee charged

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to the consumer. When a money transfer transaction is initiated at a MoneyGram-owned store, full-service kiosk or via our online platform, typically only the receiving agent earns a commission. Each money transfer is considered a separate agreement between the Company and the consumer and includes only one performance obligation that is satisfied at a point in time, which is when the funds are made available for pick up. Money transfer funds are typically available for pick up within 24 hours of being sent. The consumer is in control of the service, as the consumer picks the "send" and "receive" locations as well as the transaction currency. Normally, the Company provides fee refunds to consumers only if the transaction is canceled within 30 minutes of initiating the transfer and the transfer amount has not been picked up by the receiver. As such, fee refunds are accounted for within the same period as the origination of the transaction and no liability for the amount of expected returns is recorded on the Condensed Consolidated Balance Sheets. The Company recognizes revenues on a gross basis for money transfer services as the Company is considered the principal in these transactions.

Bill payment services fee revenue — Bill payment revenues are earned primarily from fees charged to consumers for each transaction completed. Our primary bill payment service offering is our ExpressPayment service, which we offer at substantially all of our money transfer agent and Company-operated locations in the U.S., Canada and Puerto Rico, at certain agent locations in select Caribbean and European countries and through our Digital solutions. Through our bill payment services, consumers can complete urgent bill payments, pay routine bills, or load and reload prepaid debit cards with cash at an agent location, Company-operated locations or through moneygram.com with a credit or debit card. We offer consumers same-day and two or three-day payment service options; the service option is dependent upon our agreement with the biller. Each bill payment service is considered a separate agreement with the consumer and includes only one performance obligation that is satisfied at a point in time, when the funds are transferred to the designated institution, which is generally within the same day. The consumer is in control of the service, as the consumer picks out the "send" location and time. MoneyGram does not offer refunds for bill payment services and revenue is recognized on a gross basis as the Company is considered the principal in these transactions.

Other revenue — Includes breakage income, fees from royalties, early contract terminations, insufficient funds and other one-time charges. The Company recognizes breakage revenue for unclaimed money transfers when the likelihood of consumer pick-up becomes remote based on historical experience and there is no requirement for remitting balances to government agencies.

Financial Paper Products Segment

Money order fee revenue — Consumers use our money orders to make payments in lieu of cash or personal checks. We generate revenue from money orders by charging per item and other fees, as well as from the investment of funds underlying outstanding money orders. The Company contracts with agents and/or financial institutions for this product and associated services. We sell money orders under the MoneyGram brand and on a private label or on a co-branded basis with certain agents and financial institutions in the U.S. The Company recognizes revenue when an agent sells a money order because the funds are immediately made available to the consumer. As such, each sale of a money order and related service is considered a separate performance obligation that is satisfied at a point in time.

Official check outsourcing services fee revenue — Official checks are used by consumers where a payee requires a check drawn on a bank. Financial institutions also use official checks to pay their own obligations. Similar to money orders, the Company generates revenue from official check outsourcing services through U.S. banks and credit unions by charging per item and other fees, as well as from the investment of funds underlying outstanding official checks. The Company's consumer for official checks is considered the financial institution. The official checks services and products are considered a bundle of services and products that are provided to the financial institution on an ongoing basis. As such, revenue from these services is recognized on a monthly basis. Revenue corresponds directly with the value of MoneyGram's services and/or products completed to date and for which the Company has a right to invoice. Monthly revenue may vary based on the number of official checks issued and other ancillary services provided to the financial institution.

Other revenue — Includes fees from money order service revenue, proof adjustments, early contract terminations, money order photo and replacement fees and other one-time charges. The Company recognizes service revenue from money orders that have not been redeemed within a one year period from issuance. Proof adjustment fees are generally unresolved and not recouped as they pertain to immaterial bank variances. The Company recognizes as

revenue the net proof adjustments amount on a monthly basis.

Investment Revenue

Investment revenue, which is not within the scope of Topic 606 per ASC 606-10-15-2, is earned from the investment of funds generated from the sale of payment instruments, primarily official checks and money orders, and consists of interest income, dividend income, income received on our cost recovery securities and amortization of premiums and discounts. Investment revenue varies depending on the level of investment balances and the yield on our investments.

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In the following table, revenue is disaggregated by services and products for each segment and timing of revenue recognition for such services and products excluding other revenue:

(Amounts in millions)	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Global Funds Transfer revenue				
Money transfer fee revenue	\$323.8	\$353.6	\$654.4	\$692.1
Bill payment services fee revenue	19.5	20.7	40.3	45.8
Other revenue	5.9	3.3	11.9	6.5
Total Global Funds Transfer fee and other revenue	349.2	377.6	706.6	744.4
Financial Paper Products revenue				
Money order fee revenue	2.9	3.3	6.0	6.8
Official check outsourcing services fee revenue	2.4	2.5	4.6	4.9
Other revenue	8.0	7.7	15.4	15.3
Total Financial Paper Products fee and other revenue	13.3	13.5	26.0	27.0
Investment revenue	12.1	18.9	22.0	24.7
Total revenue	\$374.6	\$410.0	\$754.6	\$796.1
Timing of revenue recognition:				
Services and products transferred at a point in time	\$346.2	\$377.6	\$700.7	\$744.7
Products transferred over time	2.4	2.5	4.6	4.9
Total revenue from services and products	348.6	380.1	705.3	749.6
Investment revenue				