MONEYGRAM INTERNATIONAL INC
Form 10-Q
May 12, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(mark one)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2008**

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________________to____________________ .**

Commission File Number: 001-31950
MONEYGRAM INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-1690064 (I.R.S. Employer Identification No.)
1550 Utica Avenue South, Suite 100, Minneapolis, Minnesota (Address of principal executive offices)	55416 (Zip Code)

(952) 591-3000
(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 þ No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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 5, 2008, 82,598,434 shares of Common Stock, $0.01 par value, were outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements
	Consolidated Balance Sheets
	Consolidated Statements of (Loss) Income
	Consolidated Statements of Comprehensive (Loss) Income
	Consolidated Statements of Cash Flows
	Consolidated Statements of Stockholders Deficit
	Notes to Consolidated Financial Statements
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings
Item 1A.	Risk Factors
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 6.	Exhibits
Signatures	
Exhibit Index	

Form of Employee Trade Secret, Confidential Information and Post-Employment Restriction Agreement
Section 302 Certification of Chief Executive Officer
Section 302 Certification of Chief Financial Officer
Section 906 Certification of Chief Executive Officer
Section 906 Certification of Chief Financial Officer

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
UNAUDITED

	March 31, 2008	December 31, 2007
(Amounts in thousands, except share data)		
ASSETS		
Cash and cash equivalents	$	$
Cash and cash equivalents (substantially restricted)	4,654,341	1,552,949
Receivables, net (substantially restricted)	1,783,241	1,408,220
Trading investments (substantially restricted)	56,413	62,105
Available for sale investments (substantially restricted)	541,053	4,187,384
Property and equipment	163,148	171,008
Derivative financial instruments		1,647
Intangible assets	16,460	17,605
Goodwill	438,839	438,839
Other assets	173,860	95,254
Total assets	$7,827,355	$7,935,011
LIABILITIES		
Payment service obligations	$6,656,163	$7,762,470
Debt	978,789	345,000
Derivative financial instruments	63,224	30,370
Pension and other postretirement benefits	87,887	85,451
Deferred tax liabilities	17,087	11,459
Accounts payable and other liabilities	156,729	188,778
Total liabilities	7,959,879	8,423,528
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
MEZZANINE EQUITY		
Participating Convertible Preferred Stock-Series B, $0.01 par value, 800,000 shares authorized, 495,000 shares issued and outstanding	458,538	
Participating Convertible Preferred Stock-Series B-1, $0.01 par value, 500,000 shares authorized, 272,500 shares issued and outstanding	255,963	
STOCKHOLDERS DEFICIT		
Preferred shares undesignated, $0.01 par value, 5,000,000 authorized, none issued		
Preferred shares junior participating, $0.01 par value, 2,000,000 authorized, none issued		
Common shares, $0.01 par value, 250,000,000 shares authorized, 88,556,077 shares issued	886	886

Additional paid-in capital	72,557	73,077
Retained loss	(748,724)	(387,479)
Unearned employee benefits	(1,994)	(3,280)
Accumulated other comprehensive loss	(18,786)	(21,715)
Treasury stock: 5,962,493 and 5,910,458 shares at March 31, 2008 and December 31, 2007, respectively	(150,964)	(150,006)
Total stockholders deficit	(847,025)	(488,517)
Total liabilities, mezzanine equity and stockholders deficit	$7,827,355	$7,935,011

See Notes to Consolidated Financial Statements

3

Table of Contents

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

THREE MONTHS ENDED MARCH 31,	**2008**	**2007**
(Amounts in thousands, except per share data)		
REVENUE		
Fee and other revenue	$ 262,797	$213,133
Investment revenue	61,565	96,054
Net securities (losses) gains	(307,300)	864
Total revenue	17,062	310,051
Fee commissions expense	117,232	90,012
Investment commissions expense	96,889	62,248
Total commissions expense	214,121	152,260
Net (losses) revenue	(197,059)	157,791
EXPENSES		
Compensation and benefits	52,299	50,031
Transaction and operations support	52,029	39,614
Depreciation and amortization	14,218	11,680
Occupancy, equipment and supplies	11,222	10,417
Interest expense	14,789	1,958
Debt extinguishment loss	1,499	
Total expenses	146,056	113,700
(Loss) income before income taxes	(343,115)	44,091
Income tax expense	17,740	14,252
NET (LOSS) INCOME	$(360,855)	$ 29,839
Basic (loss) earnings per common share	$ (4.40)	$ 0.36
Diluted (loss) earnings per common share	$ (4.40)	$ 0.35
Net (loss) income as reported	$(360,855)	$ 29,839
Preferred stock dividends	(1,822)	
(Loss) earnings allocated to preferred stockholders		
(Loss) income available to common stockholders	$(362,677)	$ 29,839
Average outstanding common shares	82,430	83,469
Additional dilutive shares related to stock-based compensation		1,323
Additional dilutive shares related to preferred stock		

Average outstanding and potentially dilutive common shares	82,430	84,792

See Notes to Consolidated Financial Statements

Table of Contents

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

THREE MONTHS ENDED MARCH 31,	**2008**	**2007**
(Amounts in thousands)		
NET (LOSS) INCOME	$(360,855)	$ 29,839
OTHER COMPREHENSIVE (LOSS) INCOME		
Net unrealized (losses) on available-for-sale securities:		
Net holding gains (losses) arising during the period, net of tax expense (benefit) of $5,757 and ($8,891), respectively	9,393	(14,504)
Reclassification adjustment for net realized (gains) included in net income, net of tax expense of ($15,043) and ($328), respectively	(24,544)	(536)
	(15,151)	(15,040)
Net unrealized gains (losses) on derivative financial instruments:		
Net holding (losses) arising during the period, net of tax (benefit) of ($685) and ($1,630), respectively	(1,117)	(2,658)
Reclassification adjustment for net unrealized losses (gains) included in net income, net of tax benefit (expense) of $10,998 and ($1,828), respectively	17,944	(2,982)
	16,827	(5,640)
Prior service costs for pension and postretirement benefit plans:		
Reclassification of prior service costs for pension and postretirement benefit plans recorded to net income, net of tax benefit of $7 and $18, respectively	12	29
Net actuarial loss for pension and postretirement benefit plans:		
Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax benefit of $241 and $417, respectively	393	662
Unrealized foreign currency translation gains, net of tax expense of $1,419 and $182, respectively	2,315	296
Other comprehensive income (loss)	4,396	(19,693)
COMPREHENSIVE (LOSS) INCOME	$(356,459)	$ 10,146

See Notes to Consolidated Financial Statements

Table of Contents

MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

THREE MONTHS ENDED MARCH 31,	**2008**	**2007**
(Amounts in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (360,855)	$ 29,839
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Investment impairment charges	45,274	978
Net loss (gain) on sale of investments	256,334	(1,842)
Unrealized losses on trading investments	5,692	
Net amortization of investment premiums and discounts	(271)	(3,682)
Unrealized losses on interest rate swaps	63,224	
Depreciation and amortization	14,218	11,680
Provision for uncollectible receivables	3,024	1,909
Non-cash compensation and pension expense	1,726	1,261
Changes in foreign currency translation adjustments	2,315	296
Other non-cash items, net	(2,979)	2,087
Change in other assets	(28,473)	3,609
Change in accounts payable and other liabilities	(17,760)	(7,806)
Total adjustments	342,324	8,490
Change in cash and cash equivalents (substantially restricted)	(3,101,381)	(296,356)
Change in trading investments, net (substantially restricted)		38,500
Change in receivables, net (substantially restricted)	(378,046)	157,119
Change in payment service obligations	(1,106,307)	(80,032)
Net cash used in continuing operating activities	(4,604,265)	(142,440)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments classified as available-for-sale	2,896,011	309,575
Proceeds from maturities of investments classified as available-for-sale	420,085	201,821
Purchases of investments classified as available-for-sale		(336,785)
Purchases of property and equipment	(5,554)	(14,929)
Cash paid for acquisitions and divestitures		(55)
Net cash provided by investing activities	3,310,542	159,627
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	733,750	
Transaction costs for issuance or amendment of debt	(47,805)	
Payment on revolving facility	(100,000)	
Proceeds from issuance of preferred stock	760,000	
Transaction costs for issuance of preferred stock	(52,222)	
Proceeds and tax benefit from exercise of share based compensation		1,772
Purchase of treasury stock		(14,733)
Cash dividends paid		(4,226)

Net cash provided by (used in) financing activities	1,293,723	(17,187)
NET CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS Beginning of period		
CASH AND CASH EQUIVALENTS End of period	$	$

See Notes to Consolidated Financial Statements

Table of Contents

MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT
UNAUDITED

(Amounts in thousands, except share data)	Common Stock	Additional Capital	Retained Loss	Unearned Employee Benefits and Other	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
December 31, 2007	$886	$73,077	$(387,479)	$(3,280)	$(21,715)	$(150,006)	$(488,517)
Cumulative adjustment for SFAS No. 158 - change of measurement date			(390)		(1,467)		(1,857)
Net loss			(360,855)				(360,855)
Dividends on B and B-1 Preferred Stock		(1,822)					(1,822)
Employee benefit plans		1,302		1,286		(958)	1,630
Unrealized foreign currency translation adjustment					2,315		2,315
Unrealized loss on available-for-sale securities					(15,151)		(15,151)
Unrealized gain on derivative financial instruments					16,827		16,827
Amortization of prior service cost for pension and postretirement benefits, net of tax					12		12
Amortization of unrealized losses on pension and postretirement benefits, net of tax					393		393
March 31, 2008	$886	$72,557	$(748,724)	$(1,994)	$(18,786)	$(150,964)	$(847,025)

See Notes to Consolidated Financial Statements

Table of Contents

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of MoneyGram International, Inc. (MoneyGram or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the first quarter ended March 31, 2008 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, 2007.

2. Capital Transaction

The Company completed a capital transaction on March 25, 2008 pursuant to which the Company received $1.5 billion of gross equity and debt capital (the Capital Transaction) to support the long-term needs of the business and provide necessary capital due to the Company s investment portfolio losses described in Note 4 *Investments (Substantially Restricted).* The net proceeds of the Capital Transaction have been invested in cash and cash equivalents to supplement the Company s unrestricted assets. In connection with the Capital Transaction, the Company capitalized $107.5 million of transaction costs, including $7.5 million of costs paid through the issuance of non-voting Series B-1 Participating Convertible Preferred Stock (the Series B-1 Preferred Stock). See Note 9 *Mezzanine Equity* and Note 12 *Debt* for further information regarding transaction costs.

Equity Capital The equity component of the Capital Transaction consisted of the private placement of 495,000 shares of Series B Participating Convertible Preferred Stock (the Series B Preferred Stock and together with the Series B-1 Preferred Stock, the Series B Stock) and 265,000 shares of Series B-1 Preferred Stock to affiliates of Thomas H. Lee Partners, L.P. (THL) and affiliates of Goldman, Sachs & Co. (Goldman Sachs, and collectively, the Investors) for an aggregate gross purchase price of $760.0 million. As a result of the issuance of the Series B Stock, the Investors have an equity interest of approximately 79 percent. See Note 9 *Mezzanine Equity* for further information regarding the Series B Stock.

Senior Facility As part of the Capital Transaction, the Company s wholly owned subsidiary MoneyGram Payment Systems Worldwide, Inc. (Worldwide) entered into a senior credit facility (the Senior Facility) of $600.0 million with various lenders and JPMorgan Chase Bank, N.A. (JPMorgan), as Administrative Agent for the lenders. The Senior Facility amended and restated the $350.0 million Amended and Restated Credit Agreement, dated as of June 29, 2005, and includes an additional $250.0 million term loan. In connection with this transaction, the Company terminated its $150.0 million 364-Day Credit Agreement with JPMorgan. See Note 12 *Debt* for further information regarding the Senior Facility.

Second Lien Notes As part of the Capital Transaction, Worldwide issued $500.0 million of senior secured second lien notes to Goldman Sachs (the Notes), which will mature in March 2018. See Note 12 *Debt* for further information on the Company s outstanding debt as of March 31, 2008.

Participation Agreement between the Investors and Wal-Mart Stores, Inc. On February 11, 2008, the Investors entered into a Participation Agreement (as amended on March 17, 2008) with Wal-Mart Stores, Inc. (Wal-Mart) in connection with the Capital Transaction. The Company is not a party to the Participation Agreement, which was negotiated solely between the Investors and Wal-Mart. Under the terms of the Participation Agreement, each Investor is obligated to pay Wal-Mart certain percentages of accumulated cash payments received by the Investor in excess of the Investor s original investment in the Company. Cash payments include dividends paid by the Company to the Investor and any cash payments received by the Investor in connection with the sale of any shares of the Company s stock to an unaffiliated third party. Wal-Mart, in its sole discretion, may elect to receive their payments in cash or equivalent shares of stock held by the Investors. In addition, through March 17, 2010, the Investors must receive Wal-Mart s consent prior to voting in favor of, consenting to, or selling shares in a transaction that would cause a change in control of the Company, as defined by the Participation Agreement.

The Company has no obligation to Wal-Mart or additional obligations to the Investors under the terms of the Participation Agreement. In accordance with SAB Topic 5-T, *Accounting for Expenses or Liabilities Paid by Principal Stockholders*, the Company will recognize the fair value of the Participation Agreement as an increase to Additional paid-in capital in the Consolidated Balance Sheets and Commissions expense in the Consolidated Income Statements on a straight-line basis. Given the timing of the Capital Transaction, the impact of the Participation Agreement on the Company s consolidated financial statements was immaterial for the three months ended March 31, 2008.

Table of Contents

3. Unrestricted Assets

The Company is regulated by various state agencies that generally require the Company to maintain liquid assets and investments with an investment rating of A or higher in an amount generally equal to the payment service obligations (PSO) for those regulated payment instruments, namely teller checks, agent checks, money orders and money transfers. The regulatory requirements are similar to, but less restrictive than, the Company s unrestricted assets measure. The regulatory PSO measure varies by state, but in all cases is substantially lower than the Company s PSO as disclosed in the Consolidated Balance Sheets as the Company is not regulated by state agencies for PSO resulting from outstanding cashier s checks or for amounts payable to agents and brokers. Consequently, a significant amount of cash and cash equivalents, receivables and investments are restricted to satisfy the liability to pay the face amount of regulated PSO upon presentment. The Company is not regulated by state agencies for PSO resulting from outstanding cashier s checks; however, the Company restricts a portion of the funds related to these payment instruments due to contractual arrangements and Company policy. Assets restricted for regulatory or contractual reasons are not available to satisfy working capital or other financing requirements. The regulatory and contractual requirements do not require the Company to specify individual assets held to meet the Company s PSO, nor is the Company required to deposit specific assets into a trust, escrow or other special account. Rather, the Company must maintain a pool of liquid assets. Provided the Company maintains a total pool of liquid assets sufficient to meet its regulatory and contractual requirements, the Company is able to withdraw, deposit or sell its individual liquid assets at will with no prior notice, penalty or limitations.

Regulatory requirements also require MoneyGram Payment Systems, Inc.(MPSI), a wholly owned subsidiary of MoneyGram and the licensed entity of the Company, to maintain positive net worth, with one state also requiring that MPSI maintain positive tangible net worth. As of March 31, 2008, the Company was in compliance with regulatory requirements for all states.

The Company has unrestricted cash and cash equivalents, receivables and investments to the extent those assets exceed all payment service obligations. These amounts are generally available; however, management considers a portion of these amounts as providing additional assurance that regulatory requirements are maintained. The following table shows the total amount of unrestricted assets at March 31, 2008 and December 31, 2007, respectively. The Company had a shortfall in its unrestricted assets at December 31, 2007 due to the decline in the fair value of its investments. See Note 4 *Investments (Substantially Restricted)* for further information on the fair value of the Company s investments.

(Amounts in thousands)	**March 31, 2008**	**December 31, 2007**
Cash and cash equivalents	$ 4,654,341	$ 1,552,949
Receivables, net	1,783,241	1,408,220
Trading investments	56,413	62,105
Available-for-sale investments	541,053	4,187,384
	7,035,048	7,210,658
Amounts restricted to cover payment service obligations	(6,656,163)	(7,762,470)
Excess (shortfall) in unrestricted assets	$ 378,885	$ (551,812)

4. Investments (Substantially Restricted)

The Company s portfolio is invested in cash and cash equivalents, trading investments and available-for-sale investments. During the first quarter of 2008, the Company commenced and completed a plan to realign its investment portfolio away from asset-backed securities and into highly liquid assets through the sale of a substantial portion of its available-for-sale portfolio. As a result of this realignment, substantially all of the portfolio is invested in cash and cash equivalents as of March 31, 2008. The following disclosures pertain solely to our trading investments and

available-for-sale investments.

Trading Investments Trading investments consist of auction rate securities (ARS), which are publicly issued securities with long-term stated maturities for which the interest rates are reset periodically through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. At March 31, 2008, the Company holds three AA rated ARS with a fair value of $56.4 million, contractual maturities in the year 2049 and auction dates typically every 28 days. The ARS are collateralized by commercial paper with a rating of A-1/P-1 and original maturities of less than 28 days, and are insured by monolines. In addition, the terms of the ARS held by the Company significantly limit the collateral concentrations in any single issuer or industry, as well as the amount of asset-backed commercial paper. As of March 31, 2008, all of the Company s ARS have had failed auctions due to sell orders exceeding buy orders.

These failures are not believed to be a credit issue, but rather caused by a lack of liquidity in the credit markets. Under the contractual terms, the issuer of the ARS is obligated to pay penalty rates should an auction fail. In addition, the monoline insurer has the right to replace the ARS securities with the insurer s preferred stock, which would effectively convert the Company s security into a long-term, less liquid investment. As of March 31, 2008, the monoline insurers have not exercised their put options. Due to the failed auctions and disruption in the credit markets, the Company recorded a loss on its ARS of $5.7 million in Net securities (losses) gains in the Consolidated Statements of Income during the quarter ended March 31, 2008.

Available-for-sale Investments After other-than-temporary impairment charges, the amortized cost and fair value of available-for-sale investments are as follows at March 31, 2008:

(Amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities-agencies	436,790	8,008	(2)	444,796
Other asset-backed securities	63,419	1,161		64,580
U.S. government agencies	29,577	2,100		31,677
Total	$529,786	$11,269	$ (2)	$541,053

In connection with the Company s realignment of its investment portfolio, the Company reclassified five securities that were previously included in Residential mortgage-backed securities to Other asset-backed securities during the first quarter of 2008. At March 31, 2008, these five securities had a fair value of $1.8 million and an unrealized gain of less than $0.1 million. At December 31, 2007, the Company had 81 securities of a similar nature with a fair value of $598.0 million and gross unrealized gains of $1.2 million. The classification of securities has not been revised in disclosures pertaining to December 31, 2007 as the reclassification is not representative of the Company s view of the investment portfolio as of December 31, 2007. After other-than-temporary impairment charges, the amortized cost and fair value of available-for-sale investments were as follows at December 31, 2007:

(Amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 574,124	$23,255	$	$ 597,379
Commercial mortgage-backed securities	250,726	3,097		253,823
Residential mortgage-backed securities	1,409,489	4,633	(2,170)	1,411,952
Other asset-backed securities	1,308,699	9,543		1,318,242
U.S. government agencies	373,173	1,768	(88)	374,853
Corporate debt securities	215,795	2,572		218,367
Preferred and common stock	12,768			12,768
Total	$4,144,774	$44,868	$(2,258)	$4,187,384

Gains, Losses and Other-Than-Temporary Impairments At March 31, 2008, net unrealized gains of $11.3 million are included in the Consolidated Balance Sheets in Accumulated other comprehensive loss. No deferred tax liability is currently recognized for the net unrealized gains due to the deferred tax position described in Note 8 *Income Taxes*. At December 31, 2007, net unrealized gains of $42.6 million ($26.4 million net of tax) are included in the Consolidated Balance Sheets in Accumulated other comprehensive loss. During the first quarter of 2008 and 2007, gains of $24.5 million and $0.5 million, respectively, were reclassified from Accumulated other comprehensive loss to

earnings in connection with the sale of the underlying securities.

Table of Contents

Gross realized gains and losses on sales of investments, using the specific identification method, and other-than-temporary impairments were as follows:

Three Months Ended March 31, *(Amounts in Thousands)*	**2008**	**2007**
Gross realized gains	$ 34,200	$ 3,793
Gross realized losses	(290,534)	(1,951)
Other-than-temporary impairments	(45,274)	(978)
Net securities (losses) gains from available-for-sale investments	(301,608)	864
Gross unrealized losses from trading investments	(5,692)	
Net securities (losses) gains	$(307,300)	$ 864

In the second half of 2007, particularly in late November and December 2007, the asset-backed securities and credit markets experienced substantial deterioration due to increasing concerns over defaults on mortgages and debt in general. This deterioration caused the market to demand higher risk premiums and liquidity discounts on asset-backed securities, resulting in substantial declines in the fair value of asset-backed securities. At the same time, the rating agencies conducted expansive reviews of securities, issuing broad rating downgrades. Under the terms of most asset-backed securities, ratings downgrades of collateral securities can reduce or eliminate the cash flows to all but the most senior investors, even if there have been no actual losses incurred by the collateral securities. Accumulating rating downgrades began to negatively impact the Company s securities in late November 2007.

As the Company commenced a plan to realign its portfolio during the first quarter of 2008, the Company determined that it no longer had the intent to hold substantially all of its investments classified as Obligations of states and political subdivisions, Commercial mortgage-backed securities, Residential mortgage-backed securities, Other asset-backed securities, Corporate debt securities and Preferred and common stock. The combination of deteriorating marketing conditions, ratings downgrades and the change in intent to hold securities resulted in the recognition of a $1.2 billion other-than-temporary impairment charge for the year ended December 31, 2007.

The Company completed its plan to realign its portfolio during the first quarter of 2008, resulting in the sale of securities with a fair value of $3.2 billion (after other-than-temporary impairment charges) at December 31, 2007 for proceeds of $2.9 billion and a net realized loss of $256.3 million. This net realized loss is the result of further deterioration in the markets during the first quarter of 2008 and the short timeframe over which the Company sold its securities. Proceeds from the sales of $2.9 billion were reinvested in cash and cash equivalents. As described above, the Company also recognized a loss on its trading investments of $5.7 million during the first quarter of 2008. Due to the classification of these investments, the unrealized gains and losses are recognized in the Company s Consolidated Statements of (Loss) Income.

As the Company no longer has the intent to hold its remaining securities classified as Other asset-backed securities, the Company recognized an other-than-temporary impairment charge of $45.3 million during the first quarter of 2008. This charge is the result of the further deterioration in the market and accumulation of ratings downgrades during the first quarter of 2008.

Investment Ratings In rating the securities in its investment portfolio, the Company uses ratings from Moody s Investor Service (Moody s), Standard & Poors (S&P) and Fitch Ratings (Fitch). If the rating agencies have split ratings, the Company uses the highest rating from either Moody s or S&P for disclosure purposes. Securities issued or backed by U.S. government agencies are included in the AAA rating category. Investment grade is defined as a security having a Moody s equivalent rating of Aaa, Aa, A or Baa or an S&P or Fitch equivalent rating of AAA, AA, A or BBB.

During the fourth quarter of 2007, 123 securities held by the Company were downgraded by one or more rating agencies, with the majority of the downgrades occurring in November and December 2007. These downgrades

primarily related to securities classified by the Company as Other asset-backed securities. During the first quarter of 2008, 69 securities held by the Company were downgraded by one or more rating agencies. These downgrades primarily related to securities classified by the Company as Obligations of states and political subdivisions and Other asset-backed securities. At March 31, 2008 and December 31, 2007 the Company s investments consisted of the following ratings:

Table of Contents

	March 31, 2008			December 31, 2007		
(Amounts in thousands)	Number of Securities	Fair Value	% of Total Investments	Number of Securities	Fair Value	% of Total Investments
AAA, including U.S. agencies	47	$479,555	89%	287	$2,410,548	58%
AA	10	14,155	2%	172	944,804	22%
A	15	16,963	3%	134	668,120	16%
BBB	8	4,263	1%	11	41,701	1%
Below investment grade	54	26,117	5%	66	122,211	3%
Total	134	$541,053	100%	670	$4,187,384	100%

Had the Company used the lowest rating from either Moody s or S&P in the information presented above, the value of investments rated A or better would have been reduced by $11.8 million and $32.2 million as of March 31, 2008 and December 31, 2007, respectively.

Contractual Maturities The amortized cost and fair value of available-for-sale securities at March 31, 2008, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations, sometimes without call or prepayment penalties. Maturities of mortgage-backed and other asset-backed securities depend on the repayment characteristics and experience of the underlying obligations.

(Amounts in thousands)	Amortized Cost	Fair Value
After one year through five years	4,003	4,078
After five years through ten years	25,573	27,599
Mortgage-backed and other asset-backed securities	500,210	509,376
Total	$529,786	$541,053

Direct Exposure to Sub-prime Mortgages As of March 31, 2008, the Company holds eight securities with a fair value of $7.1 million in its Other asset-backed securities that have direct exposure to sub-prime mortgages as collateral. Nearly all of these securities had investment grade ratings. Of the Company s $7.1 million direct exposure to sub-prime mortgages, $2.9 million relates to sub-prime mortgages originated prior to 2006.

Indirect Exposure to Sub-prime Mortgages As of March 31, 2008, the Company holds 67 collateralized debt obligations (CDOs) with a fair value of $40.4 million in its Other asset-backed securities which have indirect exposure to sub-prime mortgages through collateral pools that may include sub-prime mortgages of various vintages. Of this amount, $5.3 million is comprised of high grade CDOs having collateral with an A- or better average rating at purchase, while $23.5 million is comprised of mezzanine CDOs having collateral with a BBB/BBB- or better average rating at purchase.

Assessment of Unrealized Losses At March 31, 2008, the Company had less than $0.1 million of unrealized losses from its available-for-sale investments. These unrealized losses relate to Residential mortgage-backed securities agencies and are aged less than 12 months. At December 31, 2007, the available-for-sale investments had the following aged unrealized losses after the recognition of other-than-temporary impairment charges:

Less than 12 months	12 months or More	Total

(Amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Residential mortgage-backed securities agencies	$30,720	$(502)	$153,919	$(1,668)	$184,639	$(2,170)
U.S. government agencies			111,430	(88)	111,430	(88)
Total	$30,720	$(502)	$265,349	$(1,756)	$296,069	$(2,258)

The Company has determined that the unrealized losses reflected above represent temporary impairments. As of March 31, 2008, no securities had unrealized losses for more than 12 months, while 20 securities had unrealized losses for more than 12 months at December 31, 2007. All securities in an unrealized loss position for more than 12 months at both March 31, 2008 and December 31, 2007 are rated AAA and either issued by U.S. government agencies or collateralized by securities issued by U.S. government agencies. As these securities have the implied backing of the U.S. government, the Company believes it is highly likely that it will receive all of its contractual cash flows from these securities. The Company believes that the unrealized losses are caused by changes in interest rates from the date the securities were originally issued. The Company has the intent and ability to hold these securities to recovery, including maturity or call.

Table of Contents

5. Derivative Financial Instruments

The notional amount of the Company s interest rate swap agreements totaled $1.3 billion and $1.4 billion at March 31, 2008 and December 31, 2007, respectively, with an average fixed pay rate of 4.3 percent at both March 31, 2008 and December 31, 2007, and an average variable receive rate of 2.6 percent and 4.2 percent at March 31, 2008 and December 31, 2007, respectively. The variable rate portion of the swaps is generally based on federal funds or LIBOR. As the swap payments are settled, the net difference between the fixed amount the Company pays and the variable amount the Company receives is reflected in the Consolidated Statements of (Loss) Income in Investment commissions expense and Interest expense, depending upon the item being hedged.

The Company used interest rate swaps to hedge the variability of cash flows from its floating rate debt and floating rate commission payments to financial institution customers of the Payment Systems segment, primarily relating to the official check product. The Company terminated, or is in the process of terminating, certain of its financial institution customer relationships in connection with its restructuring of the official check business initiated in the first quarter of 2008. The restructuring resulted in the recognition of a $57.0 million loss on its commissions swaps during the first quarter of 2008 as the forecasted commission payments being hedged will no longer occur. This loss is recorded in Investment commissions expense in the Consolidated Statements of (Loss) Income. Additionally, as described in Note 12 *Debt*, the Company s Senior Facility was deemed extinguished as a result of the modifications made to the Senior Facility in connection with the Capital Transaction. As a result, the Company recognized $6.2 million of loss on its debt interest rate swaps during the first quarter of 2008. This loss is recorded in Interest expense in the Consolidated Statements of (Loss) Income. The combined loss of $63.2 million represents the full liability balance of the Company s swaps as of March 31, 2008.

6. Fair Value Measurement

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement,* which:

- defines fair value 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;
- establishes a three-level hierarchy for fair value measurements based upon the observability of the inputs to the valuation of an asset or liability as of the measurement date;
- requires that the use of observable inputs be maximized and the use of unobservable inputs be minimized; and
- expands disclosures about instruments measured at fair value.

The adoption of SFAS No. 157 had no impact on the Company s Consolidated Financial Statements or the valuation methods consistently followed by the Company.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). A financial instrument s level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The levels of the fair value hierarchy are defined as follows:

Level 1 Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company s financial instruments categorized as Level 1 relate to cash equivalents.

Level 2 Observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active, and inputs that are directly observable or can be corroborated by observable market data. The Company s financial instruments categorized as Level 2 relate to U.S. government agency investments, residential mortgage-backed securities collateralized by U.S. government agency investments, obligations of state and political subdivisions, corporate debt and derivative instruments.

Level 3 Valuations that require inputs that are both significant to the fair value measurement and unobservable. The Company s financial instruments categorized as Level 3 relate to auction rate securities, commercial mortgage-backed securities, residential mortgage-backed securities other than those categorized as Level 2, other asset-backed securities, preferred stock and investments in limited partnerships.

Table of Contents

Following is a description of the Company s valuation methodologies for assets and liabilities measured at fair value:
Cash equivalents Cash equivalents recorded at fair value are classified as Level 1 as they are valued using unadjusted quoted market pricing in active markets.
Investments - Trading and available-for-sale investments are valued using quoted market prices for identical or similar securities where possible, including broker quotations. If market quotes are not available, or broker quotes could not be corroborated by market observable data, the Company will value an investment using a pricing service and externally developed cash flow models.
For U.S. government agencies, residential mortgage-backed securities collateralized by U.S. government agency securities, obligations of states and political subdivisions and corporate debt, fair value measures are generally obtained from independent sources, including a pricing service. As market quotes are generally not readily available or accessible for these specific securities, the pricing service generally measures fair value through the use of pricing models and observable inputs for similar assets and market data. Accordingly, these securities are classified as Level 2 financial instruments. The Company periodically corroborates the valuations provided by the pricing service through internal valuations utilizing externally developed cash flow models, comparison to actual transaction prices for sold securities and any broker quotations received on the same security.
For commercial mortgage-backed securities, residential mortgage-backed securities, other asset-backed securities, preferred stock and investments in limited partnerships, market quotes are generally not available. If available, the Company will utilize a fair value measurement from a pricing service. The pricing service utilizes a pricing model based on market observable data and indices, such as quotes for comparable securities, yield curves, default indices, interest rates and historical prepayment speeds. If a fair value measurement is not available from the pricing service, the Company will utilize a broker quotation if available. Due to a general lack of transparency in the process that the brokers use to develop prices, most valuations that are based on brokers prices are classified as Level 3. If no broker quotation is available, or if such quotation cannot be corroborated by market data or internal valuations, the Company will perform internal valuations utilizing externally developed cash flow models. These pricing models are based on market observable spreads and, when available, observable market indices. The pricing models also use inputs such as the rate of future prepayments and expected default rates on the principal, which are derived by the Company based on the characteristics of the underlying structure and historical prepayment speeds experienced at the interest rate levels projected for the underlying collateral. The pricing models for certain asset-backed securities also include significant non-observable inputs such as internally assessed credit ratings for non-rated securities combined with externally provided credit spreads. Observability of market inputs to the valuation models used for pricing certain of the Company s investments has deteriorated with the disruption to the credit markets as overall liquidity and trading activity in these sectors has been substantially reduced. Accordingly, securities valued using a pricing model are classified as Level 3 financial instruments as of March 31, 2008.
Derivatives Derivatives consist of interest rate swaps and foreign currency forward contracts. As the Company s derivatives are not exchange traded, the valuations are determined using pricing models with inputs that are observable in the market or that can be derived principally from, or corroborated by, observable market data. The Company s derivatives are well-established products, allowing the use of pricing models that are widely accepted in the industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility and the credit quality of the counterparty. Further, these models do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgment and the inputs are readily observable. Accordingly, the Company s derivatives are classified as Level 2 financial instruments.

Table of Contents

Following are the Company s financial instruments which are recorded at fair value, by caption on the Consolidated Balance Sheet and by SFAS No. 157 hierarchy level, as of March 31, 2008:

(Amounts in thousands)	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash equivalents (substantially restricted)	$605,123	$	$	$ 605,123
Trading Investments (substantially restricted)			56,413	56,413
Available-for-sale investments (substantially restricted)				
U.S. government agencies		31,677		31,677
Residential mortgage-backed securities agencies		444,796		444,796
Other asset-backed securities			64,580	64,580
Total Financial Assets	$605,123	$476,473	$120,993	$1,202,589
Financial Liabilities				
Derivative financial instruments	$	$ (63,224)	$	$ (63,224)

The amount shown in the above table as Cash equivalents does not reflect the entire balance in the Cash and cash equivalents line in the Consolidated Balance Sheets as a substantial portion of our cash and cash equivalents are carried at historical cost due to the nature of the assets. The table below provides a roll-forward of the assets classified in Level 3 which are measured at fair value on a recurring basis.

(Amounts in thousands)	Trading Investments (substantially restricted)	Available for Sale Investments (substantially restricted)	Total Level 3 Financial Assets
Balance, January 1, 2008	$62,105	$ 2,478,832	$ 2,540,937
Sales and settlements		(2,355,014)	(2,355,014)
Realized losses		(13,760)	(13,760)
Other-than-temporary impairments		(45,478)	(45,478)
Unrealized losses relating to instruments still held at the reporting date	(5,692)		(5,692)
Balance, March 31, 2008	$56,413	$ 64,580	$ 120,993

7. Sale of Receivables

The Company had an agreement to sell undivided percentage ownership interests in certain receivables, primarily from our money order agents. In December 2007, the Company decided to cease selling receivables through a gradual reduction in the balances sold each period. In January 2008, the Company terminated the facility at its discretion. Accordingly, there is no balance of sold receivables as of March 31, 2008. The balance of sold receivables as of December 31, 2007 was $239.0 million. The average receivables sold approximated $14.8 million and $370.1 million

during the first quarter of 2008 and 2007, respectively. The expense of selling the agent receivables is included in the Consolidated Statements of (Loss) Income in Investment commissions expense and totaled $0.2 million and $6.1 million for the first quarter of 2008 and 2007, respectively.

8. Income Taxes

In the first quarter of 2008, we had $17.7 million of tax expense on a pre-tax loss of $343.1 million resulting in a negative effective income tax rate of 5.17 percent. The effective income tax rate was 32.3 percent in the first quarter of 2007. The effective income tax rate in the first quarter of 2008 reflects a deferred tax asset valuation allowance of $16.1 million recorded in the first quarter of 2008 relating to other-than-temporary impairment charges on securities. Due to the amount and characterization of losses, the Company determined that it was not more likely than not that the deferred tax assets related to the losses will be realized as of March 31, 2008. The Company is continuing to evaluate available tax positions related to the net securities losses, which may result in future tax benefits.

During the first quarter of 2008 and 2007, the Company recognized $0.6 million and $0.8 million in interest and penalties for unrecognized tax benefits, respectively, and are recorded in Income tax expense in the Consolidated Statements of (Loss) Income. As of March 31, 2008 and December 31, 2007, the Company had accrued approximately $7.0 million and $5.7 million, in interest and penalties, respectively, classified as Accounts payable and other liabilities in the Consolidated Balance Sheets.

9. Mezzanine Equity

Preferred Stock In connection with the Capital Transaction, the Company issued 495,000 shares of Series B Preferred Stock and 265,000 shares of Series B-1 Preferred Stock to THL and Goldman Sachs, respectively, for a purchase price of $495.0 million and $265.0 million, respectively. The Series B Preferred Stock is convertible into shares of common stock of the Company at a price of $2.50 per share, subject to adjustment. The Series B-1 Preferred Stock is convertible into Series B Preferred Stock by any stockholder other than Goldman Sachs. While held by Goldman Sachs, the Series B-1 Preferred Stock is convertible into Series D Preferred Stock, which is a non-voting common equivalent stock.

The Series B Stock pays a cash dividend of ten percent. At the Company s option, dividends may be accrued through March 25, 2013 at a rate of 12.5 percent in lieu of paying a cash dividend. If the Company is unable to pay the dividends in cash after March 25, 2013, dividends will accrue at a rate of 15 percent. The Company anticipates that it will accrue dividends on the Series B Stock for at least five years. While no dividends have been declared as of March 31, 2008, the Company has accrued dividends through a charge to additional paid-in capital as accumulated and unpaid dividends are included in the redemption price of the Series B Stock. The Series B Stock also participate in any dividends declared on the common stock on an as-converted basis.

The Series B Stock may be redeemed at the option of the Company after March 25, 2013 if the common stock trades above $15.00, subject to adjustment, for a period of thirty consecutive trading days. The Series B Stock will be redeemable at the option of the Investors after March 25, 2018 or upon a change of control. As of March 31, 2008, the Company believes that it is not probable that the Series B Stock will become redeemable as a) the contingencies for the change of control redemption option and the optional redemption by the Company are not met, and b) these two contingencies may occur prior to the ability of the Investors to exercise their option to redeem. The Series B Preferred Stock will vote as a class with the common stock of the Company, and will have a number of votes equal to (i) the number of shares of common stock issuable if all outstanding shares of Series B Preferred Stock were converted plus (ii) the number of shares of common stock issuable if all outstanding shares of Series B-1 Preferred Stock were converted into Series B Preferred Stock and subsequently converted into common stock.

The Series B Stock is recorded in the Company s Consolidated Balance Sheet as Mezzanine equity, as it has redemption features not solely within the Company s control. The Company capitalized transactions costs totaling $37.6 million and $17.2 million relating to the issuance of the Series B Preferred Stock and Series B-1 Preferred Stock, respectively, and has recognized these costs as a reduction of Mezzanine equity. In addition, the Company paid $7.5 million of capitalized transaction costs relating to the issuance of the Series B Stock and the Notes through the issuance of 7,500 shares of Series B-1 Preferred Stock to Goldman Sachs.

Following is a summary of mezzanine equity activity during the quarter ended March 31, 2008:

(Amounts in thousands, except share data)	**Series B Preferred Stock**	**Series B-1 Preferred Stock**
Balance at December 31, 2007	$	$
Issuance of shares	495,000	272,500
Transaction costs related to the issuance of shares	(37,649)	(17,172)
Dividends accrued	1,187	635
Balance at March 31, 2008	$458,538	$255,963

Registration Rights As part of the Capital Transaction, the Company entered into a Registration Rights Agreement with the Investors. Under the terms of the Registration Rights Agreement, after a specified holding period, the Company must promptly file a shelf registration statement with the Securities and Exchange Commission (SEC) relating to securities held by the Investors. The Company is generally obligated to keep the shelf registration statement effective for up to 15 years or, if earlier, until all the securities owned by the Investors have been sold. The Investors

are also entitled to five demand registrations and unlimited piggyback registrations.

10. Stockholders Deficit

Rights Agreement As part of the Capital Transaction, the Company amended its Rights Agreement with Wells Fargo Bank, N.A. as rights agent, to exempt the issuance of securities to the Investors and their affiliates from the Rights Agreement.

Table of Contents

Common Stock Following is a summary of common stock issued and outstanding:

(Amounts in thousands)	March 31, 2008	December 31, 2007
Common shares issued	88,556	88,556
Treasury stock	(5,962)	(5,911)
Restricted stock	(145)	(234)
Common shares outstanding	82,449	82,411

Under the terms of the equity instruments and debt issued in connection with the Capital Transaction, the Company is limited in its ability to pay dividends on our common stock. We do not anticipate declaring any dividends on our common stock during 2008.

Treasury Stock Following is a summary of treasury stock share activity during the quarter ended March 31, 2008:

(Amounts in thousands)	Treasury Stock Shares
Balance at December 31, 2007	5,911
Stock repurchases	
Issuance of stock for exercise of stock options and other stock compensation activity	(6)
Shares surrendered for withholding taxes upon release or forfeiture of restricted stock	57
Balance at March 31, 2008	5,962

Accumulated Other Comprehensive Loss The components of Accumulated other comprehensive loss include:

(Amounts in thousands)	March 31, 2008	December 31, 2007
Unrealized gain on securities classified as available-for-sale	$ 11,267	$ 26,418
Unrealized loss on derivative financial instruments	(2,518)	(19,345)
Cumulative foreign currency translation adjustments	4,644	2,329
Prior service cost for pension and postretirement benefits, net of tax	(588)	(603)
Unrealized losses on pension and postretirement benefits, net of tax	(31,591)	(30,514)
Accumulated other comprehensive loss	$(18,786)	$(21,715)

11. Pensions and Other Benefits

Net periodic pension benefit expense for the Company s defined benefit pension plan and the combined supplemental executive retirement plans (SERPs) and the defined benefit postretirement plans includes the following components:

	Pension and SERP s		Postretirement Benefits	
Three Months ended March 31,	**2008**	**2007**	**2008**	**2007**

(Amounts in thousands)				
Service cost	$ 326	$ 574	$135	$174
Interest cost	3,142	2,975	204	209
Expected return on plan assets	(2,577)	(2,521)		
Amortization of prior service cost	107	121	(88)	(74)
Recognized net actuarial loss	635	1,057		23
Net periodic pension cost	$ 1,633	$ 2,206	$251	$332

On January 1, 2008, the Company adopted a change in measurement date for its defined benefit pension plan and combined SERPs and the defined benefit postretirement plans in accordance with SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132.* The change in measurement date was adopted using the transition method of measuring its plan assets and benefit obligations as of January 1, 2008. Net periodic costs of $0.4 million for the period from the Company s current measurement dated of November 30, 2007 through January 1, 2008 were recognized as a separate adjustment to Retained loss, net of tax.

Changes in the fair value of the plan assets and benefit obligation for this period were recognized as an adjustment of $1.5 million to the opening balance of Accumulated other comprehensive loss in 2008.
Benefits paid through the defined benefit pension plan and the combined SERPs were $4.0 million and $4.1 million during the first quarter of 2008 and 2007, respectively. No contributions were made to the defined benefit pension plan during the first quarter of 2008 or 2007. The Company made contributions to the combined SERPs totaling $0.9 million during the first quarter of 2008 and 2007, respectively. Benefits paid through, and contributions made to, the defined benefit postretirement plans were less than $0.1 million during the first quarter of 2008 and 2007.
The net loss and prior service cost for the defined benefit pension plan and SERPs that the Company amortized from Accumulated other comprehensive loss into Net periodic benefit expense was $0.6 million ($0.4 million, net of tax) and $0.1 million (less than $0.1 million, net of tax), respectively, during the first quarter of 2008, compared to $1.1 million ($0.7 million, net of tax) and $0.1 million (less than $0.1 million, net of tax), respectively, during the first quarter of 2007. The net loss and prior service credit amortized from Accumulated other comprehensive loss into Net periodic benefit expense for the defined benefit postretirement plans was less than $0.1 million for both the first quarter of 2008 and 2007.
Contribution expense for the 401(k) defined contribution plan totaled $1.0 million and $0.8 million for the first quarter of 2008 and 2007, respectively. In addition, the Company made discretionary profit sharing contributions to the 401(k) defined contribution plan totaling $2.0 million and $2.5 million during the first quarter of 2008 and 2007, respectively.

12. Debt

Following is a summary of outstanding debt as of:

	March 31, 2008		December 31, 2007	
(Amounts in thousands)	**Amount**	**Weighted Average Interest Rate**	**Amount**	**Weighted Average Interest Rate**
Senior Tranche A Loan, due 2013	$100,000	8.03%	$	
Senior term loan extinguished			100,000	5.91%
Senior Tranche B Loan, net of unamortized discount, due 2013	233,789	8.36%		
Senior revolving credit facility, due 2013	145,000	6.73%	245,000	5.85%
Second lien notes, due 2018	500,000	13.25%		
Total debt	$978,789		$345,000	

Senior Facility As part of the Capital Transaction, Worldwide entered into the Senior Facility (as defined in Note 2 *Capital Transaction*) of $600.0 million on March 25, 2008 with various lenders and JPMorgan, as Administrative Agent for the lenders. The Senior Facility amended and restated the $350.0 million Amended and Restated Credit Agreement, dated as of June 29, 2005. The Senior Facility is comprised of a $100.0 million tranche A term loan (Tranche A), a $250.0 million tranche B term loan (Tranche B) and a $250.0 million revolving credit facility, each of which matures in March 2013. Tranche B was issued by the Company at a discount of 93.5 percent, or $16.3 million, which was recorded as a reduction to the carrying value of Tranche B and will be amortized over the life of the debt using the effective interest method. A portion of the proceeds from the issuance of Tranche B were used to repay $100.0 million of the revolving credit facility on March 25, 2008. As of March 31, 2008, the Company has $100.4 million of availability under the revolving credit facility.
The interest rate applicable to each of Tranche A and the revolving credit facility is the Eurodollar rate plus 350 basis points. The interest rate applicable to Tranche B is the Eurodollar rate plus 500 basis points. Fees on the daily unused availability under the revolving credit facility are 50 basis points. There is a prepayment premium on Tranche B of

two percent during the first year and one percent during the second year of the Senior Facility. Loans under the Senior Facility are secured by substantially all of the Company s non-financial assets and are guaranteed by the Company s material domestic subsidiaries, with such guarantees secured by the non-financial assets of the subsidiaries.

On March 31, 2008, the interest rates under the Senior Facility were 6.25 percent on Tranche A, 7.69 percent on Tranche B and a weighted average rate of 6.11 percent on the revolving credit facility. At December 31, 2007, the Senior Facility interest rate was 7.58 percent on the term loan and on $50.0 million of the outstanding revolving credit and 7.66 percent on $195.0 million of the outstanding revolving credit, exclusive of the effect of commitment fees and other costs.

Table of Contents

Second Lien Notes As part of the Capital Transaction, Worldwide issued the Notes (as defined in Note 2 *Capital Transaction*) of $500.0 million, to Goldman Sachs, which will mature in March 2018. The interest rate on the Notes is 13.25 percent per year. Prior to March 25, 2011, the Company has the option to capitalize interest at a rate of 15.25 percent. If interest is capitalized, 0.50 percent of the interest is payable in cash and 14.75 percent is capitalized. The Company anticipates paying the interest on the Notes.

The Company can redeem the Notes after five years at specified premiums. Prior to the fifth anniversary, the Company may redeem some or all of the Notes at a price equal to 100 percent of the principal amount thereof, plus accrued and unpaid interest, if any, plus a premium equal to the greater of one percent or an amount calculated by discounting the sum of (a) the redemption payment that would be due upon the fifth anniversary plus (b) all required interest payments due through such fifth anniversary using the treasury rate plus 50 basis points. Upon a change of control, the Company is required to make an offer to repurchase the Notes at a price equal to 101 percent of the principal amount plus accrued and unpaid interest. The Company is also required to make an offer to repurchase the Notes with proceeds of certain asset sales that have not been reinvested in accordance with the terms of the Notes or have not been used to repay certain debt.

Inter-creditor Agreement In connection with the above financing arrangements, the lenders under both the Senior Facility and the Notes have agreed to be bound by the terms of an inter-creditor agreement under which the lenders have agreed to waive certain rights and limit the exercise of certain remedies available to them for a limited period of time, both before and following a default under the financing arrangements.

364-Day Facility On November 15, 2007, the Company entered into a $150.0 million revolving credit facility (the 364-Day Facility) with JPMorgan. The Company did not borrow under the 364-Day Facility in 2007 or 2008. In connection with the Capital Transaction, the Company terminated the 364-Day Facility.

Debt Covenants Borrowings under the Company s debt agreements are subject to various covenants that limit the Company s ability to: incur additional indebtedness; effect mergers and consolidations; sell assets or subsidiary stock; pay dividends and other restricted payments; invest in certain assets; effect loans, advances and certain other transactions with affiliates. In addition, the Senior Facility has a covenant that places limitations on the use of proceeds from borrowings under the facility.

The Senior Facility also has certain financial covenants, including an interest coverage ratio and a senior secured debt ratio. Under the Senior Facility, the Company must maintain a minimum interest coverage ratio of 1.5:1 from March 31, 2009 through September 30, 2010, 1.75:1 from December 31, 2010 through September 30, 2012 and 2:1 from December 31, 2012 through maturity. The Company is not permitted to have a senior secured debt ratio in excess of 6.5:1 from March 31, 2009 through September 30, 2009, 6:1 from December 31, 2009 through September 30, 2010, 5.5:1 from December 31, 2010 through September 30, 2011, 5:1 from December 31, 2011 through September 30, 2012 and 4.5:1 from December 31, 2012 through maturity. Compliance with such financial covenants will not be required until the fiscal quarter ending March 31, 2009. Both the Senior Facility and the Notes also contain a covenant requiring the Company to maintain a minimum liquidity ratio of at least 1:1 for certain assets to outstanding payment service obligations

At December 31, 2007, the Company was not in compliance with covenants related to the Senior Facility and 364-Day Facility and received waivers of default through May 1, 2008. During the waiver period, the interest rate increased to LIBOR plus 275 basis points and no draws could be made on the 364-Day Facility.

Deferred Financing Costs In connection with the waivers obtained on the Senior Facility and the 364-Day Facility during the first quarter of 2008, the Company capitalized transaction costs of $1.5 million. The Company also capitalized $19.4 million and $33.3 million of transactions costs for the amendment and restatement of the Senior Facility and the issuance of the Notes, respectively. These costs were capitalized in Other assets in the Consolidated Balance Sheets and will be amortized over the life of the related debt using the effective interest method. In accordance with Emerging Issues Task Force (EITF Issue) No. 96-19, *Debtor s Accounting for a Modification or Exchange of Debt Instruments*, the Company has accounted for the amendments to the Senior Facility as a debt extinguishment. As a result, the Company recognized a $1.5 million debt extinguishment loss in the Consolidated Statements of Income which reduced deferred financing costs. In addition, the Company expensed $0.4 million of unamortized deferred financing costs in connection with the termination of the 364-Day Facility.

13. Commitments and Contingencies

Legal proceedings We are party to a variety of legal proceedings, including those that arise in the normal course of our business. All legal proceedings are subject to uncertainties and outcomes that are not predictable with assurance. We accrue for legal proceedings as losses become probable and can be reasonably estimated. Significant legal proceedings arising outside the normal course of our business are described below. While the results of these proceedings cannot be predicted with certainty, management believes that after final disposition, any monetary liability will not be material to our financial position. Further, the Company maintains insurance coverage for many of the claims alleged.

Federal Securities Class Actions The Company and certain of its officers and directors are parties to four class action cases in the United States District Court for the District of Minnesota. On March 28, 2008, the City of Ann Arbor Employees Retirement System filed a complaint in the District of Minnesota against the Company and three of its officers. The complaint alleges against each defendant violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and Rule 10b-5 under the Exchange Act and alleges against Company officers violations of Section 20(a) of the Exchange Act against Company officers. The complaint alleges failure to adequately disclose, in a timely manner, the nature and risks of the Company s investments, as well as unrealized losses and other-than-temporary impairments related to certain of the Company s investments. The complainant seeks recovery of losses incurred by stockholder class members in connection with their purchases of the Company s securities. In April 2008, three other plaintiffs, Willie R. Pittman, Edward J. Goodman Life Income Trust and Manzoor Hussain filed complaints in the same court, making substantially the same claims. The Goodman matter names the Company, four of its officers and members of the Company s Board of Directors. The Company expects the four cases to be consolidated into a single action.

ERISA Class Action On April 22, 2008, Delilah Morrison, on behalf of herself and all other MoneyGram 401(k) Plan participants, brought an action in the United States District Court for the District of Minnesota. The complaint alleges claims under the Employee Retirement Income Security Act of 1974, as amended (ERISA), including claims that the defendants breached fiduciary duties by failing to manage the plan s investment in Company stock, and by continuing to offer Company stock as an investment option when the stock was no longer a prudent investment. The complaint also alleges that defendants failed to provide complete and accurate information regarding Company stock sufficient to advise plan participants of the risks involved with investing in Company stock and breached fiduciary duties by failing to avoid conflicts of interests and to properly monitor the performance of plan fiduciaries and fiduciary appointees. Finally, the complaint alleges that to the extent that the Company is not a fiduciary, it is liable for knowingly participating in the fiduciary breaches as alleged. For relief, the complainant seeks damages based on what the most profitable alternatives to Company stock would have yielded, unspecified equitable relief, costs and attorneys fees.

Stockholder Derivative Claims The Company and its officers and directors are also parties to two stockholder lawsuits making various state-law claims. On December 19, 2007, L.A. Murphy filed a complaint in Hennepin County District Court, alleging a breach of fiduciary duties for refusal to investigate an offer from Euronet Worldwide, Inc. to buy the Company. The complaint requested injunctive relief. The Court denied the plaintiff s motion for a temporary restraining order to block the Capital Transaction. On April 3, 2008, the plaintiff subsequently amended her complaint to an Amended Shareholder Class and Derivative Complaint, alleging breach of fiduciary duty, abuse of control, mismanagement and corporate waste against various of the Company s officers and directors. The complainant seeks declaratory and injunctive relief and contribution and indemnification from defendants for the alleged breaches of fiduciary duty.

On January 22, 2008, Russell L. Berney filed a complaint in Los Angeles Superior Court against the Company and its officers and directors, Thomas H. Lee Partners, L.P., and PropertyBridge, Inc. and one of its officers, Jason Gardner, alleging false and negligent misrepresentation, violations of California securities laws and unfair business practices with regard to disclosure of the Company s investments. The complaint also alleges derivative claims against the Company s Board of Directors relating to the Board s oversight of disclosure of the Company s investments and with regard to the Company s negotiations with Thomas H. Lee Partners, L.P. and Euronet Worldwide, Inc. The complainant seeks monetary damages, disgorgement, restitution or rescission, as well as attorneys fees and costs.

SEC Inquiry By letter dated February 4, 2008, the Company received notice from the Securities and Exchange Commission (SEC) that it is conducting an informal, non-public inquiry relating to the Company s financial statements, reporting and disclosures related to the Company s investment portfolio and offers and negotiations to sell the Company or its assets. The SEC s notice states that it has not determined that any violations of the securities laws have occurred. On February 11, 2008, the Company received an additional letter from the SEC requesting certain information. We are cooperating with the SEC on a voluntary basis.

Credit Facilities At March 31, 2008, the Company has various letters of credit and overdraft facilities to assist in the management of investments and the clearing of payment service obligations, as well as $100.4 million of availability under the Senior Facility described in Note 12 *Debt*. Overdraft facilities consist of $4.8 million of letters of credit, all of which are outstanding at March 31, 2008. Letters of credit totaling $4.6 million reduce amounts available under the Senior Facility. Fees on the letters of credit are paid in accordance with the terms of the Senior Facility described in Note 12- *Debt*. The Company also has $1.9 billion of uncommitted repurchase agreements with various banks. The use of the repurchase agreements is subject to availability of collateral investments acceptable to the counterparty.

Other Commitments The Company has agreements with certain other co-investors to provide funds related to investments in limited partnership interests. As of March 31, 2008, the total amount of unfunded commitments related to these agreements was $1.2 million. The Company has entered into a debt guarantee for $1.7 million on behalf of a money order and transfer agent. This debt guarantee will be reduced as the agent makes payment on its debt to a bank. The term of the debt guarantee is for an indefinite period, but it is expected that the agent will pay all outstanding amounts under its debt to the bank by March 2009. The Company accrued a liability of $0.3 million for the fair value of this debt guarantee. A corresponding deferred asset was recorded and will be amortized on a straight- line basis through March 2009. The amortization expense is recognized as part of Transaction and operations support expense in the Consolidated Statements of (Loss) Income.

14. Earnings per Common Share

As further described in Note 9 *Mezzanine Equity*, the Company s Series B Stock are convertible into shares of the Company s common stock and participate in any dividends declared or other distributions made to common stockholders. Accordingly, the Company utilizes the two-class method for computing basic earnings per common share. The two-class method reflects the amount of undistributed earnings allocated to the common stockholders using the participation percentage of each class of stock. The undistributed earnings allocated to the common stockholders are divided by the weighted average number of common shares outstanding during the period to compute basic earnings per common share. 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, and the conversion of the Series B Stock using the if-converted method.

Potential common shares are excluded from the computation of diluted earnings per common share when the effect would be anti-dilutive. All potential common shares are anti-dilutive in periods of net loss available to common stockholders. Stock options are anti-dilutive when the exercise price of these instruments is greater than the average market price of the Company s common stock for the period. The Series B Stock are anti-dilutive when the incremental earnings per share of Series B Stock on an if-converted basis is greater than the basic earnings per common share. Following are the potential common shares excluded from diluted earnings per common share as their effect would be anti-dilutive:

	Three Months Ended March 31	
(Shares in thousands)	**2008**	**2007**
Shares related to stock options	4,057	582
Shares related to restricted stock	145	
Shares related to preferred stock	307,729	

15. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The election to measure the financial instrument at fair value is made on an instrument-by-instrument basis for the entire instrument, with few exceptions, and is irreversible. The Company has not made any elections to fair value financial assets or liabilities under SFAS No. 159 as of March 31, 2008.

In June 2007, EITF Issue No. 06-11, *Accounting for Income Tax Benefits on Dividends on Share-Based Payment* was issued. The EITF reached a final conclusion that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified restricted stock, restricted stock units and stock options should be recognized as an increase to additional paid-in-capital (APIC). Those tax benefits are considered excess tax benefits under SFAS No. 123(R), *Share Based Payment (revised 2004).* The amount recognized in APIC for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies. The guidance of EITF Issue No. 06-11 was adopted prospectively by the Company as of January 1, 2008 with no material impact on its Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133.* SFAS No. 161 will require additional disclosures about how and why the Company uses derivative financial instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended and interpreted, and how derivative instruments and related hedged items affect the Company s financial position, results of operations, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; however early adoption is encouraged, as are comparative disclosures for earlier periods. The Company is currently evaluating the impact of SFAS No. 161 on its Consolidated Financial Statements.

16. Minimum Commission Guarantees

In limited circumstances, as an incentive to new or renewing agents, the Company may grant minimum commission guarantees to an agent for a specified period of time at a contractually specified amount. Under the guarantees, the Company will pay to the agent the difference between the contractually specified minimum commission and the actual commissions earned by the agent.

As of March 31, 2008, the liability for minimum commission guarantees was $2.3 million, and the maximum amount that could be paid under commission guarantees is $20.5 million over a weighted average remaining term of 2.4 years. The maximum payment is calculated as the contractually guaranteed minimum commission times the remaining term of the contract and, therefore, assumes that the agent generates no money transfer transactions during the remainder of its contract. However, under the terms of certain agent contracts, the Company may terminate the contract if the projected or actual volume of transactions falls beneath a contractually specified amount. With respect to commission guarantees expiring in fiscal 2007, the Company paid $0.8 million under these guarantees, or approximately 14 percent of the estimated maximum payment for the year.

17. Segment Information

The Company conducts its business through two reportable segments, Global Funds Transfer and Payment Systems, which are determined based upon factors such as the type of customers, the nature of products and services provided and the distribution channels used to provide those services. The Company s largest agent in the Global Funds Transfer segment, Wal-Mart, accounted for approximately 24 percent and 20 percent of the Company s fee and investment revenue in the first quarter of 2008 and 2007, respectively. Other unallocated expenses for the first quarter of 2008

includes $7.7 million of costs relating to the Capital Transaction. The following table reconciles segment operating income to (Loss) income before income taxes as reported in the Consolidated Financial Statements:

21

Table of Contents

Three Months Ended March 31,	**2008**	**2007**
(Amounts in Thousands)		
Revenue (losses):		
Global Funds Transfer:		
Money transfer, including bill payment	$ 236,383	$190,104
Retail money order	(17,384)	36,532
	218,999	226,636
Payment Systems:		
Official check and payment processing	(203,723)	76,169
Other	1,694	7,028
	(202,029)	83,197
Other	92	218
Total revenue	$ 17,062	$310,051
Operating (Loss) Income:		
Global Funds Transfer	$ (3,672)	$ 37,551
Payment Systems	(314,853)	9,566
	(318,525)	47,117
Interest expense	(14,789)	(1,958)
Debt extinguishment loss	(1,499)	
Other unallocated expenses	(8,302)	(1,068)
(Loss) income before income taxes	$(343,115)	$ 44,091

The following table presents depreciation and amortization expense and capital expenditures by segment:

Three Months Ended March 31,	**2008**	**2007**
(Amounts in Thousands)		
Depreciation and amortization:		
Global Funds Transfer	$ 9,484	$10,451
Payment Systems	4,734	1,229
Total depreciation and amortization	$14,218	$11,680
Capital expenditures:		
Global Funds Transfer	$ 3,506	$13,409
Payment Systems	2,360	1,520
Total capital expenditures	$ 5,866	$14,929

The following table presents revenue by major geographic area:

Three Months Ended March 31,	**2008**	**2007**
(Amounts in Thousands)		
United States	$(66,127)	$244,020
Foreign	83,189	66,031
Total revenue	$ 17,062	$310,051

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and related Notes of MoneyGram International, Inc. (MoneyGram, the Company, we, us and our). This discussion contains forward-looking statements that involve risks and uncertainties. MoneyGram s actual results could differ materially from those anticipated due to various factors discussed under Forward-Looking Statements and elsewhere in this Quarterly Report on Form 10-Q.

Summary

Following are significant items affecting operating results during the first quarter of 2008:

Fee and other revenue increased 23 percent to $262.8 million in the first quarter of 2008 from $213.1 million in the first quarter of 2007 driven primarily by continued growth in money transfer transaction volume. Our Global Funds Transfer segment fee and other revenue grew 25 percent in the first quarter of 2008 over 2007, driven by 25 percent growth in money transfer transaction revenue and 22 percent growth in transaction volume.

We recorded $307.3 million of net securities losses due to the realignment of our investment portfolio (as further described in Table 3) and other-than-temporary impairments recorded during the quarter.

We recognized a loss of $57.0 million in Investment commissions expense on swaps related to commissions payable in the official check business due to the restructuring of that business.

Interest expense increased to $14.8 million in the first quarter of 2008 from $2.0 million in 2007 due to higher interest rates on our outstanding debt during the first quarter of 2008 and a loss of $6.2 million recognized on interest rate swaps related to the extinguishment of debt.

Expenses included costs of $7.7 million in Transaction and operations support and $1.5 million of Debt extinguishment loss incurred for the Capital Transaction (defined below).

Capital Transaction

The Company completed a capital transaction on March 25, 2008 pursuant to which we received $1.5 billion of gross equity and debt capital (the Capital Transaction) to support the long-term needs of the business and provide necessary capital due to our investme