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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(mark one)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
for the Quarterly Period Ended September 30, 2017

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

**MONEYGRAM INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
2828 N. Harwood St., 15<sup>th</sup> Floor  
Dallas, Texas  
(Address of principal executive offices)

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

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

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

As of November 1, 2017, 54,231,330 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

<i>(Amounts in millions, except share data)</i>	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 170.4	\$ 157.2
Settlement assets	3,499.5	3,634.3
Property and equipment, net	215.0	201.0
Goodwill	442.2	442.2
Other assets	219.0	162.7
Total assets	<u>\$ 4,546.1</u>	<u>\$ 4,597.4</u>
<b>LIABILITIES</b>		
Payment service obligations	\$ 3,499.5	\$ 3,634.3
Debt, net	909.9	915.2
Pension and other postretirement benefits	84.2	99.0
Accounts payable and other liabilities	236.5	164.5
Total liabilities	<u>4,730.1</u>	<u>4,813.0</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 11)</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Participating convertible preferred stock - series D, \$0.01 par value, 200,000 shares authorized, 71,282 issued at September 30, 2017 and December 31, 2016	183.9	183.9
Common stock, \$0.01 par value, 162,500,000 shares authorized, 58,823,567 shares issued at September 30, 2017 and December 31, 2016	0.6	0.6
Additional paid-in capital	1,031.3	1,020.3
Retained loss	(1,282.9)	(1,252.6)
Accumulated other comprehensive loss	(50.8)	(56.1)
Treasury stock: 4,605,928 and 6,058,856 shares at September 30, 2017 and December 31, 2016, respectively	(66.1)	(111.7)
Total stockholders' deficit	<u>(184.0)</u>	<u>(215.6)</u>
Total liabilities and stockholders' deficit	<u>\$ 4,546.1</u>	<u>\$ 4,597.4</u>

See Notes to the Condensed Consolidated Financial Statements

**MONEYGRAM INTERNATIONAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**UNAUDITED**

<i>(Amounts in millions, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>REVENUE</b>				
Fee and other revenue	\$ 390.1	\$ 408.2	\$ 1,161.5	\$ 1,201.5
Investment revenue	7.7	4.6	32.4	12.7
Total revenue	397.8	412.8	1,193.9	1,214.2
<b>EXPENSES</b>				
Fee and other commissions expense	190.1	199.9	570.3	594.4
Investment commissions expense	2.6	0.6	5.9	1.7
Total commissions expense	192.7	200.5	576.2	596.1
Compensation and benefits	69.1	72.5	207.5	218.9
Transaction and operations support	78.3	79.5	240.2	227.1
Occupancy, equipment and supplies	15.5	15.6	49.0	46.8
Depreciation and amortization	18.9	18.6	55.8	60.2
Total operating expenses	374.5	386.7	1,128.7	1,149.1
<b>OPERATING INCOME</b>	23.3	26.1	65.2	65.1
<b>Other expense</b>				
Interest expense	11.6	11.3	33.6	33.8
Total other expense	11.6	11.3	33.6	33.8
Income before income taxes	11.7	14.8	31.6	31.3
Income tax expense	4.0	4.7	8.9	22.4
<b>NET INCOME</b>	\$ 7.7	\$ 10.1	\$ 22.7	\$ 8.9
<b>EARNINGS PER COMMON SHARE</b>				
Basic	\$ 0.12	\$ 0.16	\$ 0.36	\$ 0.14
Diluted	\$ 0.12	\$ 0.15	\$ 0.34	\$ 0.13
<b>Weighted-average outstanding common shares and equivalents used in computing earnings per common share</b>				
Basic	63.1	62.2	62.8	62.4
Diluted	66.2	66.4	66.2	66.2

See Notes to the Condensed Consolidated Financial Statements

**MONEYGRAM INTERNATIONAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**UNAUDITED**

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>NET INCOME</b>	\$ 7.7	\$ 10.1	\$ 22.7	\$ 8.9
<b>OTHER COMPREHENSIVE INCOME</b>				
Net change in unrealized holding gains on available-for-sale securities arising during the period, net of tax benefit of \$0.0 for the three and nine months ended September 30, 2017, respectively, and \$0.0 and \$0.1 for the three and nine months ended September 30, 2016, respectively	(0.4)	—	3.8	(0.2)
Net reclassification adjustment for net realized gains included in net earnings, net of tax expense of \$0.0 for the three and nine months ended September 30, 2017 and 2016	—	—	(12.2)	—
Net change in pension liability due to amortization of prior service credit and net actuarial loss, net of tax benefit of \$0.5 and \$0.4 for the three months ended September 30, 2017 and 2016, respectively, and \$1.2 and \$1.5 for the nine months ended September 30, 2017 and 2016, respectively	0.7	0.9	2.1	2.5
Valuation adjustment for pension and postretirement benefits, net of tax expense of \$0.1 and \$0.0 for the three and nine months ended September 30, 2017, and 2016, respectively	(0.3)	—	(0.3)	—
Unrealized foreign currency translation adjustments, net of tax expense of \$2.2 and \$0.2 for the three months ended September 30, 2017 and 2016, respectively, and \$6.2 and \$2.0 for the nine months ended September 30, 2017 and 2016, respectively	4.9	0.4	11.9	(0.7)
Other comprehensive income	4.9	1.3	5.3	1.6
<b>COMPREHENSIVE INCOME</b>	<b>\$ 12.6</b>	<b>\$ 11.4</b>	<b>\$ 28.0</b>	<b>\$ 10.5</b>

See Notes to the Condensed Consolidated Financial Statements

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

<i>(Amounts in millions)</i>	Nine Months Ended September 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 22.7	\$ 8.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55.8	60.2
Signing bonus amortization	39.0	41.0
Signing bonus payments	(24.6)	(17.2)
Amortization of debt issuance costs and debt discount	2.4	2.5
Non-cash compensation and pension expense	15.4	19.1
Gain on redemption of asset-backed security	(12.2)	—
Change in other assets	(60.4)	2.7
Change in accounts payable and other liabilities	48.0	(29.4)
Other non-cash items, net	3.7	(0.7)
Net cash provided by operating activities	89.8	87.1
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(63.1)	(60.4)
Net cash used in investing activities	(63.1)	(60.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on debt	(7.3)	(7.3)
Proceeds from exercise of stock options	1.8	—
Stock repurchases	—	(7.5)
Payment for contingent consideration	—	(0.7)
Payments to tax authorities for stock-based compensation	(8.0)	(2.6)
Net cash used in financing activities	(13.5)	(18.1)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	13.2	8.6
<b>CASH AND CASH EQUIVALENTS—Beginning of period</b>	157.2	164.5
<b>CASH AND CASH EQUIVALENTS—End of period</b>	\$ 170.4	\$ 173.1
<b>Supplemental cash flow information:</b>		
Cash payments for interest	\$ 31.1	\$ 31.4
Cash taxes, net	\$ 6.4	\$ 7.1

See Notes to the Condensed Consolidated Financial Statements

**MONEYGRAM INTERNATIONAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**  
**UNAUDITED**

<i>(Amounts in millions)</i>	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
<b>January 1, 2017</b>	\$ 183.9	\$ 0.6	\$ 1,020.3	\$ (1,252.6)	\$ (56.1)	\$ (111.7)	\$ (215.6)
Net income	—	—	—	22.7	—	—	22.7
Stock-based compensation activity	—	—	11.0	(53.0)	—	45.6	3.6
Other comprehensive income	—	—	—	—	5.3	—	5.3
<b>September 30, 2017</b>	<u>\$ 183.9</u>	<u>\$ 0.6</u>	<u>\$ 1,031.3</u>	<u>\$ (1,282.9)</u>	<u>\$ (50.8)</u>	<u>\$ (66.1)</u>	<u>\$ (184.0)</u>

See Notes to the Condensed Consolidated Financial Statements

**MONEYGRAM INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**UNAUDITED**

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**Note 1 — Description of the Business and Basis of Presentation**

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

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

*Basis of Presentation* — The accompanying unaudited condensed consolidated financial statements of MoneyGram are prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2017 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, 2016.

*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.

*Immaterial error correction* — During the third quarter of 2017, the Company noted an error with respect to the defined pension plan (the “Pension Plan”). The Company assessed the materiality of the misstatement both quantitatively and qualitatively and determined the correction of this error to be immaterial to all prior consolidated financial statements taken as a whole. Accordingly, the Company adjusted its consolidated financial statements for the period ended December 31, 2016. The adjustment has no impact to “Total liabilities and stockholders' deficit” on the Consolidated Balance Sheet as of December 31, 2016. The effect of the correction is as follows:

<i>(Amounts in millions)</i>	<b>December 31, 2016</b>		
	<b>As Previously Reported</b>	<b>Correction</b>	<b>As Corrected</b>
<b>LIABILITIES</b>			
Pension and other postretirement benefits	\$ 87.6	\$ 11.4	\$ 99.0
Accounts payable and other liabilities	\$ 168.7	\$ (4.2)	\$ 164.5
<b>STOCKHOLDERS' DEFICIT</b>			
Retained loss	\$ (1,247.6)	\$ (5.0)	\$ (1,252.6)
Accumulated other comprehensive loss	\$ (53.9)	\$ (2.2)	\$ (56.1)

The impact of the immaterial error correction on “Compensation and benefits” and “Net income” on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016, was an increase of \$0.1 million and \$0.4 million to compensation and benefits, and a decrease of \$0.1 million and \$0.2 million to net income, respectively.



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*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. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. The Company will not be early adopting these standards and will use the cumulative effect transition method upon adoption. Based on our initial evaluation for money transfer and bill payment services provided by the Global Funds Transfer segment, the Company has determined that each of these services includes only one performance obligation to the customer and the satisfaction of that performance obligation occurs at a point in time, which is not a change from how we currently recognize revenue. Management believes that the adoption of this standard will not have a material impact on the Company's consolidated financial statements and our internal controls over financial reporting. Management is finalizing its disclosure requirements of this standard.

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. ASU 2016-02 mandates a modified retrospective transition method and is effective for fiscal years beginning after December 15, 2018. Early adoption of the amendment is permitted. The Company's leases consist primarily of operating leases for buildings, equipment and vehicles. The impact of this ASU on the Company's consolidated financial statements is still being evaluated.

In April 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. Under the new ASU, companies are allowed to withhold up to the employees' maximum statutory tax rates in the applicable jurisdictions without resulting in liability classification. Further, the ASU requires that cash payments to tax authorities in connection with shares withheld to meet statutory tax withholding requirements be presented as a financing activity in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. The Company adopted ASU 2016-09 in the first quarter of 2017. Prior to the adoption of ASU 2016-09, the Company presented cash payments to tax authorities in connection with shares withheld to meet statutory tax withholdings requirements as an operating activity in its statement of cash flows. Upon adoption of this ASU, the presentation of these payments was reclassified to a financing activity and prior period Condensed Consolidated Statements of Cash Flows have been updated to reflect this change.

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 will not be early adopting this standard but, upon adoption, will use the modified retrospective approach, which will result in a reclassification of a net deferred charge of approximately \$52.0 million from "Other assets" to "Retained loss" on the Condensed 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, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") among the Company, 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 in the Merger Agreement, Alipay (Hong Kong) Holding Limited, a Hong Kong limited company. The Merger Agreement provides that, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Alipay, and holders of the Company's common stock would be entitled to receive \$13.25 in cash, less any required withholding taxes, for each share of the Company's common

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stock, on an as-converted basis, owned at the effective time of the Merger. On April 15, 2017, the Company entered into the First Amendment to the Agreement and Plan of Merger (the “Merger Agreement Amendment”). The Merger Agreement Amendment increased the merger consideration to \$18.00 per share and also increased the termination fee payable by the Company in connection with the termination of the Merger Agreement under specified circumstances, including the termination of the Merger Agreement by the Company to accept a Company Superior Proposal (as defined in the Merger Agreement), the termination of the Merger Agreement by Alipay following a change of recommendation by the Company’s Board of Directors, and other customary circumstances. Completion of the Merger is subject to a number of conditions, including the receipt of regulatory approvals. On May 16, 2017, the Company’s stockholders voted to approve the Merger.

**Note 2 — Settlement Assets and Payment Service Obligations**

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

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

<i>(Amounts in millions)</i>	September 30, 2017	December 31, 2016
<b>Settlement assets:</b>		
Settlement cash and cash equivalents	\$ 1,418.0	\$ 1,365.0
Receivables, net	920.1	999.4
Interest-bearing investments	1,153.9	1,252.1
Available-for-sale investments	7.5	17.8
	<u>\$ 3,499.5</u>	<u>\$ 3,634.3</u>
<b>Payment service obligations</b>	<u>\$ (3,499.5)</u>	<u>\$ (3,634.3)</u>

**Note 3 — 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.

The following table summarizes the Company’s financial assets and liabilities measured at fair value by hierarchy level on a recurring basis:

<i>(Amounts in millions)</i>	Level 2	Level 3	Total
<b>September 30, 2017</b>			
<b>Financial assets:</b>			
Available-for-sale investments:			
Residential mortgage-backed securities	\$ 6.1	\$ —	\$ 6.1
Asset-backed and other securities	—	1.4	1.4
Forward contracts	1.5	—	1.5
<b>Total financial assets</b>	<u>\$ 7.6</u>	<u>\$ 1.4</u>	<u>\$ 9.0</u>
<b>Financial liabilities:</b>			
Forward contracts	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ 0.5</u>
<b>December 31, 2016</b>			
<b>Financial assets:</b>			
Available-for-sale investments:			
Residential mortgage-backed securities	\$ 7.2	\$ —	\$ 7.2
Asset-backed and other securities	—	10.6	10.6
Forward contracts	2.4	—	2.4
<b>Total financial assets</b>	<u>\$ 9.6</u>	<u>\$ 10.6</u>	<u>\$ 20.2</u>
<b>Financial liabilities:</b>			
Forward contracts	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ 0.1</u>

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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:

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Beginning balance	\$ 1.8	\$ 11.0	\$ 10.6	\$ 11.6
Principal paydowns	—	(0.3)	(0.8)	(1.1)
Change in unrealized gains	(0.4)	0.2	3.8	0.3
Net realized gains	—	(0.3)	(12.2)	(0.2)
Ending balance	\$ 1.4	\$ 10.6	\$ 1.4	\$ 10.6

*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:

<i>(Amounts in millions)</i>	Fair Value		Carrying Value	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Senior secured credit facility	\$ 915.5	\$ 912.5	\$ 916.7	\$ 924.0

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 September 30, 2017 and December 31, 2016.

**Note 4 — Investment Portfolio**

The following table shows the components of the investment portfolio:

<i>(Amounts in millions)</i>	September 30, 2017	December 31, 2016
Cash	\$ 1,583.1	\$ 1,514.5
Money market securities	5.4	7.7
Cash and cash equivalents <sup>(1)</sup>	1,588.5	1,522.2
Interest-bearing investments	1,153.9	1,252.1
Available-for-sale investments	7.5	17.8
Total investment portfolio	\$ 2,749.9	\$ 2,792.1

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

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

<i>(Amounts in millions)</i>	Amortized Cost	Gross Unrealized Gains	Fair Value
<b>September 30, 2017</b>			
Residential mortgage-backed securities	\$ 5.5	\$ 0.6	\$ 6.1
Asset-backed and other securities	0.2	1.2	1.4
Total	<u>\$ 5.7</u>	<u>\$ 1.8</u>	<u>\$ 7.5</u>
<b>December 31, 2016</b>			
Residential mortgage-backed securities	\$ 6.6	\$ 0.6	\$ 7.2
Asset-backed and other securities	1.0	9.6	10.6
Total	<u>\$ 7.6</u>	<u>\$ 10.2</u>	<u>\$ 17.8</u>

As of September 30, 2017 and December 31, 2016, 81% and 40%, respectively, 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 months ended September 30, 2017 and 2016, the Company had nominal net realized losses from its available-for-sale portfolio. For the nine months ended September 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. For the nine months ended September 30, 2016, the Company had nominal net realized losses from its available-for-sale portfolio. The Company had nominal and no unrealized losses in its available-for-sale portfolio as of September 30, 2017 and December 31, 2016, respectively. See summary of net unrealized gains included in Accumulated other comprehensive loss in Note 8 — *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 5 — Derivative Financial Instruments**

The following gains (losses) 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:

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net realized foreign currency gains	\$ 3.6	\$ 0.9	\$ 17.9	\$ 5.5
Net (losses) gains from the related forward contracts	(2.0)	0.7	(12.2)	10.6
Net gains from foreign currency transactions and related forward contracts	<u>\$ 1.6</u>	<u>\$ 1.6</u>	<u>\$ 5.7</u>	<u>\$ 16.1</u>

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As of September 30, 2017 and December 31, 2016, the Company had \$348.9 million and \$294.5 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:

<i>(Amounts in millions)</i>	Balance Sheet Location	Gross Amount of Recognized Assets		Gross Amount of Offset		Net Amount of Assets Presented in the Condensed Consolidated Balance Sheets	
		September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
		Forward contracts	Other assets	\$ 1.6	\$ 2.6	\$ (0.1)	\$ (0.2)

<i>(Amounts in millions)</i>	Balance Sheet Location	Gross Amount of Recognized Liabilities		Gross Amount of Offset		Net Amount of Liabilities Presented in the Condensed Consolidated Balance Sheets	
		September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
		Forward contracts	Accounts payable and other liabilities	\$ 0.6	\$ 0.3	\$ (0.1)	\$ (0.2)

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 6 — Debt**

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

<i>(Amounts in millions, except percentages)</i>	September 30, 2017		December 31, 2016	
	Effective Interest Rate		Effective Interest Rate	
Senior secured credit facility due 2020	4.55%	\$ 916.7	4.25%	\$ 924.0
Unamortized debt issuance costs and debt discount		(6.8)		(8.8)
Total debt, net		\$ 909.9		\$ 915.2

*Revolving Credit Facility* — As of September 30, 2017, the Company had no outstanding letters of credit and no borrowings under its revolving credit facility, leaving \$125.0 million of availability thereunder. The Company's effective interest rate on senior secured borrowings increased from 4.25% as of December 31, 2016 to 4.55% as of September 30, 2017 due to an increase in the Eurodollar rate.

*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.

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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 \$170.4 million and \$157.2 million as of September 30, 2017 and December 31, 2016, respectively.

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

	<u>Interest Coverage Minimum Ratio</u>	<u>Secured Leverage Not to Exceed</u>
January 1, 2017 through December 31, 2017	2.25:1	4.250:1
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 September 30, 2017, the Company was in compliance with its financial covenants: our interest coverage ratio was 6.49 to 1.00 and our secured leverage ratio was 3.395 to 1.00. We continuously monitor our compliance with our debt covenants.

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**Note 7 — Pensions and Other Benefits**

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

<i>(Amounts in millions)</i>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest cost	\$ 1.8	\$ 1.7	\$ 4.9	\$ 5.2
Expected return on plan assets	(1.3)	(1.2)	(3.8)	(3.8)
Amortization of net actuarial loss	1.3	1.4	3.5	4.3
Net periodic benefit expense	<u>\$ 1.8</u>	<u>\$ 1.9</u>	<u>\$ 4.6</u>	<u>\$ 5.7</u>

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

<i>(Amounts in millions)</i>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Amortization of prior service credit	\$ (0.1)	\$ (0.1)	\$ (0.3)	\$ (0.4)
Amortization of net actuarial loss	—	—	0.1	0.1
Net periodic benefit income	<u>\$ (0.1)</u>	<u>\$ (0.1)</u>	<u>\$ (0.2)</u>	<u>\$ (0.3)</u>

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**Note 8 — Stockholders' Deficit**

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*Common Stock* — No dividends were paid during the three or nine months ended September 30, 2017 or September 30, 2016.

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*Accumulated Other Comprehensive Loss* — The following tables summarize the changes to Accumulated other comprehensive loss by component:

<i>(Amounts in millions)</i>	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 Adjustment, Net of Tax	Total
<b>January 1, 2017</b>	\$ 10.8	\$ (19.9)	\$ (47.0)	\$ (56.1)
Other comprehensive income before reclassification	3.8	11.9	(0.3)	15.4
Amounts reclassified from accumulated other comprehensive loss	(12.2)	—	2.1	(10.1)
Net current period other comprehensive (loss) income	(8.4)	11.9	1.8	5.3
<b>September 30, 2017</b>	<u>\$ 2.4</u>	<u>\$ (8.0)</u>	<u>\$ (45.2)</u>	<u>\$ (50.8)</u>
<b>January 1, 2016</b>	\$ 11.1	\$ (13.5)	\$ (48.4)	\$ (50.8)
Other comprehensive loss before reclassification	—	(0.7)	—	(0.7)
Amounts reclassified from accumulated other comprehensive loss	(0.2)	—	2.5	2.3
Net current period other comprehensive (loss) income	(0.2)	(0.7)	2.5	1.6
<b>September 30, 2016</b>	<u>\$ 10.9</u>	<u>\$ (14.2)</u>	<u>\$ (45.9)</u>	<u>\$ (49.2)</u>

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

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,		Statement of Operations Location
	2017	2016	2017	2016	
Change in unrealized gains on securities classified as available-for-sale, before tax	\$ —	\$ (0.2)	\$ (12.2)	\$ (0.3)	"Investment revenue"
Tax expense	—	0.1	—	0.1	
Total, net of tax	<u>—</u>	<u>(0.1)</u>	<u>(12.2)</u>	<u>(0.2)</u>	
<b>Pension and Postretirement Benefits adjustments:</b>					
Amortization of prior service credit	(0.1)	(0.1)	(0.3)	(0.4)	"Compensation and benefits"
Amortization of net actuarial loss	1.3	1.4	3.6	4.4	"Compensation and benefits"
Total before tax	1.2	1.3	3.3	4.0	
Tax benefit	(0.5)	(0.4)	(1.2)	(1.5)	
Total, net of tax	<u>0.7</u>	<u>0.9</u>	<u>2.1</u>	<u>2.5</u>	
Total reclassified for the period, net of tax	<u>\$ 0.7</u>	<u>\$ 0.8</u>	<u>\$ (10.1)</u>	<u>\$ 2.3</u>	

**Note 9 — Stock-Based Compensation**

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

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Expense recognized related to stock options	\$ 0.1	\$ 0.6	\$ 0.5	\$ 2.2
Expense recognized related to restricted stock units	3.4	3.6	10.5	11.5
Stock-based compensation expense	\$ 3.5	\$ 4.2	\$ 11.0	\$ 13.7

*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, 2016	2,485,461	\$ 18.02	4.0 years	\$ —
Exercised	(109,731)	14.49		
Forfeited/Expired	(335,790)	21.10		
Options outstanding at September 30, 2017	2,039,940	\$ 17.70	3.1 years	\$ 2.2
Vested or expected to vest at September 30, 2017	2,039,775	\$ 17.70	3.1 years	\$ 2.2
Options exercisable at September 30, 2017	2,018,170	\$ 17.74	3.0 years	\$ 2.2

As of September 30, 2017, the unrecognized stock option expense related to outstanding options was nominal with a remaining weighted-average vesting period of 0.1 years.

*Restricted Stock Units* — In February 2017, 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, up to 50% of such awards become eligible to vest over such three year period if a target level of Adjusted EBITDA is achieved for the year ended December 31, 2017. Adjusted EBITDA is EBITDA (earnings before interest, taxes, depreciation and amortization, including agent signing bonus amortization) adjusted for certain significant items. The other 50% of the performance-based restricted stock units become eligible to vest over such three year period if a target level of revenue is achieved for the year ended December 31, 2017. The performance-based restricted stock units have a threshold level of performance for each of the target levels. Achievement of the threshold level will result in vesting of 50% of the target levels discussed above. The number of performance-based restricted stock units that will vest for performance achievement between the threshold and target will be determined based on a straight-line interpolation. No performance-based restricted stock units will vest for performance achievement below the thresholds.

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, 2016	4,630,038	\$ 7.68	0.9 years	\$ 54.7
Granted	1,361,986	12.87		
Vested and converted to shares	(2,010,441)	7.59		
Forfeited	(635,873)	13.35		
Restricted stock units outstanding at September 30, 2017	3,345,710	\$ 8.77	1.0 years	\$ 53.9
Restricted stock units vested and outstanding at September 30, 2017	32,680	\$ 6.12		\$ 0.5



As of September 30, 2017, the Company's outstanding restricted stock units had unrecognized compensation expense of \$17.5 million. 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 grant-date fair value of restricted stock units vested and converted was \$0.9 million and \$15.3 million for the three and nine months ended September 30, 2017, respectively, and \$0.8 million and \$14.7 million for the three and nine months ended September 30, 2016, respectively.

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**Note 10 — Income Taxes**

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The Company recognized income tax expense of \$4.0 million and \$8.9 million on a pre-tax income of \$11.7 million and \$31.6 million for the three and nine months ended September 30, 2017, respectively. The recorded income tax expense differs from taxes calculated at the statutory rate for the three months ended September 30, 2017, primarily due to a net favorable change in estimate for certain tax credits generated in both 2017 and 2016. For the nine months ended September 30, 2017, the recorded income tax expense differs from taxes calculated at the statutory rate primarily due to a net tax benefit recognized for the redemption of a previously impaired asset-backed security, a tax benefit on stock-based compensation, a benefit on the estimated income tax credits generated in 2017 and a tax benefit from the reorganization of our international business activities, partially offset by the related amortization of the deferred charge. For more information related to the redemption see Note 4 — *Investment Portfolio*.

For the three months ended September 30, 2016, the Company recognized income tax expense of \$4.7 million on pre-tax income of \$14.8 million. The recorded income tax differs from the taxes calculated at the statutory rate primarily due to a favorable change in estimate for certain tax credits generated in both 2016 and 2015. For the nine months ended September 30, 2016, the Company recognized an income tax expense of \$22.4 million on pre-tax income of \$31.3 million. The recorded income tax expense for the nine months ended September 30, 2016 differs from taxes calculated at the statutory rate primarily due to tax expense of \$7.7 million from the settlement reached with the IRS related to the deduction of payments previously made by the Company to the Asset Forfeiture and Money Laundering Section of the Department of Justice ("U.S. DOJ") pursuant to the Deferred Prosecution Agreement with the U.S. Attorney's Office for the Middle District of Pennsylvania and the U.S. DOJ (the "Deferred Prosecution Agreement"), the reversal of tax benefits of \$3.6 million on share-based compensation and a tax expense of \$1.6 million related to non-deductible executive compensation, offset by \$1.7 million of tax benefit related to the Company's increase in estimate for certain tax credits.

The IRS completed its examination of the Company's consolidated income tax returns for the tax years 2011 through 2013 and issued a Revenue Agent Report ("RAR") in the first quarter of 2015 that included disallowing \$100.0 million of deductions related to payments the Company made to the U.S. DOJ pursuant to the Deferred Prosecution Agreement. In April 2016, the Company entered into a settlement agreement with the IRS allowing a deduction of \$39.3 million. As of December 31, 2016, the Company had fully settled this matter with \$21.2 million of existing deferred tax assets and \$0.5 million of cash after recognizing an additional \$7.7 million of Income tax expense for the three months ended March 31, 2016. The state tax liabilities related to the federal settlement have yet to be settled due to the pending implications of the security losses.

Unrecognized tax benefits are recorded in "Accounts payable and other liabilities" in the Condensed Consolidated Balance Sheets. As of September 30, 2017 and December 31, 2016, the liability for unrecognized tax benefits was \$32.2 million and \$24.2 million, respectively, and the net amount of unrecognized tax benefits that if recognized could impact the effective tax rate was \$24.7 million and \$16.7 million, respectively. For the nine months ended September 30, 2017, the Company's unrecognized tax benefits increased by \$8.0 million primarily as a result of a reorganization of our international business activities. The Company accrues interest and penalties for unrecognized tax benefits through "Income tax expense" in the Condensed Consolidated Statements of Operations. For the nine months ended September 30, 2017, the Company's accrual for interest and penalties increased by \$1.7 million. For the nine months ended September 30, 2016, the Company's accrual for interest and penalties increased by \$1.0 million, which was offset by \$0.5 million from the settlement of the U.S. DOJ tax matter. As of September 30, 2017 and December 31, 2016, the Company had a liability of \$8.1 million and \$6.4 million, respectively, for interest and penalties related to its unrecognized tax benefits. As a result of the Company's litigation related to its securities losses discussed below in Note 11 — *Commitments and Contingencies*, it is possible that there could be a significant decrease to the total amount of unrecognized tax benefits over the next 12 months. As of September 30, 2017, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax positions over the next 12 months.

In the first half of 2017, the Company initiated a reorganization to more closely align our operations to our international business activities, which resulted in a deferred charge of \$60.2 million recorded in "Other assets" with an offset to "Accounts payable and other liabilities" in the Condensed Consolidated Balance Sheets as of September 30, 2017. The deferred charge is amortized on a straight-line basis over five years through the Company's estimated annual effective tax rate as a component of "Income tax expense" in the Condensed Consolidated Statements of Operations. As of September 30, 2017, the net deferred charge balance was \$54.3 million.

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**Note 11 — Commitments and Contingencies**

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*Participation Agreement between the Investors and Wal-Mart Stores, Inc.* — Affiliates of Thomas H. Lee Partners, L.P. and Goldman, Sachs & Co. (collectively, the “Investors”) have a Participation Agreement (the “Participation Agreement”) with Wal-Mart Stores, Inc. (“Walmart”), under which the Investors are obligated to pay Walmart certain percentages of any accumulated cash payments received by the Investors in excess of the Investors’ original investment in the Company. While the Company is not a party to, and has no obligations to Walmart or additional obligations to the Investors under, the Participation Agreement, the Company must recognize the Participation Agreement in its consolidated financial statements as the Company indirectly benefits from the agreement. Any future payments by the Investors to Walmart may result in an expense that could be material to the Company’s financial position or results of operations, but would have no impact on the Company’s cash flows. Upon completion of the proposed Merger, described in Note 1 — *Description of the Business and Basis of Presentation*, the Company may recognize an expense and a corresponding increase to additional paid-in capital in regards to the Participation Agreement of approximately \$30 million. As of September 30, 2017, the Company has not recognized any further liability or expense because completion of the Merger remains subject to certain closing conditions that have not yet been satisfied.

*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 \$0.6 million and \$1.2 million of liability recorded in the “Accounts payable and other liabilities” line in the Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, respectively. A nominal charge was recorded in the “Transaction and operations support” line in the Condensed Consolidated Statements of Operations during the three months ended September 30, 2017, while a charge of \$0.9 million was recorded for legal proceedings during the nine months ended September 30, 2017 in the “Transaction and operations support” line in the Condensed Consolidated Statements of Operations. A nominal charge was recorded for legal proceedings during the three and nine months ended September 30, 2016.

**Litigation Commenced Against the Company:**

*Class Action Securities Litigation* — On April 15, 2015, a securities class action lawsuit was filed in the Superior Court of the State of Delaware, County of New Castle, against MoneyGram, all of its directors, certain of its executive officers, Thomas H. Lee Partners, L.P., Goldman, Sachs & Co. and the underwriters of the secondary public offering of the Company’s common stock that closed on April 2, 2014 (the “2014 Offering”). The lawsuit was brought by the Iron Workers District Council of New England Pension Fund seeking to represent a class consisting of all purchasers of the Company’s common stock issued pursuant and/or traceable to the Company’s registration statement and prospectus, and all documents incorporated by reference therein, for the 2014 Offering. The lawsuit alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended, due to allegedly false and misleading statements in connection with the 2014 Offering and seeks unspecified damages and other relief. In May 2015, MoneyGram and the other defendants filed a notice of removal to the federal district court of the District of Delaware. On July 24, 2017, the plaintiff voluntarily dismissed its complaint without prejudice.

*Other Matters* — The Company is involved in various other 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 and 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 their review of our Voluntary Self-Disclosure.

*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. Department of Justice (“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 a five-year deferred prosecution agreement (the “DPA”) with the MDPA and U.S. DOJ dated November 8, 2012.

On November 1, 2017, the Company agreed to a stipulation with the MDPA and the DOJ (collectively, the “Government”) that the term of the Company’s DPA be extended for 90 days to February 6, 2018 during which the Company and the Government can discuss whether the Company is in compliance with the DPA. There can be no assurance that the Company and the Government

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will continue to be able to negotiate a mutually satisfactory outcome during such 90 day period (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, including a monitorship period beyond the current monitorship that ends on April 30, 2018. 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.

*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 and 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 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 September 30, 2017. 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 \$18.3 million on amounts that have previously been accrued.

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**Note 12 — Earnings per Common Share**

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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:

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic common shares outstanding	63.1	62.2	62.8	62.4
Shares related to stock options and restricted stock units	3.1	4.2	3.4	3.8
Diluted common shares outstanding	66.2	66.4	66.2	66.2

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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 and restricted stock units are anti-dilutive if they are subject to performance conditions that have not been met. The following table summarizes the weighted-average potential common shares excluded from diluted earnings per common share, as their effect would be anti-dilutive:

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Shares related to stock options	1.6	2.7	1.7	2.8
Shares related to restricted stock units	0.3	0.8	0.2	0.8
Shares excluded from the computation	1.9	3.5	1.9	3.6

**Note 13 — 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 both the Global Funds Transfer segment and the Financial Paper Products segment accounted for 18% of total revenue for the three and nine months ended September 30, 2017, and 18% and 19% of total revenue for the three and nine months ended September 30, 2016, respectively.

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

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Global Funds Transfer revenue:</b>				
Money transfer revenue	\$ 356.8	\$ 369.3	\$ 1,055.4	\$ 1,086.3
Bill payment revenue	20.3	24.6	66.1	71.9
Total Global Funds Transfer revenue	377.1	393.9	1,121.5	1,158.2
<b>Financial Paper Products revenue:</b>				
Money order revenue	12.8	12.6	42.0	38.2
Official check revenue	7.9	6.3	30.4	17.8
Total Financial Paper Products revenue	20.7	18.9	72.4	56.0
Total revenue	\$ 397.8	\$ 412.8	\$ 1,193.9	\$ 1,214.2

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

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Global Funds Transfer operating income	\$ 29.6	\$ 26.6	\$ 70.4	\$ 70.0
Financial Paper Products operating income	4.6	4.5	26.6	13.6
Total segment operating income	34.2	31.1	97.0	83.6
Other operating loss	(10.9)	(5.0)	(31.8)	(18.5)
Total operating income	23.3	26.1	65.2	65.1
Interest expense	11.6	11.3	33.6	33.8
Income before income taxes	\$ 11.7	\$ 14.8	\$ 31.6	\$ 31.3

The following table sets forth the assets by segment:

<i>(Amounts in millions)</i>	September 30, 2017	December 31, 2016
Global Funds Transfer	\$ 2,315.4	\$ 2,213.9
Financial Paper Products	2,036.0	2,198.3
Other	194.7	185.2
Total assets	\$ 4,546.1	\$ 4,597.4

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

The purpose of this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), is to provide an understanding of MoneyGram International, Inc.'s ("MoneyGram," the "Company," "we," "us" and "our") financial condition, results of operations and cash flows by focusing on changes in certain key measures. This MD&A is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and related Notes included in this Quarterly Report on Form 10-Q and the Consolidated Financial Statements and Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. 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 below under "Cautionary Statements Regarding Forward-Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q.

The comparisons presented in this MD&A refer to the same period in the prior year, unless otherwise noted. This MD&A is organized in the following sections:

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates
- Cautionary Statements Regarding Forward-Looking Statements

### OVERVIEW

MoneyGram is a global provider of innovative money transfer services and is recognized worldwide as a financial connection to friends and family. Whether online, through a mobile device, at a kiosk or in a local store, we connect consumers in any way that is convenient for them. We also provide bill payment services, issue money orders and process official checks in the U.S. and in select countries and territories. We primarily offer services through third-party agents, including retail chains, independent retailers, post offices and financial institutions. We also have Company-operated retail locations in the U.S. and Western Europe. Additionally, we offer Digital solutions, which include moneygram.com, mobile solutions, account deposit and kiosk-based services.

We manage our revenue and related commissions expense through two reporting segments: Global Funds Transfer and Financial Paper Products. The Global Funds Transfer segment provides global money transfer services in approximately 360,000 agent locations in more than 200 countries and territories. Our global money transfer services are our primary revenue driver, accounting for 90% and 88% of total revenue for the three and nine months ended September 30, 2017, respectively. The Global Funds Transfer segment also provides bill payment services to consumers through 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. The Financial Paper Products segment provides money order services to consumers through retail locations and financial institutions located in the U.S. and Puerto Rico, and provides official check services to financial institutions in the U.S. Corporate expenses that are not related to our segments' performance are excluded from operating income for Global Funds Transfer and Financial Paper Products segments.

### Business Environment

During the nine months ended September 30, 2017, worldwide political and economic conditions remained highly variable, as evidenced by economic uncertainty in key markets, weak currencies, low currency reserves, currency controls, and a volatile immigration environment, among other factors. Also, there is continued political and economic unrest in parts of the Middle East and Africa that contributed to the volatility. Given the global reach and extent of the current economic conditions, the growth of money transfer volumes and the average face value of money transfers continued to fluctuate by corridor and country.

We generally compete for money transfer consumers on the basis of trust, convenience, price, technology and brand recognition. The market for money transfer services remains very competitive, consisting of a small number of large competitors and a large number of small, niche competitors. In addition to the competitive environment, global compliance requirements are becoming increasingly more complex, which has been affecting our top line growth. We have continued to implement solutions to comply with various government and other regulatory programs around the globe as well as introduce self-imposed compliance measures to further protect our customers and the integrity of our network.

We also continue to encounter competition from new technologies that allow consumers to send and receive money in a variety of ways. We believe that our investment in innovative products and services, particularly Digital solutions such as moneygram.com, mobile solutions, account deposit and kiosk-based services, positions the Company to grow our revenues and diversify our product and service offerings to meet consumers' needs. Digital solutions revenue for the three and nine months ended September 30, 2017 was \$52.7 million and \$155.9 million, respectively, or 15% of money transfer revenue for each period. Digital solutions revenue for the three and nine months ended September 30, 2016 was \$49.6 million and \$142.0 million, respectively, or 13% of money

transfer revenue for each period. Moneygram.com, which was 43% and 25% of Digital solutions revenue for the three and nine months ended September 30, 2017, respectively, grew by 23% and 26%, respectively, over the same periods in 2016.

### **Anticipated Trends**

This discussion of trends expected to impact our business in 2017 is based on information presently available and reflects certain assumptions, including assumptions regarding future economic conditions. Differences in actual economic conditions compared with our assumptions could have a material impact on our results. See "Cautionary Statements Regarding Forward-Looking Statements" included further below and Part I, Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for additional factors that could cause results to differ materially from those contemplated by the following forward-looking statements.

We continue to see increased opportunities to capitalize on growth and expansion both geographically and through product and service offerings. However, the strengthened U.S. dollar and political instability, which have led to increased currency volatility, liquidity pressure on central banks and pressure on labor markets in certain countries, may continue to impact our business in 2017. Additionally, competitors' pricing continues to negatively affect our growth in the U.S. to U.S. channel, along with macroeconomic issues in Africa, which have restricted our ability to transact.

The June 23, 2016 referendum by British voters to exit the European Union (referred to as Brexit), which was followed by Britain providing official notice to leave the European Union in March of 2017, introduced additional volatility and uncertainty in global markets and currency exchange rates. We are currently unable to determine the long term impact that Brexit will have on us and the global economic environment, as any impact will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations.

For our Financial Paper Products segment, we expect the decline in overall paper-based transactions to continue primarily due to continued migration by customers to other payment methods. Our investment revenue, which consists primarily of interest income generated through the investment of cash balances received from the sale of our Financial Paper Products, is dependent on the interest rate environment. The Company expects to see a positive impact on our investment revenue if interest rates increase.

We continue to see a trend among state, federal and international regulators toward enhanced scrutiny of anti-money laundering compliance programs, as well as consumer fraud prevention and education. Compliance with laws and regulations is a highly complex and integral part of our day-to-day operations; thus we have continued to increase our compliance personnel headcount and make investments in our compliance-related technology and infrastructure. Our compliance enhancement program is focused on improving our services for consumers and completing the programs recommended in adherence with our settlement with the U.S. Attorney's Office for the Middle District of Pennsylvania ("MDPA") and the Asset Forfeiture and Money Laundering Section of the Criminal Division of the Department of Justice ("U.S. DOJ"). For the nine months ended September 30, 2017, the Company has invested \$23.3 million in its compliance enhancement program, which includes \$14.9 million of capital expenditures and \$8.4 million of expenses incurred.

In the first quarter of 2013, a compliance monitor was selected pursuant to a requirement of our settlement with the MDPA and U.S. DOJ. We have received four annual reports from the compliance monitor and we are continuing to make investments in our compliance systems and operations as part of our compliance enhancement program. We incurred \$4.4 million and \$12.6 million of expense directly related to the compliance monitor for the three and nine months ended September 30, 2017, respectively.

### **Financial Measures and Key Metrics**

This Quarterly Report on Form 10-Q includes financial information prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") as well as certain non-GAAP financial measures that we use to assess our overall performance.

**GAAP Measures** — We utilize certain financial measures prepared in accordance with GAAP to assess the Company's overall performance. These measures include, but are not limited to: fee and other revenue, fee and other commissions expense, fee and other revenue less commissions, operating income and operating margin. Due to our regulatory capital requirements, we deem certain payment service assets as settlement assets. Settlement assets represent funds received or to be received from agents for unsettled money transfers, money orders and customer payments. Settlement assets include settlement cash and cash equivalents, receivables, net, interest-bearing investments and available-for-sale investments. See Note 2 — *Settlement Assets and Payment Service Obligations* of the Notes to the Condensed Consolidated Financial Statements for additional disclosure.

**Non-GAAP Measures** — Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures should be viewed as a supplement to, and not a substitute for, financial measures presented in accordance with GAAP. We strongly encourage investors and stockholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. While we believe that these metrics enhance investors' understanding of our business, these metrics are not necessarily

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comparable with similarly named metrics of other companies. The following are non-GAAP financial measures we use to assess our overall performance:

**EBITDA** (Earnings before interest, taxes, depreciation and amortization, including agent signing bonus amortization)

**Adjusted EBITDA** (EBITDA adjusted for certain significant items) — Adjusted EBITDA does not reflect cash requirements necessary to service interest or principal payments on our indebtedness or tax payments that may result in a reduction in cash available.

**Adjusted Free Cash Flow** (Adjusted EBITDA less cash interest, cash taxes, cash payments for capital expenditures and cash payments for agent signing bonuses) — Adjusted Free Cash Flow does not reflect cash payments related to the adjustment of certain significant items in Adjusted EBITDA.

**Constant Currency** — Constant currency metrics assume that amounts denominated in foreign currencies are translated to the U.S. dollar at rates consistent with those in the prior year.

The Company utilizes specific terms related to our business throughout this document, including the following:

**Corridor** — With regard to a money transfer transaction, the originating "send" location and the designated "receive" location are referred to as a corridor.

**Corridor mix** — The relative impact of increases or decreases in money transfer transaction volume in each corridor versus the comparative prior period.

**Face value** — The principal amount of each completed transaction, excluding any fees related to the transaction.

**Foreign currency** — The impact of foreign currency exchange rate fluctuations on our financial results is typically calculated as the difference between current period activity translated using the current period's currency exchange rates and the comparable prior-year period's currency exchange rates. We use this method to calculate the impact of changes in foreign currency exchange rates on revenues, commissions and other operating expenses for all countries where the functional currency is not the U.S. dollar.

## RESULTS OF OPERATIONS

The following table is a summary of the results of operations:

<i>(Amounts in millions, except percentages)</i>	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2017	2016		2017	2016	
<b>REVENUE</b>						
Fee and other revenue	\$ 390.1	\$ 408.2	(4)%	\$ 1,161.5	\$ 1,201.5	(3)%
Investment revenue	7.7	4.6	67	32.4	12.7	NM
Total revenue	397.8	412.8	(4)	1,193.9	1,214.2	(2)
<b>EXPENSES</b>						
Fee and other commissions expense	190.1	199.9	(5)	570.3	594.4	(4)
Investment commissions expense	2.6	0.6	NM	5.9	1.7	NM
Total commissions expense	192.7	200.5	(4)	576.2	596.1	(3)
Compensation and benefits	69.1	72.5	(5)	207.5	218.9	(5)
Transaction and operations support	78.3	79.5	(2)	240.2	227.1	6
Occupancy, equipment and supplies	15.5	15.6	(1)	49.0	46.8	5
Depreciation and amortization	18.9	18.6	2	55.8	60.2	(7)
Total operating expenses	374.5	386.7	(3)	1,128.7	1,149.1	(2)
<b>OPERATING INCOME</b>	23.3	26.1	(11)	65.2	65.1	—
Other expense						
Interest expense	11.6	11.3	3	33.6	33.8	(1)
Total other expense	11.6	11.3	3	33.6	33.8	(1)
Income before income taxes	11.7	14.8	(21)	31.6	31.3	1
Income tax expense	4.0	4.7	(15)	8.9	22.4	(60)
<b>NET INCOME</b>	\$ 7.7	\$ 10.1	(24)%	\$ 22.7	\$ 8.9	NM

NM=Not meaningful

## Global Funds Transfer

The following discussion provides a summary of fee and other revenue and fee and other commissions expense for the Global Funds Transfer segment for the three and nine months ended September 30, 2017 and 2016.

<i>(Amounts in millions, except percentages)</i>	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2017	2016		2017	2016	
Money transfer fee and other revenue	\$ 356.8	\$ 369.3	(3)%	\$ 1,055.4	\$ 1,086.3	(3)%
Bill payment fee and other revenue	20.3	24.6	(17)	66.1	71.9	(8)
Global Funds Transfer fee and other revenue	\$ 377.1	\$ 393.9	(4)	\$ 1,121.5	\$ 1,158.2	(3)
Fee and other commissions expense	\$ 189.8	\$ 199.5	(5)%	\$ 569.3	\$ 593.6	(4)%





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Money Transfer Fee and Other Revenue

The following table details the changes in money transfer fee and other revenue from 2016 to 2017:

<i>(Amounts in millions)</i>	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
For the period ended September 30, 2016	\$ 369.3	\$ 1,086.3
Change resulting from:		
Corridor mix	(8.6)	(30.3)
Average face value per transaction and pricing	(7.2)	(18.8)
Impact from changes in exchange rates	4.3	(7.1)
Money transfer volume	0.8	23.4
Other	(1.8)	1.9
For the period ended September 30, 2017	<u>\$ 356.8</u>	<u>\$ 1,055.4</u>

For the three and nine months ended September 30, 2017, the decrease in money transfer fee and other revenue was primarily driven by a negative change in corridor mix and a decrease in the average face value per transaction and pricing, partially offset by increased Non-U.S. and U.S. Outbound money transfer volume discussed further below. For the three months ended September 30, 2017, the decrease in money transfer fee and other revenue was also offset by the impact from changes in exchange rates driven by the euro.

The following table displays year-over-year money transfer fee and other revenue growth by geographic channel (the region originating the transaction):

	<u>Three Months Ended September 30,</u>	<u>Nine Months Ended September 30,</u>
	<u>2017 vs 2016</u>	<u>2017 vs 2016</u>
Total money transfer fee and other revenue	(3)%	(3)%
U.S. Outbound	1%	1%
Non-U.S.	(3)%	(3)%
U.S. to U.S.	(18)%	(17)%

Money Transfer Transactions

The following table displays the percentage distribution of total money transfer transactions by geographic channel (the region originating the transaction):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
U.S. Outbound	44%	43%	43%	44%
Non-U.S.	44%	42%	44%	41%
U.S. to U.S.	12%	15%	13%	15%

The following table displays year-over-year money transfer transaction growth by geographic channel (the region originating the transaction):

	<u>Three Months Ended September 30,</u>	<u>Nine Months Ended September 30,</u>
	<u>2017 vs 2016</u>	<u>2017 vs 2016</u>
Total transactions	—%	2%
U.S. Outbound	2%	3%
Non-U.S.	3%	7%
U.S. to U.S.	(14)%	(14)%

For the three and nine months ended September 30, 2017, total money transfer fee and other revenue decreased by 3%. Total money transfer transactions were flat for the three months ended September 30, 2017 and grew by 2% for the nine months ended

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September 30, 2017. The U.S. Outbound channel generated 1% revenue growth for the three and nine months ended September 30, 2017, and had transaction growth of 2% and 3%, respectively, for the same periods. The revenue and transaction growth was primarily driven by increased send transactions from the U.S. to Latin America. The U.S. Outbound channel accounted for 44% and 43% of our total money transfer transactions for the three and nine months ended September 30, 2017, respectively.

For the three and nine months ended September 30, 2017, the Non-U.S. channel money transfer fee and other revenue declined by 3% and the transaction growth was 3% and 7%, respectively, for the same periods. The decline in revenue was driven by a decrease in average face value per transaction and pricing and geopolitical issues in Africa. The decline was partially offset by transaction growth in Europe, Latin America and Middle East. The Non-U.S. channel accounted for 44% of total money transfer transactions for both the three and nine months ended September 30, 2017.

For the three and nine months ended September 30, 2017, the U.S. to U.S. channel money transfer fee and other revenue declined by 18% and 17%, respectively, and transactions declined by 14% for the same periods. The decline was primarily due to lower volume of transactions. The U.S. to U.S. channel accounted for 12% and 13% of total money transfer transactions for the three and nine months ended September 30, 2017, respectively.

Bill Payment Fee and Other Revenue

For the three and nine months ended September 30, 2017, bill payment fee and other revenue decreased by 17% and 8%, respectively, as a result of a decrease in transactions. Bill payment transactions decreased by 17% and 12% for the three and nine months ended September 30, 2017, respectively.

Fee and Other Commissions Expense

The following table details the changes in fee and other commissions expense for the Global Funds Transfer segment from 2016 to 2017:

<i>(Amounts in millions)</i>	Three Months Ended	Nine Months Ended
For the period ended September 30, 2016	\$ 199.5	\$ 593.6
Change resulting from:		
Money transfer revenue	(8.0)	(11.4)
Bill payment volume and commission rates	(2.8)	(4.8)
Impact from changes in exchange rates	1.9	(4.1)
Signing bonus amortization	(0.7)	(1.3)
Money transfer corridor and agent mix	(0.1)	(2.7)
For the period ended September 30, 2017	<u>\$ 189.8</u>	<u>\$ 569.3</u>

For the three and nine months ended September 30, 2017, fee and other commissions expense decreased by \$9.7 million and \$24.3 million, respectively. The decrease in fee and other commissions expense was primarily driven by the decrease in money transfer revenue and the decrease in bill payment volume and commission rates. For the three months ended September 30, 2017, fee and other commissions expense as a percentage of fee and other revenue decreased to 50% from 51% for the same period in 2016. Fee and other commissions expense as a percentage of fee and other revenue remained flat at 51% for the nine months ended September 30, 2017.

**Financial Paper Products**

The following discussion provides a summary of fee and other revenue and fee and other commissions expense for the Financial Paper Product segment for the three and nine months ended September 30, 2017 and 2016. Investment revenue and investment commissions expense are not included in the following analysis. For further detail, see "Investment Revenue Analysis" included below.

<i>(Amounts in millions, except percentages)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Money order fee and other revenue	\$ 10.5	\$ 11.2	(6)%	\$ 32.1	\$ 34.3	(6)%
Official check fee and other revenue	2.5	3.1	(19)	7.9	9.0	(12)
Financial Paper Product fee and other revenue	<u>\$ 13.0</u>	<u>\$ 14.3</u>	(9)	<u>\$ 40.0</u>	<u>\$ 43.3</u>	(8)
Fee and other commissions expense	\$ 0.3	\$ 0.4	(25)	\$ 1.0	\$ 0.8	25

NM=Not meaningful

For the three and nine months ended months ended September 30, 2017, Financial Paper Product fee and other revenue decreased primarily due to transaction declines attributed to the migration by consumers to other payment methods.

**Investment Revenue Analysis**

The following discussion provides a summary of the Company's investment revenue and investment commissions expense:

<i>(Amounts in millions, except percentages)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Investment revenue	\$ 7.7	\$ 4.6	67%	\$ 32.4	\$ 12.7	NM
Investment commissions expense <sup>(1)</sup>	2.6	0.6	NM	5.9	1.7	NM

<sup>(1)</sup>Investment commissions expense consists of amounts paid to financial institution customers based on short-term interest rate indices times the average outstanding cash balances of official checks sold by the financial institution.

NM=Not meaningful

Investment Revenue

Investment revenue consists primarily of interest income generated through the investment of cash balances received from the sale of official checks and money orders. These cash balances are available to us for investment until the payment instrument is cleared. Investment revenue varies depending on the level of investment balances and the yield on our investments.

Investment revenue increased for the three months ended September 30, 2017 when compared to the same period in 2016 due to higher yields earned on investment balances. Investment revenue increased for the nine months ended September 30, 2017 when compared to the same period in 2016 due to the increase in investment income from the redemption of an asset-backed security as well as higher yields and investment balances. See Note 4 — *Investment Portfolio* of the Notes to Condensed Consolidated Financial Statements and "*Liquidity and Capital Resources*" section below for additional disclosure related to the redemption.

## Operating Expenses

The following table is a summary of operating expenses, excluding commissions expense:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Dollars	Percent of Total Revenue	Dollars	Percent of Total Revenue	Dollars	Percent of Total Revenue	Dollars	Percent of Total Revenue
<i>(Amounts in millions, except percentages)</i>								
Compensation and benefits	\$ 69.1	17%	\$ 72.5	18%	\$ 207.5	17%	\$ 218.9	18%
Transaction and operations support	78.3	20	79.5	19	240.2	20	227.1	19
Occupancy, equipment and supplies	15.5	4	15.6	4	49.0	4	46.8	4
Depreciation and amortization	18.9	5	18.6	5	55.8	5	60.2	5
Total operating expenses	<u>\$ 181.8</u>	46%	<u>\$ 186.2</u>	45%	<u>\$ 552.5</u>	46%	<u>\$ 553.0</u>	46%

For the three and nine months ended September 30, 2017, total operating expenses as a percentage of total revenue remained flat when compared to the same periods in 2016. The following factors, all of which are discussed in more detail below, impacted our total operating expenses for the three and nine months ended September 30, 2017: a decrease in outsourcing, independent contractor and consultant costs, a decrease in marketing costs and a decrease in cash-based incentive compensation. The decreases were primarily offset by expenses related to the Merger (as defined and described in Note 1 — *Description of the Business and Basis of Presentation* of the Notes to Condensed Consolidated Financial Statements), an increase in direct monitor costs and for the nine months ended September 30, 2017, a decrease in net realized foreign exchange gains.

### Compensation and Benefits

Compensation and benefits include salaries and benefits, management incentive programs, related payroll taxes and other employee related costs. The following table is a summary of the change in compensation and benefits from 2016 to 2017:

<i>(Amounts in millions)</i>	Three Months Ended	Nine Months Ended
For the period ended September 30, 2016	\$ 72.5	\$ 218.9
Change resulting from:		
Cash-based incentive compensation	(2.8)	(8.2)
Stock-based compensation	(0.7)	(2.7)
Salaries and related payroll taxes	(0.7)	0.6
Other	0.8	(1.1)
For the period ended September 30, 2017	<u>\$ 69.1</u>	<u>\$ 207.5</u>

For the three months ended September 30, 2017, compensation and benefits expense decreased primarily due to lower cash-based incentive compensation expense, a decrease in salaries and related payroll taxes due to a decrease in headcount and a decrease in stock-based compensation. The decrease in compensation and benefits expense for the nine months ended September 30, 2017 was driven by the same factors that impacted the three months ended September 30, 2017, but was partially offset by an increase in salaries and related payroll taxes.

### Transaction and Operations Support

Transaction and operations support primarily includes marketing, professional fees and other outside services, telecommunications, agent support costs, including forms related to our products, non-compensation employee costs, including training, travel and relocation costs, bank charges and the impact of foreign exchange rate movements on our monetary transactions, assets and liabilities denominated in a currency other than the U.S. dollar.

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The following is a summary of the change in transaction and operations support from 2016 to 2017:

<i>(Amounts in millions)</i>	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
For the period ended September 30, 2016	\$ 79.5	\$ 227.1
Change resulting from:		
Marketing costs	(2.8)	(5.3)
Merger-related costs	2.1	10.5
Outsourcing, independent contractor and consultant costs	(1.9)	(9.5)
Direct monitor costs	1.8	5.3
Compliance enhancement program	(1.6)	(0.5)
Legal expenses	0.4	2.5
Net realized foreign exchange gains	—	10.4
Other	0.8	(0.3)
For the period ended September 30, 2017	<u>\$ 78.3</u>	<u>\$ 240.2</u>

For the three months ended September 30, 2017, transaction and operations support expense decreased primarily due to a decrease in marketing costs, outsourcing, independent contractor and consultant costs and cost related to our compliance enhancement program. The decrease was partially offset by Merger-related costs and an increase in direct monitor costs. For the nine months ended September 30, 2017, the increase in transaction and operations support expense was driven by Merger-related costs and an increase in direct monitor costs as well as a decrease in net realized foreign exchange gains related to certain currency purchases which traded outside of their historical norms in the first half of 2016. The increase was partially offset by a decrease in outsourcing, independent contractor and consultant costs and marketing costs.

#### Occupancy, Equipment and Supplies

Occupancy, equipment and supplies expense includes facilities rent and maintenance costs, software and equipment maintenance costs, freight and delivery costs and supplies.

For the three months ended September 30, 2017, occupancy, equipment and supplies expenses remained relatively flat when compared to the same period in 2016. For the nine months ended September 30, 2017, occupancy, equipment and supplies expense increased \$2.2 million when compared to the same period in 2016 as a result of an increase in equipment maintenance costs.

#### Depreciation and Amortization

Depreciation and amortization includes depreciation on computer hardware and software, agent signage, point of sale equipment, capitalized software development costs, office furniture, equipment and leasehold improvements and amortization of intangible assets.

Depreciation and amortization remained relatively flat for the three months ended September 30, 2017 when compared to the same period in 2016. For the nine months ended September 30, 2017, depreciation and amortization decreased by \$4.4 million when compared to the same period in 2016 as a result of higher costs incurred in the first half of 2016 from the accelerated depreciation expense on our non-core point of sale equipment that was early retired.

#### **Other Expenses**

##### Interest Expense

For the three months ended September 30, 2017, interest expense increased \$0.3 million when compared to the same period in 2016 due to an increase in the effective interest rate. For the nine months ended September 30, 2017, interest expense decreased \$0.2 million when compared to the same period in 2016 due to our lower debt balance from additional principal payments made in the fourth quarter of 2016, partially offset by the increase in the effective interest rate.

#### **Income Taxes**

The Company recognized income tax expense of \$4.0 million and \$8.9 million on a pre-tax income of \$11.7 million and \$31.6 million for the three and nine months ended September 30, 2017, respectively. The recorded income tax expense differs from taxes calculated at the statutory rate for the three months ended September 30, 2017, primarily due to a net favorable change in estimate for certain tax credits generated in both 2017 and 2016. For the nine months ended September 30, 2017, the recorded income tax expense differs from taxes calculated at the statutory rate primarily due to a net tax benefit recognized for the redemption of a previously impaired asset-backed security, a tax benefit on stock-based compensation, a benefit on the estimated income tax credits generated in 2017, and a tax benefit from the reorganization of our international business activities, partially offset by the related

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amortization of the deferred charge. See Note 10 — *Income Taxes* of the Notes to Condensed Consolidated Financial Statements for more information related to the reorganization and the amortization of the deferred charge.

For the three months ended September 30, 2016, the Company recognized an income tax expense of \$4.7 million on a pre-tax income of \$14.8 million. The recorded income tax differs from taxes calculated at the statutory rate primarily due to a favorable change in estimate for certain tax credits generated in both 2016 and 2015. For the nine months ended September 30, 2016, the Company recognized an income tax expense of \$22.4 million on pre-tax income of \$31.3 million. The recorded income tax expense for the nine months ended September 30, 2016 differs from taxes calculated at the statutory rate primarily due to an increase in tax expense of \$7.7 million due to the settlement reached with the Internal Revenue Service (the "IRS") on the matter related to the deduction of payments previously made by the Company to the U.S. DOJ pursuant to the Deferred Prosecution Agreement with the MDPA and the U.S. DOJ (the "Deferred Prosecution Agreement"), the reversal of tax benefits of \$3.6 million on share-based compensation and a tax expense of \$1.6 million related to non-deductible executive compensation, offset by \$1.7 million of tax benefit related to the Company's increase in estimate for certain tax credits.

**Operating Income and Operating Margin**

The following table provides a summary overview of operating income and operating margin:

<i>(Amounts in millions, except percentages)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
<b>Operating income:</b>						
Global Funds Transfer	\$ 29.6	\$ 26.6	\$ 3.0	\$ 70.4	\$ 70.0	\$ 0.4
Financial Paper Products	4.6	4.5	0.1	26.6	13.6	13.0
Total segment operating income	34.2	31.1	3.1	97.0	83.6	13.4
Other operating loss	(10.9)	(5.0)	(5.9)	(31.8)	(18.5)	(13.3)
Total operating income	\$ 23.3	\$ 26.1	\$ (2.8)	\$ 65.2	\$ 65.1	\$ 0.1
<b>Operating margin:</b>						
Total operating margin	5.9%	6.3%		5.5%	5.4%	
Global Funds Transfer	7.8%	6.8%		6.3%	6.0%	
Financial Paper Products	22.2%	23.8%		36.7%	24.3%	

For the three and nine months ended September 30, 2017, the Company experienced an increase in Global Funds Transfer segment operating income and operating margin primarily from a decrease in fee and other commissions expense when compared to the three and nine months ended September 30, 2016. For the three months ended September 30, 2017, Financial Paper Products segment operating income remained relatively flat and the operating margin slightly decreased due to an increase in investment commissions expense. For the nine months ended September 30, 2017, Financial Paper Products segment operating income and operating margin increased when compared to the nine months ended September 30, 2016, due to higher segment revenues from the redemption of an asset-backed security described in Note 4 — *Investment Portfolio* of the Notes to Condensed Consolidated Financial Statements. Other operating loss for the three and nine months ended September 30, 2017, increased primarily due to Merger-related costs incurred in 2017.

**EBITDA, Adjusted EBITDA, Adjusted Free Cash Flow and Constant Currency**

We believe that EBITDA, Adjusted EBITDA, Adjusted Free Cash Flow and constant currency measures provide useful information to investors because they are indicators of the strength and performance of our ongoing business operations. These calculations are commonly used as a basis for investors, analysts and other interested parties to evaluate and compare the operating performance and value of companies within our industry. In addition, our debt agreements require compliance with financial measures similar to Adjusted EBITDA. EBITDA, Adjusted EBITDA, Adjusted Free Cash Flow and constant currency are financial and performance measures used by management in reviewing results of operations, forecasting, allocating resources and establishing employee incentive programs. We also present Adjusted EBITDA growth, constant currency adjusted, which provides information to investors regarding MoneyGram's performance without the effect of foreign currency exchange rate fluctuations year-over-year.

Although we believe that EBITDA, Adjusted EBITDA, Adjusted Free Cash Flow and constant currency measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered in isolation or as substitutes for the accompanying GAAP financial measures. These metrics are not necessarily comparable with similarly named metrics of other companies.

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The following table is a reconciliation of our non-GAAP financial measures to the related GAAP financial measures:

<i>(Amounts in millions, except percentages)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Income before income taxes	\$ 11.7	\$ 14.8	\$ (3.1)	\$ 31.6	\$ 31.3	\$ 0.3
Interest expense	11.6	11.3	0.3	33.6	33.8	(0.2)
Depreciation and amortization	18.9	18.6	0.3	55.8	60.2	(4.4)
Signing bonus amortization	12.7	13.3	(0.6)	39.0	41.0	(2.0)
EBITDA	54.9	58.0	(3.1)	160.0	166.3	(6.3)
Significant items impacting EBITDA:						
Direct monitor costs	4.4	2.6	1.8	12.6	7.3	5.3
Stock-based, contingent and incentive compensation	3.5	4.2	(0.7)	11.0	14.9	(3.9)
Compliance enhancement program	2.4	3.1	(0.7)	8.4	8.0	0.4
Merger-related costs <sup>(1)</sup>	2.2	—	2.2	10.7	—	10.7
Legal and contingent matters	0.5	0.7	(0.2)	1.9	1.4	0.5
Severance and related costs	—	—	—	—	1.4	(1.4)
Adjusted EBITDA	\$ 67.9	\$ 68.6	\$ (0.7)	\$ 204.6	\$ 199.3	\$ 5.3
Adjusted EBITDA growth, as reported	(1)%			3%		
Adjusted EBITDA growth, constant currency adjusted	(2)%			4%		
Adjusted EBITDA	\$ 67.9	\$ 68.6	\$ (0.7)	\$ 204.6	\$ 199.3	\$ 5.3
Cash payments for interest	(10.7)	(10.5)	(0.2)	(31.1)	(31.4)	0.3
Cash taxes, net	(2.8)	(2.5)	(0.3)	(6.4)	(7.1)	0.7
Cash payments for capital expenditures	(23.0)	(22.3)	(0.7)	(63.1)	(60.4)	(2.7)
Cash payments for agent signing bonuses	(6.2)	(2.6)	(3.6)	(24.6)	(17.2)	(7.4)
Adjusted Free Cash Flow	\$ 25.2	\$ 30.7	\$ (5.5)	\$ 79.4	\$ 83.2	\$ (3.8)

<sup>(1)</sup> Merger-related costs include, but are not limited to, legal, investment banking and consultant fees and other one-time integration costs.

For the three and nine months ended September 30, 2017, the Company generated EBITDA of \$54.9 million and \$160.0 million, respectively, and Adjusted EBITDA of \$67.9 million and \$204.6 million, respectively. For the three months ended September 30, 2017, Adjusted EBITDA remained relatively flat. For the nine months ended September 30, 2017, Adjusted EBITDA increased when compared to the same period in 2016, primarily due to a decrease in total operating expenses driven by a decrease in outsourcing, independent contractor and consultant costs, cash-based incentive compensation expense and marketing costs.

For the three and nine months ended September 30, 2017, EBITDA decreased by \$3.1 million and \$6.3 million, respectively, when compared to the same periods in 2016, due to the same factors that impacted Adjusted EBITDA, Merger-related costs and increased direct monitor costs, partially offset by a decline in stock-based, contingent and incentive compensation.

For the three and nine months ended September 30, 2017, Adjusted Free Cash Flow decreased by \$5.5 million and \$3.8 million, respectively, when compared to the same periods in 2016. The decrease was driven by an increase in agent signing bonus payments due to timing of agent expansion and retention efforts.

## LIQUIDITY AND CAPITAL RESOURCES

We have various resources available for purposes of managing liquidity and capital needs, including our investment portfolio, credit facilities and letters of credit. We refer to our cash and cash equivalents, settlement cash and cash equivalents, interest-bearing investments and available-for-sale investments collectively as our “investment portfolio.” The Company utilizes cash and cash equivalents in various liquidity and capital assessments.

[Table of Contents](#)**Cash and Cash Equivalents, Settlement Assets and Payment Service Obligations**

The following table shows the components of the Company's cash and cash equivalents and settlement assets:

<i>(Amounts in millions)</i>	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 170.4	\$ 157.2
Settlement assets:		
Settlement cash and cash equivalents	1,418.0	1,365.0
Receivables, net	920.1	999.4
Interest-bearing investments	1,153.9	1,252.1
Available-for-sale investments	7.5	17.8
	<u>\$ 3,499.5</u>	<u>\$ 3,634.3</u>
Payment service obligations	\$ (3,499.5)	\$ (3,634.3)

Our primary sources of liquidity include cash flows generated by the sale of our payment instruments, our cash and cash equivalent and interest-bearing investment balances, proceeds from our investment portfolio and credit capacity under our credit facilities. Our primary operating liquidity needs are related to the settlement of payment service obligations to our agents and financial institution customers, general operating expenses and debt service.

To meet our payment service obligations at all times, we must have sufficient highly liquid assets and be able to move funds globally on a timely basis. On average, we receive in and pay out a similar amount of funds on a daily basis to collect and settle the principal amount of our payment instruments sold and related fees and commissions with our end consumers and agents. This pattern of cash flows allows us to settle our payment service obligations through ongoing cash generation rather than liquidating investments or utilizing our revolving credit facility. We have historically generated, and expect to continue generating, sufficient cash flows from daily operations to fund ongoing operational needs.

We seek to maintain funding capacity beyond our daily operating needs to provide a cushion through the normal fluctuations in our payment service obligations, as well as to provide working capital for the operational and growth requirements of our business. We believe we have sufficient liquid assets and funding capacity to operate and grow our business for the next 12 months. Should our liquidity needs exceed our operating cash flows, we believe that external financing sources, including availability under our credit facilities, will be sufficient to meet our anticipated funding requirements.

**Cash and Cash Equivalents and Interest-bearing Investments**

To ensure we maintain adequate liquidity to meet our operating needs at all times, we keep a significant portion of our investment portfolio in cash and cash equivalents and interest-bearing investments at financial institutions rated A- or better by two of the following three rating agencies: Moody's Investor Service ("Moody's"), Standard & Poor's ("S&P"), and Fitch Ratings, Inc.; and in AAA rated U.S. government money market funds. If the rating agencies have split ratings, the Company uses the highest two out of three ratings across the agencies for disclosure purposes. If none of the three rating agencies have the same rating, the Company uses the lowest rating across the agencies for disclosure purposes. As of September 30, 2017, cash and cash equivalents (including unrestricted and settlement cash and cash equivalents) and interest-bearing investments totaled \$2.7 billion. Cash and cash equivalents consist of interest-bearing deposit accounts, non-interest bearing transaction accounts and money market securities; interest-bearing investments consist of time deposits and certificates of deposit with maturities of up to 24 months.

**Available-for-sale Investments**

Our investment portfolio includes \$7.5 million of available-for-sale investments as of September 30, 2017. U.S. government agency residential mortgage-backed securities composed \$6.1 million of our available-for-sale investments, while asset-backed and other securities composed the remaining \$1.4 million.

For the nine months ended September 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. See Note 4 — *Investment Portfolio* of the Notes to Condensed Consolidated Financial Statements for additional disclosure related to the redemption.



**Credit Facilities**

On March 28, 2013, we entered into the Amended and Restated Credit Agreement ("2013 Credit Agreement") with Bank of America, N.A. ("BOA"), as administrative agent, the financial institutions party thereto, as lenders, and the other agents party thereto. The 2013 Credit Agreement provided for (i) a senior secured five-year revolving credit facility up to an aggregate principal amount of \$125.0 million (the "Revolving Credit Facility") and (ii) a senior secured seven-year term loan facility of \$850.0 million ("Term Credit Facility"). The Revolving Credit Facility includes a sub-facility that permits the Company to request the issuance of letters of credit up to an aggregate amount of \$50.0 million, with borrowings available for general corporate purposes and which would reduce the amount available under the Revolving Credit Facility.

On April 2, 2014, we entered into a First Incremental Amendment and Joinder Agreement with BOA, as administrative agent, and various lenders, which provided for (i) a tranche under the Term Credit Facility in an aggregate principal amount of \$130.0 million, (ii) an increase in the aggregate revolving loan commitments under the 2013 Credit Agreement from \$125.0 million to \$150.0 million, and (iii) certain other amendments to the 2013 Credit Agreement.

On December 12, 2016, the Company entered into Amendment No. 2 to the 2013 Credit Agreement (the "2016 Amendment") with BOA and various lenders. The 2016 Amendment includes, but is not limited to, decreasing the aggregate revolving credit commitments from \$150.0 million to \$125.0 million from December 12, 2016 to March 27, 2018 (the remainder of the original Revolving Credit Facility term), and increasing the maximum secured leverage ratio, effective the first quarter of 2017. The 2016 Amendment also extends 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.

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

<i>(Amounts in millions, except percentages)</i>	September 30, 2017		December 31, 2016	
	Effective Interest Rate		Effective Interest Rate	
Senior secured credit facility due 2020	4.55%	\$ 916.7	4.25%	\$ 924.0
Unamortized debt issuance costs and debt discount		(6.8)		(8.8)
Total debt, net		<u>\$ 909.9</u>		<u>\$ 915.2</u>

As of September 30, 2017, the Company had no outstanding letters of credit or borrowings under the Revolving Credit Facility, leaving \$125.0 million of borrowing capacity thereunder. The Company's effective interest rate on senior secured borrowings increased from 4.25% as of December 31, 2016 to 4.55% as of September 30, 2017 due to an increase in the Eurodollar rate.

The 2013 Credit Agreement, as amended, contains various financial and non-financial covenants. We continuously monitor our compliance with our debt covenants. At September 30, 2017, the Company was in compliance with its financial covenants. See Note 6 — *Debt* of the Notes to Condensed Consolidated Financial Statements for additional disclosure related to the Company's credit facilities and financial covenants.

**Credit Ratings**

As of September 30, 2017, our credit ratings from Moody's and S&P were B1 with a stable outlook and B+ on CreditWatch Positive, respectively. Our credit facilities, regulatory capital requirements and other obligations will not be impacted by a future change in our credit ratings.

**Regulatory Capital Requirements**

We were in compliance with all financial regulatory requirements as of September 30, 2017. We believe that our liquidity and capital resources will remain sufficient to ensure ongoing compliance with all financial regulatory requirements.

**Analysis of Cash Flows**

<i>(Amounts in millions)</i>	Nine Months Ended September 30,	
	2017	2016
Net cash provided by operating activities	\$ 89.8	\$ 87.1
Net cash used in investing activities	(63.1)	(60.4)
Net cash used in financing activities	(13.5)	(18.1)
Net change in cash and cash equivalents	<u>\$ 13.2</u>	<u>\$ 8.6</u>

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Cash Flows Provided by Operating Activities

For the nine months ended September 30, 2017, net cash provided by operating activities increased by \$2.7 million when compared to the same period in 2016. The increase in cash from operating activities was driven by an increase in net income, partially offset by an increase in agent signing bonus payments due to timing of agent expansion and retention efforts, payments for prepaid expenses related to software licenses and maintenance and other legal and contingent matters.

Cash Flows Used in Investing and Financing Activities

For the nine months ended September 30, 2017 and 2016, investing activities used cash of \$63.1 million and \$60.4 million, respectively, for capital expenditures.

For the nine months ended September 30, 2017, financing activities used cash of \$13.5 million primarily for payments to tax authorities for stock-based compensation and principal payments associated with the Term Credit Facility, partially offset by proceeds from exercise of stock options. For the nine months ended September 30, 2016, financing activities used cash of \$18.1 million primarily for stock repurchases, principal payments associated with the Term Credit Facility and payments to tax authorities for stock-based compensation.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts and related disclosures in the consolidated financial statements. Actual results could differ from those estimates. On a regular basis, management reviews its accounting policies, assumptions and estimates to ensure that our financial statements are presented fairly and in accordance with GAAP. Our significant accounting policies are discussed in Note 2 — *Summary of Significant Accounting Policies* of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Critical accounting policies are those policies that management believes are very important to the portrayal of our financial position and results of operations, and that require management to make estimates that are difficult, subjective or complex. There were no changes to our critical accounting policies and estimates during the quarter ended September 30, 2017. For further information regarding our critical accounting policies and estimates, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements with respect to, among other things, the financial condition, results of operations, plans, objectives, future performance and business of MoneyGram and its subsidiaries. Statements preceded by, followed by or that include words such as "believes," "estimates," "expects," "projects," "plans," "anticipates," "intends," "continues," "will," "should," "could," "may," "would," "goals" and other similar expressions are intended to identify some of the forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are included, along with this statement, for purposes of complying with the safe harbor provisions of the Act. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the risks and uncertainties described in Part I, Item 1A under the caption "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016, as well as the various factors described herein. These forward-looking statements speak only as of the date they are made, and MoneyGram undertakes no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or otherwise, except as required by federal securities law. These forward-looking statements are based on management's current expectations, beliefs and assumptions and are subject to certain risks, uncertainties and changes in circumstances due to a number of factors. These factors include, but are not limited to:

- our ability to compete effectively;
- our ability to maintain key agent or biller relationships, or a reduction in business or transaction volume from these relationships, including with our largest agent, Wal-Mart Stores, Inc., through its introduction of competing white label money transfer products or otherwise;
- our ability to manage fraud risks from consumers or agents;
- the ability of us and our agents to comply with U.S. and international laws and regulations;
- litigation and regulatory proceedings involving us or our agents, which could result in material settlements, fines or penalties, revocation of required licenses or registrations, termination of contracts, other administrative actions or lawsuits and negative publicity;
- possible uncertainties relating to compliance with and the impact of the Deferred Prosecution Agreement;

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- current and proposed regulations addressing consumer privacy and data use and security;
- our ability to successfully develop and timely introduce new and enhanced products and services and our investments in new products, services or infrastructure changes;
- our offering of money transfer services through agents in regions that are politically volatile or, in a limited number of cases, that may be subject to certain Office of Foreign Assets Control ("OFAC") restrictions;
- changes in tax laws or unfavorable outcomes of tax positions we take, or a failure by us to establish adequate reserves for tax events;
- our substantial debt service obligations, significant debt covenant requirements and credit rating and our ability to maintain sufficient capital;
- our ability to manage risks associated with our international sales and operations, including risks associated with the United Kingdom's vote to withdraw from the European Union;
- major bank failure or sustained financial market illiquidity, or illiquidity at our clearing, cash management and custodial financial institutions;
- the ability of us and our agents to maintain adequate banking relationships;
- a security or privacy breach in systems, networks or databases on which we rely;
- disruptions to our computer systems and data centers and our ability to effectively operate and adapt our technology;
- continued weakness in economic conditions, in both the U.S. and global markets;
- a significant change, material slow down or complete disruption of international migration patterns;
- the financial health of certain European countries or the secession of a country from the European Union, and the resulting impact on the sustainability of the euro;
- our ability to manage credit risks from our agents and official check financial institution customers;
- our ability to adequately protect our brand and intellectual property rights and to avoid infringing on the rights of others;
- our ability to attract and retain key employees;
- our ability to manage risks related to the operation of retail locations and the acquisition or start-up of businesses;
- any restructuring actions and cost reduction initiatives that we undertake may not deliver the expected results and these actions may adversely affect our business;
- our ability to maintain effective internal controls;
- our capital structure and the special voting rights provided to designees of Thomas H. Lee Partners, L.P. on our Board of Directors;
- risks relating to the proposed Merger, including the possibility that the consummation of the Merger could be delayed or not completed, and the effect of announcement or pendency of the Merger on our business; and
- the risks and uncertainties described in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as well as any additional risk factors that may be described in our other filings with the Securities and Exchange Commission ("SEC") from time to time.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risk since December 31, 2016. For further information on market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

### **ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed by the Company in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include, without limitation, controls and procedures designed to ensure that information that the Company is required to disclose in such reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

#### *Changes in Internal Control over Financial Reporting*

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. 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.

#### Litigation Commenced Against the Company:

*Class Action Securities Litigation* — On April 15, 2015, a securities class action lawsuit was filed in the Superior Court of the State of Delaware, County of New Castle, against MoneyGram, all of its directors, certain of its executive officers, Thomas H. Lee Partners, L.P., Goldman, Sachs & Co. and the underwriters of the secondary public offering of the Company's common stock that closed on April 2, 2014 (the "2014 Offering"). The lawsuit was brought by the Iron Workers District Council of New England Pension Fund seeking to represent a class consisting of all purchasers of the Company's common stock issued pursuant and/or traceable to the Company's registration statement and prospectus, and all documents incorporated by reference therein, for the 2014 Offering. The lawsuit alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended, due to allegedly false and misleading statements in connection with the 2014 Offering and seeks unspecified damages and other relief. In May 2015, MoneyGram and the other defendants filed a notice of removal to the federal district court of the District of Delaware. On July 24, 2017, the plaintiff voluntarily dismissed its complaint without prejudice.

*Other Matters* — The Company is involved in various other 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 and 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 OFAC sanctions regulations. We notified OFAC of the ongoing 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 results of operations, and we cannot predict when OFAC will conclude their review of our Voluntary Self-Disclosure.

*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. Department of Justice ("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 a five-year deferred prosecution agreement (the "DPA") with the MDPA and U.S. DOJ dated November 8, 2012.

On November 1, 2017, the Company agreed to a stipulation with the MDPA and the DOJ (collectively, the "Government") that the term of the Company's DPA be extended for 90 days to February 6, 2018 during which the Company and the Government can 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 such 90 day period (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, including a monitorship period beyond the current monitorship that ends on April 30, 2018. 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.

*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 and 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. 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 Company believes that it

has substantive tax law arguments in favor of its position. 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. Pending the outcome of the appeal, the Company may be required to file amended state returns and make additional cash payments of up to \$18.3 million on amounts that have previously been accrued.

#### **ITEM 1A. RISK FACTORS**

Except as set forth below, there have been no other material changes in the Company's risk factors from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. For further information, refer to Part I. Item 1A. "Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

*We face possible uncertainties relating to compliance with and the extension and impact of the deferred prosecution agreement entered into with the U.S. federal government.*

In November 2012, we announced that we had entered into a five-year DPA with the MDPA/U.S. DOJ relating to the period from 2003 to early 2009. Pursuant to the DPA, the MDPA/U.S. DOJ filed a two-count criminal Information in the U.S. District Court for the Middle District of Pennsylvania. Under the DPA, the Company has agreed, among other things, to retain an independent compliance monitor (the "Compliance Monitor") for a period of five years. On November 1, 2017, the Company agreed to a stipulation with the MDPA and the DOJ (collectively, the "Government") that the term of the Company's DPA be extended for 90 days to February 6, 2018 during which the Company and the Government can continue to discuss whether the Company is in compliance with the DPA. There can be no assurance that the Company and the Government will be able to negotiate a mutually satisfactory outcome during such 90 day period (or during 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, including a monitorship period beyond the current monitorship that ends on April 30, 2018. The terms of any agreement with the Government could impose significant additional costs upon the Company related to compliance and other required terms, which could have an adverse impact on the Company's operations. 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 the monitorship. A prosecution of the Company by the Government or the imposition of significant financial penalties could lead to a severe material adverse effect upon the Company's ability to conduct its business. Furthermore, neither the DPA nor any agreement with the MDPA/U.S. DOJ would resolve any inquiries from other governmental agencies, which could result in additional costs, expenses and fines.

#### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company's Board of Directors has authorized the repurchase of a total of 12,000,000 common shares as announced in our press releases issued on November 18, 2004, August 18, 2005 and May 9, 2007. The repurchase authorization is effective until such time as the Company has repurchased 12,000,000 common shares. Common stock tendered to the Company in connection with the exercise of stock options or vesting of restricted stock is not considered repurchased shares under the terms of the repurchase authorization. As of September 30, 2017, the Company had repurchased 9,842,509 common shares under the terms of the repurchase authorization and has remaining authorization to repurchase up to 2,157,491 shares. During the three months ended September 30, 2017, the Company did not repurchase any common shares.

#### **ITEM 6. EXHIBITS**

The following exhibits are filed or incorporated by reference herein in response to Item 601 of Regulation S-K. The Company files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K pursuant to the Securities Exchange Act of 1934 under Commission File No. 1-31950.

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<b>Exhibit Number</b>	<b>Description</b>
2.1+	<a href="#">Agreement and Plan of Merger, dated January 26, 2017, by and among MoneyGram International, Inc., Alipay (UK) Limited, Matrix Acquisition Corp. and, solely for purposes of certain specified provisions thereof, Alipay (Hong Kong) Holding Limited (Incorporated by reference from Exhibit 2.1 to Registrant's Current Report on Form 8-K filed January 26, 2017).</a>
2.2	<a href="#">First Amendment to the Agreement and Plan of Merger, dated April 15, 2017, by and among MoneyGram International, Inc., Alipay (UK) Limited, Matrix Acquisition Corp. and Alipay (Hong Kong) Holding Limited (Incorporated by reference from Exhibit 2.1 to Registrant's Current Report on Form 8-K filed April 17, 2017).</a>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of MoneyGram International, Inc., dated June 28, 2004 (Incorporated by reference from Exhibit 3.1 to Registrant's Annual Report on Form 10-K filed on March 15, 2010).</a>
3.2	<a href="#">Certificate of Amendment of Amended and Restated Certificate of Incorporation of MoneyGram International, Inc., dated May 12, 2009 (Incorporated by reference from Exhibit 3.1 to Registrant's Annual Report on Form 10-K filed March 15, 2010).</a>
3.3	<a href="#">Certificate of Amendment of Amended and Restated Certificate of Incorporation of MoneyGram International, Inc., dated May 18, 2011 (Incorporated by reference from Exhibit 3.1 to Registrant's Current Report on Form 8-K filed May 23, 2011).</a>
3.4	<a href="#">Certificate of Amendment of Amended and Restated Certificate of Incorporation of MoneyGram International, Inc., dated November 14, 2011 (Incorporated by reference from Exhibit 3.1 to Registrant's Current Report on Form 8-K filed November 14, 2011).</a>
3.5	<a href="#">Amended and Restated Bylaws of MoneyGram International, Inc., as amended and restated October 28, 2015 (Incorporated by reference from Exhibit 3.5 to Registrant's Quarterly Report on Form 10-Q filed on November 2, 2015).</a>
3.6	<a href="#">Amendment to the Amended and Restated Bylaws of MoneyGram International, Inc., dated March 2, 2016 (Incorporated by reference from Exhibit 3.6 to Registrant's Annual Report on Form 10-K filed on March 2, 2016).</a>
3.7	<a href="#">Amended and Restated Certificate of Designations, Preferences and Rights of Series D Participating Convertible Preferred Stock of MoneyGram International, Inc., dated May 18, 2011 (Incorporated by reference from Exhibit 3.2 to Registrant's Current Report on Form 8-K filed May 23, 2011).</a>
10.1*	<a href="#">Amendment No. 7 to Amended and Restated Master Trust Agreement, dated July 28, 2017, by and between MoneyGram Payment Systems, Inc. and Wal-Mart Stores, Inc.</a>
31.1*	<a href="#">Section 302 Certification of Chief Executive Officer</a>
31.2*	<a href="#">Section 302 Certification of Chief Financial Officer</a>
32.1**	<a href="#">Section 906 Certification of Chief Executive Officer</a>
32.2**	<a href="#">Section 906 Certification of Chief Financial Officer</a>
101*	The following financial statements, formatted in Extensible Business Reporting Language ("XBRL"): (i) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016; (v) Condensed Consolidated Statement of Stockholders' Deficit for the nine months ended September 30, 2017; and (vi) Notes to Condensed Consolidated Financial Statements.
*	Filed herewith.
**	Furnished herewith.
+	Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. MoneyGram International, Inc. hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the U.S. Securities and Exchange Commission; provided, however, that MoneyGram International, Inc. may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedules so furnished.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**MoneyGram International, Inc.**  
(Registrant)

November 2, 2017

By: /s/ JOHN D. STONEHAM  
**John D. Stoneham**  
Corporate Controller  
(Principal Accounting Officer)

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# MoneyGram

## Amendment No 7 TO AMENDED AND RESTATED MASTER TRUST AGREEMENT

This Amendment No. 7 to the Amended and Restated Master Trust Agreement (this "Amendment No. 7") is entered into as of the 28<sup>th</sup> day of July, 2017 (the "Amendment No. 7 Effective Date"), by and between Wal-Mart Stores, Inc. ("Walmart") located at 702 SW 8<sup>th</sup> Street, Bentonville, Arkansas 72716, and MoneyGram Payment Systems, Inc. ("MoneyGram"), a Delaware corporation with a place of business at 2828 N. Harwood, Dallas, TX 75201.

WHEREAS, Walmart and MoneyGram desire to amend the terms of Attachment B - Bill Pay Service Attachment ("Attachment B").

NOW THEREFORE, in consideration of the promises and the mutual covenants of the Parties hereinafter set forth, the Parties hereto agree as follows:

1. **Definitions.** Except as otherwise indicated in the Amendment No. 7, capitalized terms used in this Amendment No. 7 have the same meanings as in the Agreement.
2. The Parties agree to add the following subsection (iii) to Section G of Attachment B:
  - (iii) The BP Consumer Fee used by Walmart to conduct Bill Pay Service transactions being purchased by Walmart associates (i.e., employees) shall reflect Walmart's discounts given such associates, up to ten percent (10%) of the BP Consumer Fee for the same Bill Payment Service transactions if being conducted by a non-Walmart associate. On a quarterly basis, MoneyGram will invoice Walmart for the total amount of discounts given to Walmart's associates pursuant to this Section, and Walmart will pay such amount to MoneyGram within thirty (30) days of receiving the invoice.
3. **Binding Effect.** This Amendment shall bind and inure to the benefit of the parties hereto and their respective heirs, successors and permitted assigns.
4. **Interpretation.** In the event of any conflict between the terms of this Amendment and the terms of the Agreement and any other amendment or addendum thereto with respect to the subject matter hereof, the terms of this Amendment No. 7 shall control.
5. **Entire Agreement.** Each Party acknowledges and agrees that each and every provision of this Amendment No. 7, including the recitals and any "whereas" clauses, is contractual in nature and binding on the Parties. Except as expressly set forth in this Amendment No. 7, nothing in this amendment No. 7 will modify, alter or amend any provision or term of the Agreement.

AGREED:

\_\_\_\_\_  
MoneyGram Payment Systems, Inc.  
(MoneyGram)

By: W. Alexander Holmes

\_\_\_\_\_  
Name: /s/ W. Alexander Holmes

Title: Chief Executive Officer

\_\_\_\_\_  
Wal-Mart Stores, Inc.  
(Walmart)

By: Kirsty Ward

\_\_\_\_\_  
Name: /s/ Kirsty Ward

Title: Vice President, Walmart Services



**Certification Pursuant to Section 302 of the  
Sarbanes-Oxley Act of 2002**

I, W. Alexander Holmes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MoneyGram International, Inc. for the period ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ W. Alexander Holmes

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W. Alexander Holmes  
Director and Chief Executive Officer  
(Principal Executive Officer)

**Certification Pursuant to Section 302 of the  
Sarbanes-Oxley Act of 2002**

I, Lawrence Angelilli, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MoneyGram International, Inc. for the period ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ Lawrence Angelilli

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Lawrence Angelilli  
Chief Financial Officer  
(Principal Financial Officer)

**Certification Pursuant to 18 U.S.C. §1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q (the "Report"), of MoneyGram International, Inc. (the "Company") for the period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof I, W. Alexander Holmes, Director and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2017

/s/ W. Alexander Holmes

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W. Alexander Holmes

Director and Chief Executive Officer

(Principal Executive Officer)

**Certification Pursuant to 18 U.S.C. §1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q (the "Report"), of MoneyGram International, Inc. (the "Company") for the period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof I, Lawrence Angelilli, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2017

/s/ Lawrence Angelilli

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Lawrence Angelilli

Chief Financial Officer

(Principal Financial Officer)

