MONEYGRAM INTERNATIONAL INC
Form 10-K
March 09, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ	**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011.**
¨	**Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .**

Commission File Number: 001-31950

MONEYGRAM INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code

(214) 999-7552

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No þ

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

The aggregate market value of voting and nonvoting common stock held by non-affiliates of the registrant, computed by reference to the last sales price as reported on the New York Stock Exchange as of June 30, 2011, the last business day of the registrant s most recently completed second fiscal quarter, was $277.3 million.

57,834,779 shares of common stock were outstanding as of February 28, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this report is incorporated by reference from the registrant s proxy statement for the 2012 Annual Meeting of Stockholders.

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PART I

Item 1. BUSINESS

Overview

MoneyGram International, Inc. (together with our subsidiaries, MoneyGram, the Company, we, us and our) is a leading global payment serv company. Our major products include global money transfers, bill payment solutions and financial paper products. We help people and businesses by providing affordable, reliable and convenient payment services.

The MoneyGram® brand is recognized throughout the world. We offer more choices and more control for people separated from friends and family by distance or those with limited bank relationships to meet their financial needs. Our money transfer services are available at approximately 267,000 agent locations in approximately 192 countries and territories. Our services enable consumers throughout the world to transfer money and pay bills, helping them meet financial demands of their daily lives. Our bill payment services also help businesses operate more efficiently and cost-effectively.

Our principal executive offices are located at 2828 N. Harwood Street, Suite 1500, Dallas, Texas 75201, and our telephone number is (214) 999-7552. Our website address is www.moneygram.com.

History and Development

We conduct our business primarily through our wholly owned subsidiary MoneyGram Payment Systems, Inc., or MPSI, under the MoneyGram brand. Through its predecessor, Travelers Express Company, Inc., or Travelers Express, the Company has been in operation for over 70 years.

In March 2008, we completed a recapitalization pursuant to which we received an infusion of $1.5 billion of gross equity and debt capital, referred to herein as the 2008 Recapitalization. The equity component consisted of the sale to affiliates of Thomas H. Lee Partners, L.P., or THL, and affiliates of Goldman, Sachs & Co. or Goldman Sachs, and collectively with THL, the Investors, in a private placement of 760,000 shares of Series B Participating Convertible Preferred Stock of the Company, or the B Stock, and Series B-1 Participating Convertible Preferred Stock of the Company, or the B-1 Stock, and collectively with the B Stock, the Series B Stock, for an aggregate purchase price of $760.0 million. We also paid Goldman Sachs an investment banking advisory fee equal to $7.5 million in the form of 7,500 shares of the B-1 Stock.

As part of the 2008 Recapitalization, our wholly owned subsidiary, MoneyGram Payment Systems Worldwide, Inc., or Worldwide, issued Goldman Sachs $500.0 million of senior secured second lien notes with a 10-year maturity, or the Second Lien Notes. We also entered into a senior secured amended and restated credit agreement with JPMorgan Chase Bank, N.A., or JPMorgan, as agent for a group of lenders, bringing the total facility to $600.0 million. The amended facility included $350.0 million in two term loan tranches and a $250.0 million revolving credit facility.

In May 2011, we completed a second recapitalization, referred to herein as the 2011 Recapitalization. Pursuant to the 2011 Recapitalization, (i) THL, as the holder of all of the B Stock, converted all of the shares of B Stock into shares of our common stock in accordance with the Certificate of Designations, Preferences and Rights of Series B Participating Convertible Preferred Stock of MoneyGram International, Inc., (ii) Goldman Sachs, as the holder of all of the B-1 Stock, converted all of the shares of B-1 Stock into shares of Series D Participating Convertible Preferred Stock of the Company, or D Stock, in accordance with the Certificate of Designations, Preferences and Rights of Series B-1 Participating Convertible Preferred Stock of MoneyGram International, Inc., and (iii) THL received approximately 3.5 million additional shares of our common stock and $140.8 million in cash, and Goldman Sachs received approximately 15,503 additional shares of D Stock and $77.5 million in cash. The 2011 Recapitalization was approved unanimously by our board of directors following the recommendation of a special committee of the board of directors comprised of independent and disinterested members of our board of directors.

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Concurrently with entering into the Recapitalization Agreement, Worldwide and the Company entered into a consent agreement, or the Consent Agreement, with certain affiliates of Goldman Sachs, or the GS Note Holders, who are holders of the Notes. Pursuant to the Consent Agreement, the parties thereto entered into a supplemental indenture to the indenture governing the Notes that amended the indenture in order to permit the 2011 Recapitalization. In addition, the Company entered into a new senior secured credit facility, or the 2011 Credit Facility, comprised of a $150 million, five-year revolver and a $390 million six-and-a-half-year term loan, which refinanced the Company s existing senior secured credit facility and provided the funding for the 2011 Recapitalization.

On November 14, 2011, the Company filed a certificate of amendment to its Amended and Restated Certificate of Incorporation to effect a reverse stock split of the Company s common stock at a reverse stock split ratio of 1-for-8 and to decrease the number of authorized shares of common stock from 1,300,000,000 to 162,500,000. As the par value of common stock was not affected, $3.5 million was transferred from common stock to additional paid in capital. In connection with the reverse stock split, the conversion ratio of the D Stock to common stock decreased from 1,000 to 125. All share and per share amounts have been retroactively adjusted to reflect the stock split with the exception of the Company s treasury stock, which was not a part of the reverse stock split.

In November and December 2011, the Company completed a secondary offering pursuant to which the Investors sold an aggregate of 10,237,524 shares in an underwritten offering. In connection with the secondary offering, 63,950 shares of D Stock were converted to 7,993,762 shares of common stock. The Company did not receive proceeds from the offering.

In connection with the secondary offering, the Company exercised an option to redeem $175.0 million of its Second Lien Notes. The redemption was completed through the issuance of a $150.0 million incremental term loan under the 2011 Credit Agreement, with the remaining balance paid from cash and cash equivalents. In connection with the redemption, the Company incurred a prepayment penalty of $23.2 million.

Our Business

Our global money transfer and bill payment services are our primary revenue drivers. Money transfers are transfers of funds between consumers from one location to another. The sender pays a fee based on the transfer amount and the destination location. The designated recipient may receive the transferred funds at any agent location. In select countries, the designated recipient may also receive the transferred funds via a deposit to the recipient s bank account, mobile phone account or prepaid card. We typically pay both our send and receive agents a commission for the transaction.

We provide money transfer services through our worldwide network of agents and through a limited number of Company-owned retail locations in the United States and Western Europe. We also offer our money transfer services through the Internet, agent websites, mobile phone, kiosks, ATMs, receive cards and direct-to-bank account products in various markets around the world.

Our primary bill payment service offering is our ExpressPayment® service, which we offer at all of our money transfer agent locations in the United States and at certain agent locations in select Caribbean countries. Through our ExpressPayment service, a consumer can pay cash for bills at an agent location and obtain same-day notification of payment to the consumer s account with its creditor, also referred to as a biller. Our consumers can also use our ExpressPayment service to load and reload prepaid debit cards. Our ExpressPayment bill payment service is also available for payments to select billers via the Internet at www.moneygram.com.

We also derive revenue through our money order and official check services. We provide money orders through retail and financial institutions located throughout the United States and Puerto Rico, and we provide official check outsourcing services to financial institutions across the United States. Consumers use our money orders to make bill payments or in lieu of cash or personal checks. Official checks are used by consumers where a payee requires a check drawn on a bank and by financial institutions to pay their own obligations.

During 2011, 2010 and 2009, our 10 largest agents accounted for 45 percent, 50 percent and 48 percent, respectively, of our total company fee and investment revenue and 48 percent, 54 percent and 53 percent,

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respectively, of the fee and investment revenue of our Global Funds Transfer segment. Wal-Mart Stores, Inc. is our only agent that accounts for more than 10 percent of our total company fee and investment revenue. In 2011,

2010 and 2009, Wal-Mart accounted for 29 percent, 30 percent and 29 percent, respectively, of our total company fee and investment revenue, and 31 percent, 32 percent and 32 percent, respectively, of the fee and investment revenue of our Global Funds Transfer segment. Our contract with Wal-Mart in the United States, which runs through January 2013, provides for Wal-Mart s sale of our money order and money transfer services and real-time, urgent bill payment services at its retail locations on an exclusive basis.

Our Segments

We manage our business primarily through two segments: Global Funds Transfer and Financial Paper Products. The table below presents the components of our consolidated revenue associated with our segments for the year ended December 31:

	2011	2010	2009
Global Funds Transfer			
Money transfer	83.4%	79.4%	76.7%
Bill payment	9.0%	10.8%	11.6%
Financial Paper Products			
Money order	4.9%	5.9%	6.4%
Official check	2.6%	3.5%	4.1%
Other	0.1%	0.4%	1.2%
Total revenue	100.0%	100.0%	100.0%

Additional financial information about our segments and geographic areas appears in *Note 16, Segment Information*, of the Notes to Consolidated Financial Statements.

Global Funds Transfer Segment

The Global Funds Transfer segment is our primary segment, providing money transfer and bill payment services to consumers, who may be unbanked or underbanked. Unbanked consumers are those consumers who do not have a traditional relationship with a financial institution. Underbanked consumers are consumers who, while they may have a savings account with a financial institution, do not have a checking account. Other consumers who use our services are convenience users and emergency users who may have a checking account with a financial institution but prefer to use our services on the basis of convenience, cost or to make emergency payments. We primarily offer services to consumers through third-party agents, including retail chains, independent retailers and financial institutions.

In 2011, our Global Funds Transfer segment had total fee and investment revenue of $1,153.0 million. We continue to focus on the growth of our Global Funds Transfer segment outside of the United States. During 2011, 2010 and 2009, operations outside of the United States generated 32 percent, 28 percent and 27 percent, respectively, of our total company fee and investment revenue, and 35 percent, 31 percent and 31 percent, respectively, of our Global Funds Transfer segment fee and investment revenue in each of these years. In 2011, we added approximately 40,000 net locations, bringing our global agent network to approximately 267,000 locations.

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Following is a summary of our agent locations by geography:

YEAR ENDED DECEMBER 31,	2011
Latin America	18,000
Mexico	14,000
North America	41,000
Western Europe	46,000
Eastern Europe	46,000
Indian subcontinent	45,000
Asia Pacific	35,000
Africa	18,000
Middle East	4,000
Total Agent Locations	267,000

We provide Global Funds Transfer products and services utilizing a variety of proprietary point-of-sale platforms. Our platforms include AgentConnect®, which is integrated into an agent s point-of-sale system, and DeltaWorks® and Delta T3®, which are separate software and stand-alone device platforms. Through our FormFree® service, customers may contact our call center and a representative will collect transaction information over the telephone, entering it directly into our central data processing system. We also operate two customer care centers in the United States, and we contract for additional call center services in various countries. We provide call center services 24 hours per day, 365 days per year and provide customer service in approximately 30 languages.

Money Transfers We derive our money transfer revenues primarily from consumer transaction fees and the management of currency exchange spreads on money transfer transactions involving different send and receive currencies. We have corridor pricing capabilities that enable us to establish different consumer fees and foreign exchange rates for our money transfer services by location, for a broader segment such as defined ZIP code regions or for a widespread direct marketing area.

As of December 31, 2011, we offer money transfers to consumers in a choice of local currency or United States dollars and/or euros in 141 countries, which we refer to as multi-currency. Our multi-currency technology allows us to execute our money transfers directly between and among several different currencies. Where implemented, these capabilities allow consumers to know the amount that will be received in the local currency of the receiving country, or in U.S. dollars or euros in certain countries.

Bill Payment Services We derive our bill payment revenues primarily from transaction fees charged to consumers for each bill payment transaction completed. Through our bill payment services, consumers can make urgent payments or pay routine bills through our network to certain billers. We maintain relationships with billers in key industries, also referred to as verticals. These industries include the credit card, mortgage, auto finance, telecommunications, corrections, satellite, property management, prepaid card and collections industries. Our bill payment services also enable consumers to load and reload prepaid debit cards. Our bill payment services also allow customers to make low-cost, in-person payments of non-urgent utility bills for credit to a biller, typically within two to three days.

Financial Paper Products Segment

Our Financial Paper Products segment provides money orders to consumers through our retail and financial institution agent locations in the United States and Puerto Rico, and provides official check services for financial institutions in the United States.

In 2011, our Financial Paper Products segment generated revenues of $93.3 million. Since early 2008, our investment portfolio has consisted of lower risk, highly liquid, short-term U.S. government securities that produce a lower rate of return, which has resulted in lower revenues and profit margins in our Financial Paper Products segment.

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Money Orders We generate revenue from money orders by charging per item and other fees, as well as from the investment of funds underlying outstanding money orders, which generally remain outstanding for fewer than ten days. We sell money orders under the MoneyGram brand and on a private label or co-branded basis with certain of our large retail and financial institution agents in the United States.

In 2011, we issued approximately 161.9 million money orders through our network of 55,100 agent and financial institution locations in the United States and Puerto Rico. In 2010, we issued approximately 174.2 million money orders through our network of 57,308 agent and financial institution locations in the United States and Puerto Rico.

Official Check Outsourcing Services As with money orders, we generate revenue from our official check outsourcing services from per item and other fees and from the investment of funds underlying outstanding official checks, which generally remain outstanding for fewer than 4.1 days. In 2009, we restructured our official check business model by reducing the commissions we pay our financial institution customers and increasing per item and other fees. As of December 31, 2011, we provide official check outsourcing services at approximately 8,500 branch locations of more than 1,300 financial institutions. We issued 24.2 million and 30.3 million official checks in 2011 and 2010, respectively.

Product and Infrastructure Development and Enhancements

We focus our product development and enhancements on innovative ways to transfer money and pay bills. We continually seek to provide our customers with added flexibility and convenience to help them meet the financial demands of their daily lives. We also invest in our infrastructure to increase efficiencies and support our strategic initiatives.

We are reaching new customers through alternate and self-service money transfer delivery channels. We offer our money transfer services on the Internet via our MoneyGram Online service in the United States, United Kingdom and through agent websites in Italy, Saudi Arabia and Japan. In Italy, Abu Dhabi and the Philippines, we also offer our money transfer services via mobile phone and continue to enhance our money transfer services to consumers through the addition of kiosks, ATMs, receive cards and direct-to-bank account products in various markets. We also introduced the convenience of cash-to-card services through key agents in the Philippines, which allows their customers to collect remittances on a card, which can then be used to pay for purchases at participating stores. We continue to expand product offerings in key markets such as multi-currency options in China, direct-to-account in Brazil and customer-directed receives in the Ukraine.

We have made enhancements to our MoneyGram Online service and will continue to make further enhancements to provide a better consumer experience and efficiency in completing a transaction for our online customers, as well as more cost-effective transaction processing. MoneyGram Online transactions and revenue grew 30 percent in 2011 over the prior year. We also enhanced our MoneyGram rewards program, and now offer members the ability to receive a text message on their mobile phones informing them that the funds they transferred have been picked up by their receiver.

We continue to invest in our infrastructure to provide a better overall consumer and agent experience, reduce our costs and create efficiencies. We have made important infrastructure enhancements to our settlement and commission processing, data management, financial systems and regulatory and compliance reporting. We continue our efforts to enhance our agent on-boarding process, improving our speed to market for new agents.

Sales and Marketing

We have global marketing, product management and strategic partnership teams located in numerous geographies, including the United States, United Kingdom, Italy, Spain, United Arab Emirates, India and China.

We employ a strategy of developing products and marketing campaigns that are both global yet also tailored to address our customer base and local needs. We market our products through a number of dedicated sales and marketing teams, and continually assess the effectiveness of our sales and marketing efforts.

A wide range of marketing methods continue to support our sales efforts. A key component of our advertising and marketing efforts is our global branding. We use a marketing mix to support the global brand, which includes

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traditional media and digital and social media, point of sale materials, MoneyGram-branded signage at our agent locations, a loyalty program and targeted direct marketing programs and seasonal campaigns and sponsorships.

Our sales teams are organized by geographic area, channel and product. We have dedicated support teams that focus on developing our agent and biller networks to enhance the reach of our money transfer, bill payment and money order products. Our agent requirements vary depending upon the type of outlet or location, and our sales teams continue to work to improve and strengthen our agent partnerships with a goal of providing the optimal customer experience.

Competition

While we are the second largest money transfer company in the world, the market for our money transfer and bill payment services remains very competitive. The market consists of a small number of large competitors and a large number of small, niche competitors. Our competitors include other large money transfer and electronic bill payment providers, banks and niche person-to-person money transfer service providers that serve select regions. Our largest competitor in the money transfer market is Western Union, which also competes with our bill payment services and money order businesses. As new technologies for money transfer and bill payment services emerge that allow consumers to send and receive money and to pay bills in a variety of ways, we face increasing competition. These emerging technologies include online payment services, card-based services such as ATM cards and stored-value cards, bank-to-bank money transfers and mobile telephone payment services.

We generally compete for money transfer agents on the basis of value, service, quality, technical and operational differences, price and commission. We compete for money transfer consumers on the basis of number and location of outlets, price, convenience, technology and brand recognition. Due to increased pricing competition, in the first half of 2010 we introduced a $50 price band that allows consumers to send $50 of principal for a $5 fee at most locations, or $4.75 at a Wal-Mart location.

Regulation

Compliance with laws and regulations is a highly complex and integral part of our day-to-day operations. Our operations are subject to a wide range of laws and regulations of the United States and other countries, including international, federal and state anti-money laundering laws and regulations; financial services regulations; currency control regulations; anti-bribery laws; regulations of the U.S. Treasury Department s Office of Foreign Assets Control, or OFAC; money transfer and payment instrument licensing laws; escheatment laws; privacy, data protection and information security laws; and consumer disclosure and consumer protection laws. Failure to comply with any applicable laws and regulations could result in restrictions on our ability to provide our products and services, as well as the potential imposition of civil fines and possibly criminal penalties. See Risk Factors for additional discussion regarding potential impacts of failure to comply. We continually monitor and enhance our global compliance programs to comply with the most recent legal and regulatory changes. During 2011, we increased our compliance personnel headcount and made investments in our compliance-related technology and infrastructure.

Anti-Money Laundering Compliance. Our money transfer services are subject to anti-money laundering laws and regulations of the United States, including the Bank Secrecy Act, as amended by the USA PATRIOT Act, as well as similar state laws and regulations and the anti-money laundering laws and regulations in many of the countries in which we operate, particularly in the European Union. Countries in which we operate may require one or more of the following:

- reporting of large cash transactions and suspicious activity;
- screening of transactions against the government s watch-lists, including but not limited to, the watch-list maintained by OFAC;
- prohibition of transactions in, to or from certain countries, governments, individuals and entities;
- limitations on amounts that may be transferred by a consumer or from a jurisdiction at any one time or over specified periods of time, which require the aggregation of information over multiple transactions;

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- consumer information gathering and reporting requirements;
- consumer disclosure requirements, including language requirements and foreign currency restrictions;
- notification requirements as to the identity of contracting agents, governmental approval of contracting agents or requirements and limitations on contract terms with our agents;
- registration or licensing of the Company or our agents with a state or federal agency in the United States or with the central bank or other proper authority in a foreign country; and
- minimum capital or capital adequacy requirements.

Anti-money laundering regulations are constantly evolving and vary from country to country. We continuously monitor our compliance with anti-money laundering regulations and implement policies and procedures to make our business practices flexible, so we can comply with the most current legal requirements.

We offer our money transfer services primarily through third-party agents with whom we contract and do not directly control. As a money services business, we and our agents are required to establish anti-money laundering compliance programs that include: (i) internal policies and controls; (ii) designation of a compliance officer; (iii) ongoing employee training and (iv) an independent review function. We have developed an anti-money laundering training manual available in multiple languages and a program to assist with the education of our agents on the various rules and regulations. We also offer in-person and online training as part of our agent compliance training program and engage in various agent oversight activities.

Money Transfer and Payment Instrument Licensing   Almost all states in the United States, the District of Columbia, Puerto Rico and the United States Virgin Islands and Guam require us to be licensed to conduct business within their jurisdictions. Our primary overseas operating subsidiary, MoneyGram International Ltd, became a licensed payment institution under the Payment Services Regulations adopted in the United Kingdom pursuant to the European Union Payment Services Directive. Licensing requirements generally include minimum net worth, provision of surety bonds, compliance with operational procedures, agent oversight and the maintenance of reserves or permissible investments in an amount equivalent to outstanding payment obligations, as defined by our various regulators. The types of securities that are considered permissible investments vary across jurisdictions, but generally include cash and cash equivalents, U.S. government securities and other highly rated debt instruments. Most states and our other regulators require us to file reports on a quarterly or more frequent basis to verify our compliance with their requirements. Many states and other regulators also subject us to periodic examinations and require us and our agents to comply with anti-money laundering and other laws and regulations.

Escheatment Regulations   Unclaimed property laws of every state, the District of Columbia, Puerto Rico and the United States Virgin Islands require that we track certain information on all of our payment instruments and money transfers and, if they are unclaimed at the end of an applicable statutory abandonment period, that we remit the proceeds of the unclaimed property to the appropriate jurisdiction. Statutory abandonment periods for payment instruments and money transfers range from three to seven years. Certain foreign jurisdictions also may have unclaimed property laws, though we do not have material amounts subject to any such law.

Privacy Regulations   In the ordinary course of our business, we collect certain types of data that subject us to certain privacy laws in the United States and abroad. In the United States, we are subject to the Gramm-Leach-Bliley Act of 1999, or the GLB Act, which requires that financial institutions have in place policies regarding the collection, processing, storage and disclosure of information considered nonpublic personal information. We are also subject to privacy laws of various states. In addition, we are subject to laws adopted pursuant to the European Union s Data Protection Directive, or the Data Protection Directive. We abide by the U.S. Department of Commerce s Safe Harbor framework principles to assist in compliance with the Data Protection Directive. In some cases, the privacy laws of a European Union member state may be more restrictive than what is required under the Data Protection Directive and may impose additional duties with which we must comply. We also have confidentiality/information security standards and procedures in place for our business activities and with our third-party vendors and service providers. Privacy and information security laws, both domestically and internationally, evolve regularly, and conflicting laws in the various jurisdictions where we do business pose challenges.

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Banking Regulations We completed an underwritten secondary offering of 10,237,524 shares of our common stock held by Goldman Sachs and others in November and December 2011. Prior to that time, we were deemed a controlled subsidiary of Goldman Sachs & Co., a bank holding company under the Bank Holding Company Act of 1956, as amended, or the BHC Act, as a result of Goldman Sachs ownership of shares of our non-voting D Stock. Although the D Stock is not convertible into common stock of the Company while beneficially owned by Goldman Sachs, the D Stock may be sold or transferred to a third party which may then convert the D Stock into common stock. In conjunction with the secondary offering of our common stock, we also made a partial redemption of our Second Lien Notes held by Goldman Sachs in the aggregate principal amount of $175 million. As result of these transactions and discussions with the Federal Reserve, Goldman Sachs has informed us that the Company is no longer deemed a controlled subsidiary of Goldman Sachs. Therefore, we believe we are no longer subject to the regulations that apply to controlled subsidiaries of bank holding companies, or to reporting requirements, examination or supervision by the Federal Reserve under the BHC Act.

Recent Federal Legislation in the United States The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was signed into law on July 21, 2010. While the Dodd-Frank Act will likely impose additional regulatory requirements upon us, it is difficult to gauge the impact on our business because many provisions of the Dodd-Frank Act require the adoption of rules and further studies. The Dodd-Frank Act creates a new Bureau of Consumer Financial Protection, or the Bureau, which issues and enforces consumer protection initiatives governing financial products and services, including money transfer services, in the United States. We will be required to provide enhanced disclosures to our money transfer customers, which will require us to modify our systems and current consumer disclosures. Enhanced disclosure requirements, error resolution procedures, the extent of vicarious liability for acts of our agents, refund requirements and other matter impacting how we offer international remittances in the United States were set forth in the Final Remittance Rule that was issued by the Bureau on January 20, 2012 and published in the Federal Register on February 7, 2012. The effective date of the Remittance Rule is February 7, 2013.

Regulation of Prepaid Cards We sell our MoneyGram-branded prepaid card in the United States, in addition to loading prepaid cards of other card issuers through our ExpressPayment system. Prepaid card services are generally subject to federal and state laws and regulations, including laws related to consumer protection, licensing, escheat, anti-money laundering and the payment of wages. These laws are evolving, unclear and sometimes inconsistent. The extent to which these laws are applicable to us is uncertain and we are currently unable to determine the impact that any future clarification, changes or interpretation of these laws will have on our services.

Clearing and Cash Management Bank Relationships

Our business involves the movement of money. We move money through a network of clearing and cash management banks, and our relationships with these clearing banks and cash management banks are a critical component of our ability to move funds on a global and timely basis.

We rely on two banks to clear our retail money orders and we currently have eight official check clearing banks. We believe these relationships provide sufficient capacity for our money order and official check outsourcing services.

We maintain contractual relationships with a variety of domestic and international cash management banks for automated clearing house, or ACH, and wire transfer services for the movement of consumer funds and agent settlements. There are a limited number of international cash management banks with a network large enough to manage cash settlements for our entire agent base. In addition, some large international banks have opted not to bank money service businesses. As a result, we also utilize regional or country-based banking partners in addition to large cash management banks.

Intellectual Property

The MoneyGram brand is important to our business. We have registered our MoneyGram trademark in the United States and a majority of the other countries where we do business. We maintain a portfolio of other trademarks that are also important to our business, including our globe with arrows logo, ExpressPayment, MoneyGram Rewards, FormFree, and PrimeLink marks. In addition, we maintain a portfolio of MoneyGram branded domain names.

We rely on a combination of patent, trademark and copyright laws, and trade secret protection and confidentiality or license agreements to protect our proprietary rights in products, services, know-how and information. We believe the intellectual property rights in processing equipment, computer systems, software and business processes held by us and our subsidiaries provide us with a competitive advantage. We believe we take appropriate measures to protect our intellectual property to the extent such intellectual property can be protected.

We own U.S. and foreign patents related to our money order and money transfer technology. Our U.S. patents have in the past given us competitive advantages in the marketplace. We also have patent applications pending in the United States that relate to our money transfer, money order and bill payment technologies and business methods. We anticipate that these applications, if granted, could give us continued competitive advantages in the marketplace. However, our competitors also actively patent their technology and business processes.

Employees

As of December 31, 2011, we had approximately 1,399 full-time employees in the United States and 737 full-time employees outside of the United States. In addition, we engage contractors to support various aspects of our business. None of our employees in the United States are represented by a labor union. We consider our employee relations to be good.

Executive Officers of the Registrant

Pamela H. Patsley, age 55, has served as Chairman and Chief Executive Officer since September 2009. Ms. Patsley was appointed Executive Chairman in January 2009. Ms. Patsley also serves on the boards of directors of Texas Instruments, Inc. and Dr. Pepper Snapple Group, Inc. Ms. Patsley previously served as Senior Executive Vice President of First Data Corporation, a global payment processing company, from March 2000 to October 2007, and President of First Data International from May 2002 to October 2007. From 1991 to 2000, Ms. Patsley served as President and Chief Executive Officer of Paymentech, Inc., prior to its acquisition by First Data Corporation. Ms. Patsley also served as Chief Financial Officer of First USA, Inc.

Juan Agualimpia, age 49, has served as Executive Vice President, Chief Marketing Officer since February 2011. Mr. Agualimpia previously served as Senior Vice President and Chief Marketing Officer from March 2010 to February 2011. From March 2009 to March 2010, Mr. Agualimpia engaged in marketing project consulting. Mr. Agualimpia has 20 years of leadership experience in marketing, brand management, customer relationship management and product development, including as Vice President and General Manager for the Art & Coloring Global Business Unit of Newell Rubbermaid from 2005 to March 2009.

David B. Brown, age 49, has served as Senior Vice President, Chief Accounting Officer since January 2012. Mr. Brown previously served as Chief Financial Officer of Dresser, Inc., a privately held energy industry infrastructure manufacturer, from 2010 to 2011. Prior to that, Mr. Brown served in various roles of increasing responsibility at Dresser, Inc. from 2007 to 2010. From 2003 to 2007, Mr. Brown held various financial positions at The Brink s Company. From 1996 to 2003, Mr. Brown held financial positions at LSG Sky Chefs. In 1995, Mr. Brown was a consultant for Halliburton, and from 1985 to 1995 he held the position of Audit Senior Manager at Price Waterhouse L.L.P.

Timothy C. Everett, age 49, has served as Executive Vice President, General Counsel and Corporate Secretary since January 2010. Mr. Everett previously served as Vice President and Secretary of Kimberly-Clark Corporation, a multi-national consumer product company, from 2003 to 2009. Prior to that, Mr. Everett served in various roles of increasing responsibility at Kimberly-Clark from 1993 to 2003. From 1990 to 1993, Mr. Everett was an associate with the global law firm, Akin Gump Strauss Hauer & Feld, LLP. From 1984 to 1987, Mr. Everett was an auditor with the accounting firm Ernst & Young, LLP.

W. Alexander Holmes, age 37, has served as Senior Vice President, Corporate Strategy and Investor Relations since June of 2009. Mr. Holmes previously served as Senior Vice President, Global Sourcing and Strategic Initiatives at First Data Corporation, a global payment processing company, from 2007 to 2009. From 2004 to 2007, Mr. Holmes served in various roles of increasing responsibility at First Data Corporation. Prior to that, Mr. Holmes managed the Benelux region at the Western Union Company, a global money transfer company, from 2002 to 2003. Mr. Holmes joined First Data in 2000 and served in various finance roles until early 2002. From 1997 to 2000, Mr. Holmes was at the University of Colorado s system administration office where he managed a number of ERP implementation projects.

Daniel J. O Malley, age 47, has served as Executive Vice President, Americas and Emerging Markets since June 2011. Mr. O Malley previously served as Executive Vice President, Americas since December 2009. From April 2007 to December 2009, Mr. O Malley served as Senior Vice President, Global Payment Systems/President Americas. Mr. O Malley previously served as Vice President, Global Payment Systems/Americas from April 2003 to April 2007, Vice President, Customer Service from June 1999 to April 2003, Director, Operations from 1996 to 1999, Regulatory Project Manager from 1995 to 1996, Manager of the Southeast Processing Center from 1989 to 1995 and Coordinator of the Southeast Processing Center from 1988 to 1989. Prior to joining the Company, Mr. O Malley held various operations positions at NCNB National Bank and Southeast Bank N.A. from 1983 to 1988.

Steven Piano, age 46, has served as Executive Vice President, Human Resources since August 2009. From January 2008 to August 2009, Mr. Piano served as Global Lead Human Resource Partner with National Grid, a multi-national utility company. From 1996 to January 2008, Mr. Piano held a variety of human resources positions with First Data Corporation, a global electronic payment processing company, serving most recently as Senior Vice President First Data International. From 1987 to 1996, Mr. Piano held human resources positions with Citibank, Dun & Bradstreet Nielsen Media Research and Lehman Brothers.

James E. Shields, age 50, has served as Executive Vice President and Chief Financial Officer since July 2010. From 2009 until July 2010, Mr. Shields engaged in independent financial consulting. During 2008, Mr. Shields served as senior vice president finance and treasurer for Royal Caribbean Cruise Lines. From 2005 to 2008, he served as vice president and treasurer of Celanese Corporation, a $6 billion chemical company with worldwide operations. Prior to that, Mr. Shields was vice president and chief financial officer for consumer markets at Qwest Communications International Inc.

J. Lucas Wimer, age 46, has served as Executive Vice President, Operations and Technology since April 2010. From January 2008 to April 2010, Mr. Wimer was a principal at THL Partners, where he was responsible for business transformation programs across the THL portfolio. From September 2003 to December 2007, he led infrastructure development for Capital One. From 1996 to 2003, Mr. Wimer provided management consulting, global project and practice leadership in performance measurement, cost reduction, merger integration and restructuring to the financial services industry for IBM Business Consulting Services, formerly PricewaterhouseCoopers.

Available Information

We make our reports on Forms 10-K, 10-Q and 8-K, Section 16 reports on Forms 3, 4 and 5, and all amendments to those reports, available electronically free of charge in the Investor Relations section of our website (www.moneygram.com) as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission, or the SEC. Our principal executive offices are located at 2828 N. Harwood Street, 15th Floor, Dallas, Texas 75201, and our telephone number is (214) 999-7552.

Item 1A. RISK FACTORS

Various risks and uncertainties could affect our business. Any of the risks described below or elsewhere in this Annual Report on Form 10-K or our other filings with the SEC could have a material impact on our business, financial condition or results of operations.

RISK FACTORS

Risks Related to our Business and Industry

Continued weakness in economic conditions, in both the United States and global markets, could adversely affect our business, financial condition and results of operations.

Our money transfer business relies in part on the overall strength of global economic conditions as well as international migration patterns. Consumer money transfer transactions and international migration patterns are

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affected by, among other things, employment opportunities and overall economic conditions. Our customers tend to be employed in industries such as construction, manufacturing and retail that tend to be cyclical and more significantly impacted by weak economic conditions than other industries. This may result in reduced job opportunities for our customers in the United States or other countries that are important to our business, which could adversely affect our results of operations. In addition, increases in employment opportunities may lag other elements of any economic recovery.

Our agents or billers may have reduced sales or business as a result of weak economic conditions. As a result, our agents could reduce their number of locations or hours of operation, or cease doing business altogether. Our billers may have fewer customers making payments to them, particularly billers in those industries that may be more affected by an economic downturn such as the automobile, mortgage and retail industries.

If general market conditions in the United States or other national economies important to our business were to deteriorate further, our results of operations could be adversely impacted. Additionally, if our consumer transactions decline or international migration patterns shift due to deteriorating economic conditions, we may be unable to timely and effectively reduce our operating costs or take other actions in response, which could adversely affect our results of operations.

If consumers confidence in our business or in traditional money transfer providers generally deteriorates, our business, financial position and results of operations could be adversely affected.

Our business is built on consumers confidence in our brands and our ability to provide fast, reliable money transfer services. Erosion in consumers confidence in our business, or in traditional money transfer providers as a means to transfer money, could adversely impact transaction volumes, which would in turn adversely impact our business, financial position and results of operations.

A number of factors could adversely affect consumers confidence in our business, or in traditional money transfer providers generally, many of which are beyond our control, and could have an adverse impact on our results of operations. These factors include:

- changes or proposed changes in laws or regulations that have the effect of making it more difficult for consumers to transfer money using traditional money transfer providers;
- actions by federal, state or foreign regulators that interfere with our ability to transfer consumers money reliably, for example, attempts to seize money transfer funds;
- federal, state or foreign legal requirements, including those that require us to provide consumer data to a greater extent than is currently required;
- any significant interruption in our systems, including by fire, natural disaster, power loss, telecommunications failure, terrorism, vendor failure, unauthorized entry and computer viruses; and
- any breach of our security policies or legal requirements resulting in a compromise of consumer data.

Many of our money transfer consumers are migrants. Consumer advocacy groups or governmental agencies could consider the migrants to be disadvantaged and entitled to protection, enhanced consumer disclosure, or other different treatment. If governments implement new laws or regulations that limit our right to set fees and/or foreign exchange spreads, or if consumer advocacy groups are able to generate widespread support for positions that are detrimental to our business, then our business, financial position and results of operations could be adversely affected.

A material slow down or complete disruption in international migration patterns could adversely affect our business, financial condition and results of operations.

Our money transfer business relies in part on international migration patterns, as individuals move from their native countries to countries with greater economic opportunities or a more stable political environment. A significant portion of money transfer transactions are initiated by immigrants or refugees sending money back to their native countries. Changes in immigration laws that discourage international migration and political or other events (such as war, terrorism or health emergencies) that make it more difficult for individuals to migrate or work abroad could adversely affect our money transfer remittance volume or growth rate. Sustained weakness in global economic conditions could reduce economic opportunities for migrant workers and result in reduced or disrupted international migration patterns. Reduced or disrupted international migration patterns, particularly in the United States or Europe, are likely to reduce money transfer transaction volumes and therefore have an adverse effect on our results of operations.

If we lose key agents or are unable to maintain our Global Funds Transfer agent or biller networks, our business, financial condition and results of operations could be adversely affected.

Revenue from our money transfer and urgent bill payment services is derived from transactions conducted through our retail agent and biller networks. Many of our high volume agents are in the check cashing industry. There are risks associated with the check cashing industry that could cause this agent base to decline. We may not be able to retain all of our current retail agents or billers for other reasons, as the competition for retail agents and billers is intense. If agents or billers decide to leave our agent network, or if we are unable to add new agents or billers to our network, our revenue would decline.

Larger agents and billers in our Global Funds Transfer segment are increasingly demanding financial concessions and more information technology customization. The development, equipment and capital necessary to meet these demands could require substantial expenditures and there can be no assurance that we will have the available capital after servicing our debt, or that we will be allowed to make such expenditures under the terms of our debt agreements. If we are unable to meet these demands, we could lose customers and our business, financial condition and results of operations could be adversely affected.

A substantial portion of our transaction volume is generated by a limited number of key agents. During 2011 and 2010, our 10 largest agents accounted for 45 percent and 50 percent, respectively, of our total company fee and investment revenue and 48 percent and 54 percent, respectively, of the fee and investment revenue of our Global Funds Transfer segment. In 2011 and 2010, our largest agent, Wal-Mart, accounted for 29 percent and 30 percent, respectively, of our total company fee and investment revenue and 31 percent and 32 percent, respectively, of the fee and investment revenue of our Global Funds Transfer segment. The term of our agreement with Wal-Mart runs through January 2013. If Wal-Mart or any of our other key agents do not renew their contracts with us, or if such agents reduce the number of their locations, or cease doing business, we might not be able to replace the volume of business conducted through these agents, and our business, financial condition and results of operations could be adversely affected. Further, if Wal-Mart or any of our other key agents renew their contracts with us, but on less favorable terms, our business, financial condition and results of operations could be adversely affected.

MoneyGram and our agents are subject to numerous U.S. and international laws and regulations. Failure to comply with these laws and regulations could result in material settlements, fines or penalties or changes in our or our agents business operations and may adversely affect our business, financial condition and results of operations.

Our business is subject to a wide range of laws and regulations that vary from country to country. The money transfer business is subject to a variety of regulations aimed at preventing money laundering and terrorism. We are subject to U.S. federal anti-money laundering laws, including the Bank Secrecy Act and the requirements of OFAC, which prohibit us from transmitting money to specified countries or on behalf of prohibited individuals. Additionally, we are subject to anti-money laundering laws in many countries where we operate, particularly in the European Union. We are also subject to financial services regulations, money transfer and payment instrument licensing regulations, consumer protection laws, currency control regulations, escheat laws and privacy and data protection laws. Many of these laws are constantly evolving, unclear and inconsistent across various jurisdictions, making compliance challenging.

There has been increased public attention and heightened legislation and regulations regarding money laundering, terrorist financing, corporate use and disclosure of personal information, data protection, information security and consumer privacy. The legal, political and business environments in these particular areas are evolving, inconsistent across various jurisdictions and often unclear, which increases our operating compliance costs and our legal risks. Subsequent legislation, regulation, litigation, court rulings or other events could expose us to increased program costs, liability and reputational damage.

In particular, we are subject to regulations imposed by the Foreign Corrupt Practices Act, or the FCPA, in the United States and similar anti-bribery laws in other jurisdictions. We are also subject to reporting, recordkeeping and anti-money laundering provisions in many jurisdictions, including the Bank Secrecy Act in the United States, as amended by the USA PATRIOT Act of 2001. Because of the scope of our global operations, we experience a higher risk associated with the FCPA and similar anti-bribery laws than many other companies. We are also subject to regulatory oversight and enforcement by FinCEN. Any determination that we have violated these laws could have an adverse effect on our business, financial condition and results of operations. We are subject to several investigations by the U.S. federal government and several U.S. state governments.

The Dodd-Frank Act increases the regulation and oversight of the financial services industry. The Dodd-Frank Act addresses, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, interchange fees, derivatives, lending limits, thrift charters, changes among the bank regulatory agencies, and the ability to conduct business with holding company affiliates. Many of the provisions of the Dodd-Frank Act require studies and regulations. The Dodd-Frank Act requires enforcement by various governmental agencies, including the new Bureau. Money transmitters such as the Company will be required to provide additional consumer information and disclosures, adopt error resolution standards meeting the Bureau s regulatory requirements, and adjust refund procedures for international transactions originating in the United States. We may be liable for failure of our agents to comply with the Dodd-Frank Act. The Bureau and the regulations it has adopted and will adopt will necessitate operational changes and additional costs, but we cannot predict its effects upon us or our business at this time. The new legislation and implementing regulations associated with the Dodd-Frank Act may increase our costs of compliance, and may require changes in the way we conduct business.

Changes in laws, regulations or other industry practices and standards may increase our costs of operations and may disrupt our business as we develop new business and compliance models. For example, the European Union s Payment Services Directive, or PSD, imposes potential liability on us for the conduct of our agents and the commission of third party fraud utilizing our services. We modified our business operations in the European Union in 2009 and 2010 in light of the PSD and will likely experience additional costs associated with addressing PSD compliance. If we fail to comply with the PSD, our business, financial condition and results of operations may be adversely impacted. Additionally, the United States and other countries periodically consider initiatives designed to lower costs of international remittances which, if implemented, may adversely impact our business, financial condition and results of operations.

Changes in laws, regulations or other industry practices and standards, or interpretations of legal or regulatory requirements may reduce the market for or value of our products or services or render our products or services less profitable or obsolete. Changes in the laws affecting the kinds of entities that are permitted to act as money transfer agents (such as changes in requirements for capitalization or ownership) could adversely affect our ability to distribute our services and the cost of providing such services. Many of our high volume agents are in the check cashing industry. Any regulatory action that negatively impacts check cashers could also cause this portion of our agent base to decline. If onerous regulatory requirements were imposed on our agents, the requirements could lead to a loss of agents, which, in turn, could lead to a loss of retail business.

Any violation by us of the laws and regulations set forth above could lead to significant fines or penalties and could limit our ability to conduct business in some jurisdictions. Regulators in the United States and other jurisdictions are demonstrating a greater inclination than they have in the past to hold money services businesses like ours to higher standards and to monitor for possible violations of laws and regulations by agents. Our systems, employees and processes may not be sufficient to detect and prevent violations of the laws and regulations set forth above by our agents, which could also lead to us being subject to significant fines or penalties. In addition to these fines and penalties, a failure by us or our agents to comply with applicable laws and regulations also could seriously damage our reputation and result in diminished revenue and profit and increase our operating costs.

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Failure by us or our agents to comply with the laws and regulatory requirements of applicable regulatory authorities could result in, among other things, revocation of required licenses or registrations, loss of approved status, termination of contracts with banks or retail representatives, administrative enforcement actions and fines, class action lawsuits, cease and desist orders and civil and criminal liability. The occurrence of one or more of these events could have a material adverse effect on our business, financial condition and results of operations.

Litigation or investigations involving us or our agents could result in material settlements, fines or penalties and may adversely affect our business, financial condition and results of operations.

We have been, and in the future may be, subject to allegations and complaints that individuals or entities have used our money transfer services for fraud-induced money transfers, as well as certain money laundering activities, which may result in fines, penalties, judgments, settlements and litigation expenses. We also are the subject from time to time of litigation related to our business. The outcome of such allegations, complaints, claims and litigation cannot be predicted.

Regulatory and judicial proceedings and potential adverse developments in connection with ongoing litigation may adversely affect our business, financial condition and results of operations. There may also be adverse publicity associated with lawsuits and investigations that could decrease agent and customer acceptance of our services. Additionally, our business has been in the past, and may be in the future, the subject of class action lawsuits, regulatory actions and investigations and other general litigation. The outcome of class action lawsuits, regulatory actions and investigations is difficult to assess or quantify but may include substantial fines and expenses, as well as the revocation of required licenses or registrations or the loss of approved status, which could have a material adverse effect on our business, financial position and results of operations. Plaintiffs or regulatory agencies in these lawsuits, actions or investigations may seek recovery of very large or indeterminate amounts, and the magnitude of these actions may remain unknown for substantial periods of time. The cost to defend or settle future lawsuits or investigations may be significant.

We are subject to several investigations by the U.S. federal government and several U.S. state governments.

We have been served with subpoenas to produce documents and testify before a grand jury in the U.S. District Court for the Middle District of Pennsylvania. The subpoenas sought information related to, *inter alia*, our U.S. and Canadian agents, as well as certain transactions involving such agents, fraud complaint data, and our consumer anti-fraud program during the period from 2004 to 2009. We have provided information requested pursuant to the subpoenas, and continue to provide additional information relating to the investigation. In addition, the Company has been provided with subpoenas for the testimony of certain current and former employees in connection with the investigation. The Company has also been notified of a request for interviews of one current executive officer and one former chief executive officer of the Company. The U.S. Department of the Treasury Financial Crimes Enforcement Network, or FinCEN, also requested information, which we subsequently provided, concerning our reporting of fraudulent transactions during this period. In November 2010, we met with representatives from the U.S. Attorney s Office for the Middle District of Pennsylvania, or the MDPA USAO, and representatives of FinCEN to discuss the investigation. In July 2011, we had further discussions with the MDPA USAO and representatives of the Asset Forfeiture and Money Laundering Section of the U.S. Department of Justice, or the US DOJ. We have been informed that we are being investigated by the federal grand jury in connection with these matters for the period 2004 to early 2009 as well as our anti-money laundering program during that period. In January 2012, meetings were held between our representatives, the MDPA USAO and the Criminal Division of the US DOJ to discuss the investigation. We continue to engage in discussions and cooperate with such government representatives regarding the ongoing investigation. During the course of these discussions, we were advised that consideration is being given to a range of possible outcomes, including the seeking of criminal penalties against us. However, no conclusions can be drawn at this time as to the outcome of the investigation and we are unable to predict the probable loss, or range of loss, if any, associated with this matter.

We have also received Civil Investigative Demands from a working group of nine state attorneys general who have initiated an investigation into whether we have taken adequate steps to prevent consumer fraud during the

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period from 2007 to 2011. The Civil Investigative Demands seek information and documents relating to our procedures to prevent fraudulent transfers and consumer complaint information. We continue to cooperate fully with the states attorneys in this matter. We have submitted the information and documents requested by the states. No claims have been made against us at this time.

If any charges or claims are brought with respect to these investigations, we could face substantial fines, damage awards, attorneys and other legal expenses and fees, or regulatory consequences, such as the revocation of required licenses or registrations or the loss of approved status, which could have a material adverse effect on our business, financial position and results of operations. In addition, if any charges or claims are brought, and regardless of whether or not successfully prosecuted, we could face negative publicity that could adversely affect our important customer relationships, which could have a material adverse effect on our business, financial position and results of operations. Adverse developments related to these investigations, including any expansion of their scope, could negatively impact our Company and could divert the efforts and attention of our management team from our ordinary business operations.

We conduct money transfer transactions through agents in some regions that are politically volatile or, in a limited number of cases, that are subject to certain OFAC restrictions.

We conduct money transfer transactions through agents in some regions that are politically volatile or, in a limited number of cases, are subject to certain OFAC restrictions. It is possible that our money transfer service or other products could be used by wrong-doers in contravention of U.S. law or regulations. Such circumstances could result in increased compliance costs, regulatory inquiries, suspension or revocation of required licenses or registrations, seizure or forfeiture of assets and the imposition of civil and criminal fees and penalties. In addition to monetary fines or penalties that we could incur, we could be subject to reputational harm that could have a material adverse effect on our business, financial condition and results of operations.

Our substantial debt service obligations, significant debt covenant requirements and our credit rating could impair our financial condition and adversely affect our ability to operate and grow our business.

We have substantial debt service obligations. Our indebtedness could adversely affect our ability to operate our business and could have an adverse impact on our stockholders, including:

- our ability to obtain additional financing in the future may be impaired;
- a significant portion of our cash flows from operations must be dedicated to the payment of interest and principal on our debt, which reduces the funds available to us for our operations, acquisitions, product development and other corporate initiatives;
- our debt agreements contain financial and restrictive covenants that could significantly impact our ability to operate our business, and any failure to comply with them may result in an event of default, which could have a material adverse effect on us;
- our level of indebtedness increases our vulnerability to changing economic, regulatory and industry conditions;
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and the industry;
- our debt service obligations could place us at a competitive disadvantage to our competitors who have less leverage relative to their overall capital structures;
- our ability to pay cash dividends to the holders of our common stock is significantly restricted; and

we may be required to pay significant fees to obtain the necessary consents from holders of our debt to amend or reduce our debt.

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Our credit rating is non-investment grade. Together with our level of leverage, this rating adversely affects our ability to obtain additional financing and increases our cost of borrowing.

Sustained financial market illiquidity, or illiquidity at our clearing, cash management and custodial financial institutions could adversely affect our business, financial condition and results of operations.

We face certain risks in the event of a sustained deterioration of financial market liquidity, as well as in the event of sustained deterioration in the liquidity, or failure, of our clearing, cash management and custodial financial institutions. In particular:

- We may be unable to access funds in our investment portfolio, deposit accounts and clearing accounts on a timely basis to settle our payment instruments, pay money transfers and make related settlements to agents. Any resulting need to access other sources of liquidity or short-term borrowing would increase our costs. Any delay or inability to settle our payment instruments, pay money transfers or make related settlements with our agents could adversely impact our business, financial condition and results of operations.

- Clearing and cash management banks that conduct our official check, money order and money transfer businesses could fail or experience sustained deterioration in liquidity. This could lead to our inability to clear our payment service instruments and move funds on a global and timely basis as required to settle our obligations and collect partner receivables.

- Our revolving credit facility is one source of funding for our corporate transactions and liquidity needs. If any of the banks participating in our credit facility were unable or unwilling to fulfill its lending commitment to us, our short-term liquidity and ability to engage in corporate transactions such as acquisitions could be adversely affected.

- We may be unable to borrow from financial institutions or institutional investors on favorable terms, which could adversely impact our ability to pursue our growth strategy and fund key strategic initiatives, such as product development and acquisitions.

- We maintain cash at commercial banks in the United States in amounts in excess of the Federal Deposit Insurance Corporation limit of $250,000. In the event of a failure at a commercial bank where we maintain our deposits, we may incur a loss to the extent such loss exceeds the insurance limitation.

If financial liquidity deteriorates, there can be no assurance we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Failure to maintain sufficient capital could adversely affect our business, financial condition and results of operations.

If we do not have sufficient capital, we may not be able to pursue our growth strategy and fund key strategic initiatives, such as product development and acquisitions. Further, we may not be able to meet new capital requirements introduced or required by our regulators. Further, although we are no longer considered a bank holding company for purposes of U.S. law or the law of any other jurisdiction, as a global provider of payments services and in light of the changing regulatory environment in various jurisdictions, we could become subject to new capital requirements introduced or imposed by our regulators that could require us to issue securities that would qualify as Tier 1 regulatory capital under the Basel Committee accords or retain earnings over a period of time. In addition, given our leveraged nature and the significant restrictive covenants in our debt agreements, there can be no assurance that we will have access to sufficient capital. Failure to meet capital requirements or to have access to sufficient capital could materially impact our business, financial condition and results of operations.

We face credit risks from our retail agents and financial institution customers.

The vast majority of our Global Funds Transfer segment is conducted through independent agents that provide our products and services to consumers at their business locations. Our agents receive the proceeds from the sale of our payment instruments and money transfers, and we must then collect these funds from the agents. If an

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agent becomes insolvent, files for bankruptcy, commits fraud or otherwise fails to remit money order or money transfer proceeds to us, we must nonetheless pay the money order or complete the money transfer on behalf of the consumer.

Moreover, we have made, and may make in the future, secured or unsecured loans to retail agents under limited circumstances or allow agents to retain our funds for a period of time before remitting them to us. As of December 31, 2011, we had credit exposure to our agents of approximately $352.0 million in the aggregate spread across 12,000 agents, of which four owed us in excess of $15.0 million.

Our official checks outsourcing business is conducted through financial institutions. Our financial institution customers issue official checks and money orders and remit to us the face amounts of those instruments the day after they are issued. We are liable for payment on all of those instruments except cashier s checks. As of December 31, 2011, we had credit exposure to our official check financial institution customers of approximately $350.8 million in the aggregate spread across 1,300 financial institutions, of which one owed us in excess of $15.0 million.

We monitor the creditworthiness of our agents and financial institution customers on an ongoing basis. There can be no assurance that the models and approaches we use to assess and monitor the creditworthiness of our agents and financial institution customers will be sufficiently predictive, and we may be unable to detect and take steps to timely mitigate an increased credit risk.

In the event of an agent bankruptcy, we would generally be in the position of creditor, possibly with limited security or financial guarantees of performance, and we would therefore be at risk of a reduced recovery. We are not insured against credit losses, except in circumstances of agent theft or fraud. Significant credit losses could have a material adverse effect on our business, financial condition and results of operations.

An inability by us or our agents to maintain adequate banking relationships may adversely affect our business, financial condition and results of operations.

We rely on domestic and international banks for international cash management, ACH and wire transfer services to pay money transfers and settle with our agents. We also rely on domestic banks to provide clearing, processing and settlement functions for our paper-based instruments, including official checks and money orders. Our relationships with these banks are a critical component of our ability to conduct our official check, money order and money transfer businesses. An inability on our part to maintain existing or establish new banking relationships sufficient to enable us to conduct our official check, money order and money transfer businesses could adversely affect our business, financial condition and results of operations. There can be no assurance that we will be able to establish and maintain adequate banking relationships.

If we cannot maintain a sufficient relationship with a limited number of large international banks that provide these services, we would be required to establish a global network of banks to provide us with these services. Utilizing a global network of banks could alter the pattern of settlement with our agents and result in our agent receivables and agent payables being outstanding for longer periods than the current remittance schedule, potentially adversely impacting our cash flow. Maintaining a global network of banks may also increase our overall costs for banking services.

We and our agents are considered Money Service Businesses in the United States under the Bank Secrecy Act. U.S. regulators are increasingly taking the position that Money Service Businesses, as a class, are high risk businesses. In addition, the creation of anti-money laundering laws has created concern and awareness among banks of the negative implications of aiding and abetting money laundering activity. As a result, certain of our agents have been denied access to retail banking services in certain markets regardless of the mitigating factors and controls in place to prevent anti-money laundering law violations. If our agents are unable to obtain sufficient banking relationships, they may not be able to offer our services, which could adversely affect our business, financial condition and results of operations.

We may be unable to operate our official check and money order businesses profitably if we are not successful in retaining those partners that we wish to retain.

We have reduced the commission rate we pay to our official check financial institution customers, and have implemented, and in some cases increased, per-item and other fees for our official check and money order services. Due to the current low interest rate environment, our official check financial institution customers have been receiving low or no commission payments from the issuance of payment service instruments. Our official check financial institution customers have a right to terminate their agreements with us if they do not accept these pricing changes. As a result of the pricing changes, a low interest rate environment and contractual rights, there can be no assurance that we will retain official check financial institution customers and money order agents that we wish to retain. If we are not successful in retaining customers and agents that we wish to retain, and we are unable to proportionally reduce our fixed costs associated with the official check and money order businesses, our business, financial condition and results of operations could be adversely affected.

We face fraud risks that could adversely affect our business, financial condition and results of operations.

Criminals are using increasingly sophisticated methods to engage in illegal activities such as paper instrument counterfeiting, fraud and identity theft. As we make more of our services available over the Internet and other unmanned media, we subject ourselves to new types of consumer fraud risk because requirements relating to customer authentication are more complex with Internet services. Certain former retail agents have also engaged in fraud against consumers or us, and existing agents could engage in fraud against consumers or us. We use a variety of tools to protect against fraud; however, these tools may not always be successful. Allegations of fraud may result in fines, settlements and litigation expenses.

The industry is under increasing scrutiny from federal, state and local regulators in connection with the potential for consumer fraud. Negative economic conditions may result in increased agent or consumer fraud. If consumer fraud levels involving our services were to rise, it could lead to regulatory intervention and reputational and financial damage. This, in turn, could lead to government enforcement actions and investigations, reduce the use and acceptance of our services or increase our compliance costs and thereby have a material adverse impact on our business, financial condition and results of operations.

We face intense competition, and if we are unable to continue to compete effectively, our business, financial condition and results of operations would be adversely affected.

The markets in which we compete are highly competitive, and we face a variety of competitors across our businesses, in particular our largest competitor, The Western Union Company, or Western Union. In addition, new competitors or alliances among established companies may emerge. Further, some of our competitors have larger and more established customer bases and substantially greater financial, marketing and other resources than we have. With respect to our money transfer, urgent bill payment and money order businesses, our primary competitor is Western Union. We cannot anticipate every effect that actions taken by our competitors will have on our business, or the money transfer and bill payment industry in general.

Money transfer, money order and bill payment services within our Global Funds Transfer segment compete in a concentrated industry, with a small number of large competitors and a large number of small, niche competitors. We also compete with banks and niche person-to-person money transfer service providers. The electronic bill payment services within our Global Funds Transfer segment compete in a highly fragmented consumer-to-business payment industry. Competitors in the electronic payments area include financial institutions, third parties that host financial institution and bill payment services, third parties that offer payment services directly to consumers and billers offering their own bill payment services.

Our official check business competes primarily with financial institutions that have developed internal processing capabilities or services similar to ours and do not outsource official check services. Financial institutions could also offer competing official check outsourcing services to our existing and prospective official check customers.

There can be no assurance that growth in consumer money transfer transactions, bill payment transactions and other payment products will continue. In addition, consolidation among payment service companies has occurred

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and could continue to occur in the future. If we are unable to continue to grow our existing products, while also growing newly developed and acquired products, we will be unable to compete effectively in the changing marketplace, and our business, financial condition and results of operations could be adversely affected.

If we fail to successfully develop and timely introduce new and enhanced products and services or if we make substantial investments in an unsuccessful new product, service or infrastructure change, our business, prospects, financial condition and results of operations could be adversely affected.

Our future growth will depend, in part, on our ability to continue to develop and successfully introduce new and enhanced methods of providing money transfer, money order, official check, bill payment and related services that keep pace with competitive introductions, technological changes and the demands and preferences of our agents, financial institution customers and consumers. If alternative payment mechanisms become widely substituted for our current products and services, and we do not develop and offer similar alternative payment mechanisms successfully and on a timely basis, our business and prospects could be adversely affected. We may make future investments or enter into strategic alliances to develop new technologies and services or to implement infrastructure changes to further our strategic objectives, strengthen our existing businesses and remain competitive. Such investments and strategic alliances, however, are inherently risky and we cannot guarantee that such investments or strategic alliances will be successful. If such investments and strategic alliances are not successful, they could have a material adverse effect on our business, financial condition and results of operations.

There are a number of risks associated with our international sales and operations that could adversely affect our business.

We provide money transfer services between and among approximately 190 countries and territories and continue to expand in various international markets. Our ability to grow in international markets and our future results could be harmed by a number of factors, including:

- changes in political and economic conditions and potential instability in certain regions, including in particular the recent civil unrest, terrorism and political turmoil in North Africa, the Middle East and other regions;
- restrictions on money transfers to, from and between certain countries;
- money control and repatriation issues;
- changes in regulatory requirements or in foreign policy, including the adoption of domestic or foreign laws, regulations and interpretations detrimental to our business;
- possible increased costs and additional regulatory burdens imposed on our business;
- the implementation of U.S. sanctions, resulting in bank closures in certain countries and the ultimate freezing of our assets;
- burdens of complying with a wide variety of laws and regulations;
- possible fraud or theft losses, and lack of compliance by international representatives in foreign legal jurisdictions where collection and legal enforcement may be difficult or costly;
- reduced protection of our intellectual property rights;

unfavorable tax rules or trade barriers;

inability to secure, train or monitor international agents; and

failure to successfully manage our exposure to foreign currency exchange rates, in particular with respect to the euro.

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If we are unable to adequately protect our brand and the intellectual property rights related to our existing and any new or enhanced products and services, or if we infringe on the rights of others, our business, prospects, financial condition and results of operations could be adversely affected.

The MoneyGram(R) brand is important to our business. We utilize trademark registrations in various countries and other tools to protect our brand. Our business would be harmed if we were unable to adequately protect our brand and the value of our brand was to decrease as a result.

We rely on a combination of patent, trademark and copyright laws, trade secret protection and confidentiality and license agreements to protect the intellectual property rights related to our products and services. We also investigate the intellectual property rights of third parties to prevent our infringement of those rights. We may be subject to third party claims alleging that we infringe their intellectual property rights or have misappropriated other proprietary rights. We may be required to spend resources to defend such claims or to protect and police our own rights. Some of our intellectual property rights may not be protected by intellectual property laws, particularly in foreign jurisdictions. The loss of our intellectual property protection, the inability to secure or enforce intellectual property protection or to successfully defend against claims of intellectual property infringement could harm our business, prospects, financial condition and results of operation.

Failure to attract and retain key employees could have a material adverse impact on our business.

Our success depends to a large extent upon our ability to attract and retain key employees. The loss of one or more members of our executive management team could harm our business and future development. A failure to attract and retain key personnel could also have a material adverse impact on our business.

A breach of security of our systems could adversely affect our business.

We obtain, transmit and store confidential customer, employer and agent information in connection with certain of our services. These activities are subject to laws and regulations in the United States and other jurisdictions. The requirements imposed by these laws and regulations, which often differ materially among the many jurisdictions, are designed to protect the privacy of personal information and to prevent that information from being inappropriately disclosed. Any security breaches in our computer networks, databases or facilities could harm our business and reputation, cause inquiries and fines or penalties from regulatory or governmental authorities, cause a loss of customers and subject us to lawsuits. We rely on a variety of technologies to provide security for our systems. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments, including improper acts by third parties, may result in a compromise or breach of the security measures we use to protect our systems. We may be required to expend significant capital and other resources to protect against these security breaches or to alleviate problems caused by these breaches. Third-party contractors also may experience security breaches involving the storage and transmission of our data. If users gain improper access to our or our contractor s systems or databases, they may be able to steal, publish, delete or modify confidential customer information. A security breach could expose us to monetary liability, lead to reputational harm and make our customers less confident in our services, which could have a material adverse effect on our business, financial condition and results of operations.

Because our business is particularly dependent on the efficient and uninterrupted operation of our computer network systems and data centers, disruptions to these systems and data centers could adversely affect our business, financial condition and results of operations.

Our ability to provide reliable service largely depends on the efficient and uninterrupted operation of our computer network systems and data centers. Our business involves the movement of large sums of money and the management of data necessary to do so. The success of our business particularly depends upon the efficient and error-free handling of transactions and data. We rely on the ability of our employees and our internal systems and processes to process these transactions in an efficient, uninterrupted and error-free manner.

In the event of a breakdown, catastrophic event (such as fire, natural disaster, power loss, telecommunications failure or physical break-in), security breach, improper operation, improper action by our employees, agents, customer financial institutions or third party vendors or any other event impacting our systems or processes or our vendors systems or processes, we could suffer financial loss, loss of customers, regulatory sanctions, lawsuits and damage to our reputation. The measures we have enacted, such as the implementation of disaster recovery plans and redundant computer systems, may not be successful. We may also experience problems other than system failures, including software defects, development delays and installation difficulties, which would harm our business and reputation and expose us to potential liability and increased operating expenses. In addition, any work stoppages or other labor actions by employees who support our systems or perform any of our major functions could adversely affect our business. Certain of our agent contracts, including our contract with Wal-Mart, contain service level standards pertaining to the operation of our system, and give the agent a right to collect damages and in extreme situations a right of termination for system downtime exceeding agreed upon service levels. If we experience significant system interruptions or system failures, our business interruption insurance may not be adequate to compensate us for all losses or damages that we may incur.

If we are unable to effectively operate and adapt our technology to match our business growth, our business, financial condition and results of operations could be adversely affected.

Our ability to continue to provide our services to a growing number of agents and consumers, as well as to enhance our existing services and offer new services, is dependent on our information technology systems. If we are unable to effectively manage the technology associated with our business, we could experience increased costs, reductions in system availability and loss of agents or consumers. Any failure of our systems in scalability, reliability and functionality could adversely impact our business, financial condition and results of operations.

The operation of retail locations and acquisition or start-up of businesses create risks and may adversely affect our operating results.

We operate Company-owned retail locations for the sale of our products and services. We may be subject to additional laws and regulations that are triggered by our ownership of retail locations and our employment of individuals who staff our retail locations. There are also certain risks inherent in operating any retail location, including theft, personal injury and property damage and long-term lease obligations.

We may, from time to time, acquire or start up businesses both inside and outside of the United States. The acquisition and integration of businesses involve a number of risks. We may not be able to successfully integrate businesses that we acquire or open, including their facilities, personnel, financial systems, distribution, operations and general operating procedures. If we fail to successfully integrate acquisitions or start-up businesses, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations. The diversion of capital and management s attention from our core business that results from acquiring or opening new businesses could adversely affect our business, financial condition and results of operations.

Concerns regarding the European debt crisis and market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the Eurozone, or the potential dissolution of the euro entirely, could adversely affect our business, results of operations and financing.

As a result of the debt crisis with respect to countries in Europe, in particular most recently in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to countries using the euro as their currency, or the Eurozone, that are in financial difficulty and seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent financial stability mechanism, the European Stability Mechanism, which will be activated by mutual agreement, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Eurozone countries.

These concerns could lead to the re-introduction of individual currencies in one or more Eurozone countries, or, in more extreme circumstances, the possible dissolution of the euro currency entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. In addition, concerns over the effect of this financial crisis on financial institutions in Europe and globally could have an adverse impact on the capital markets generally.

Changes in tax laws and unfavorable outcomes of tax positions we take could adversely affect our tax expense and liquidity.

Our future tax rate could be adversely affected by changes in tax laws, both domestically and internationally. From time to time, the United States and foreign, state and local governments consider legislation that could increase our effective tax rates. If changes to applicable tax laws are enacted, our results of operations could be negatively impacted.

We file tax returns and take positions with respect to federal, state, local and international taxation, including positions that relate to our historical net security losses, and our tax returns and tax positions are subject to review and audit by taxing authorities. We expect to receive a Notice of Deficiency within the next 12 months disallowing approximately $908.5 million of cumulative deductions taken relating to net security losses. Through December 31, 2011, we recognized a cumulative federal benefit of approximately $136.1 million relating to these deductions. If our petition regarding the Notice of Deficiency is denied, the Company would be required to make cash payments of $105.4 million based on benefits taken through December 31, 2011. An unfavorable outcome in this audit or other tax reviews or audits could result in higher tax expense, including interest and penalties, which could adversely affect our results of operations and cash flows. We establish reserves for material known tax exposures; however, there can be no assurance that an actual taxation event would not exceed our reserves.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business.

We are required to certify and report on our compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing the effectiveness of our internal control over financial reporting. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. In order to achieve effective internal controls we may need to enhance our accounting systems or processes, which could increase our cost of doing business. Any failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business.

Risks Related to Ownership of our Stock

THL owns a substantial percentage of our common stock, and its interests may differ from the interests of our other common stockholders.

As of December 31, 2011, THL held approximately 64.1 percent of our common stock. As a result, THL is able to determine the outcome of matters put to a stockholder vote, including the ability to elect our directors, determine our corporate and management policies, including compensation of our executives, and determine, without the consent of our other stockholders, the outcome of any corporate action submitted to our stockholders for approval, including potential mergers, acquisitions, asset sales and other significant corporate transactions. THL also has sufficient voting power to amend our organizational documents. We cannot provide assurance that the interests of THL will coincide with the interests of other holders of our common stock. THL s concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company and might reduce our share price.

In view of their significant ownership stake in the Company, THL has appointed four members to our Board of Directors. The size of our Board has been set at nine directors, four of which are independent. Our Certificate of Incorporation provides that, as long as the Investors have a right to designate directors to our Board, THL shall have the right to designate two to four directors who shall each have equal votes and who shall have such number

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of votes equal to the number of directors as is proportionate to the Investors common stock ownership, calculated on a fully-converted basis, as if all of the shares of D Stock were converted to common shares. Therefore, each director designated by THL will have multiple votes and each other director will have one vote.

We have significant overhang of salable common stock and D Stock held by the Investors relative to the public float of our common stock.

The trading market for our common stock was first established in June 2004. The public float in that market now consists of approximately 62.3 million shares issued and 57.8 million shares outstanding as of December 31, 2011. In accordance with the terms of the Registration Rights Agreement entered into between us and the Investors at the closing of the 2008 Recapitalization, we have an effective registration statement on Form S-3 that permits the offer and sale by the Investors of all of the common stock or D Stock currently held by the Investors. In 2011, the Investors sold 10.2 million shares of common stock pursuant to this registration statement, which leaves the Investors with 50.7 million shares of common stock that can still be sold pursuant to the registration statement. The registration statement also permits us to offer and sell up to $500 million of our common stock, preferred stock, debt securities or any combination of these securities, from time to time, subject to market conditions and our capital needs. Sales of a substantial number of shares of our common stock, or the perception that significant sales could occur (particularly if sales are concentrated in time or amount), may depress the trading price of our common stock.

Our charter documents and Delaware law contain provisions that could delay or prevent an acquisition of the Company, which could inhibit your ability to receive a premium on your investment from a possible sale of the Company.

Our charter documents contain provisions that may discourage third parties from seeking to acquire the Company. These provisions and specific provisions of Delaware law relating to business combinations with interested stockholders may have the effect of delaying, deterring or preventing certain business combinations, including a merger or change in control of the Company. Some of these provisions may discourage a future acquisition of the Company even if stockholders would receive an attractive value for their shares or if a significant number of our stockholders believed such a proposed transaction to be in their best interests. As a result, stockholders who desire to participate in such a transaction may not have the opportunity to do so.

Our board of directors has the power to issue series of preferred stock and to designate the rights and preferences of those series, which could adversely affect the voting power, dividend, liquidation and other rights of holders of our common stock.

Under our certificate of incorporation, our board of directors has the power to issue series of preferred stock and to designate the rights and preferences of those series. Therefore, our board of directors may designate a new series of preferred stock with the rights, preferences and privileges that the board of directors deems appropriate, including special dividend, liquidation and voting rights. The creation and designation of a new series of preferred stock could adversely affect the voting power, dividend, liquidation and other rights of holders of our common stock and, possibly, any other class or series of stock that is then in existence.

The market price of our common stock may be volatile.

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which may be beyond our control. These factors include the perceived prospects or actual operating results of our business; changes in estimates of our operating results by analysts, investors or our management; our actual operating results relative to such estimates or expectations; actions or announcements by us or our competitors; litigation and judicial decisions; legislative or regulatory actions; and changes in general economic or market conditions. In addition, the stock market in general has from time to time experienced extreme price and volume fluctuations. These market fluctuations could reduce the market price of our common stock for reasons unrelated to our operating performance.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Location	Use	Segment(s) Using Space	Square Feet	Lease Expiration
Dallas, TX	Corporate Headquarters	Both	46,291	6/30/2021
Minneapolis, MN	Global Operations Center	Both	134,000	12/31/2015
Brooklyn Center, MN	Global Operations Center	Both	75,000	4/30/2015
Lakewood, CO	Call Center	Global Funds Transfer	113,849	3/31/2015
London, UK	Global Operations Center	Both	20,738	1/31/2021

Information concerning our material properties, all of which are leased, including location, use, approximate area in square feet and lease terms, is set forth above. Not included in the above table is approximately 34,211 square feet in Minneapolis, Minnesota that has been sublet. Subsequent to December 31, 2011, the Company entered into an agreement to lease 25,287 square feet of office space in Frisco, Texas and an agreement for early termination of one of its leases in Lakewood, CO consisting of 45,684 square feet. The Company has vacated this portion of the property per the agreement. We also have a number of other smaller office locations in Arkansas, California, Florida, New York, France, Germany, Italy, Spain and the United Kingdom, as well as small sales and marketing offices in Australia, China, Greece, India, Italy, the Netherlands, Nigeria, Russia, South Africa, Spain, Ukraine, United Arab Emirates, and Switzerland. We believe that our properties are sufficient to meet our current and projected needs.

Item 3. LEGAL PROCEEDINGS

The matters set forth below are subject to uncertainties and outcomes that are not predictable with certainty. 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 litigations alleged.

Litigation Commenced Against the Company:

Shareholder Litigation On April 15, 2011 a complaint was filed in the Court of Chancery of the State of Delaware by Willie R. Pittman purporting to be a class action complaint on behalf of all shareholders and a shareholder derivative complaint against the Company, THL, Goldman Sachs and each of the Company s directors. Ms. Pittman alleges in her complaint that she is a stockholder of the Company and asserts, among other things, (i) breach of fiduciary duty and disclosure claims against the Company s directors, THL and Goldman Sachs, (ii) breach of the Company s certificate of incorporation claims against the Company, THL and Goldman Sachs, and (iii) claims for aiding and abetting breach of fiduciary duties against Goldman Sachs. Ms. Pittman purports to sue on her own behalf and on behalf of the Company and its stockholders. Pittman sought to, among other things, enjoin or rescind the 2011 Recapitalization. On April 29, 2011 the plaintiff filed an amended complaint to add two additional plaintiffs, Susan Seales and Stephen Selzer. On May 16, 2011 a hearing to enjoin or rescind the 2011 Recapitalization was held in the Court of Chancery of the State of Delaware, and at the hearing, the plaintiffs request for a preliminary injunction was denied. The 2011 Recapitalization was completed on May 18, 2011. Since that time, Ms. Pittman has withdrawn as a putative class representative; Ms. Seales and Mr. Selzer remain as plaintiffs. The plaintiffs seek to recover damages of some or all of the cash and stock payments made to THL and Goldman Sachs by the Company in connection with the recapitalization transaction. This litigation is ongoing and is scheduled for trial in the second quarter of 2012.

On May 12, 2011 a complaint was filed in the County Court at Law No. 3 in Dallas County, Texas by Hilary Kramer purporting to be a class action complaint on behalf of all shareholders and a shareholder derivative complaint against the Company, THL, Goldman Sachs and each of the Company s directors. Ms. Kramer alleges

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in her complaint that she is a stockholder of the Company and asserts, among other things, (i) breach of fiduciary duty claims against the Company s directors, THL and Goldman Sachs and (ii) claims for aiding and abetting breach of fiduciary duties against Goldman Sachs. Ms. Kramer purports to sue on her own behalf and on behalf of the Company and its stockholders. Ms. Kramer sought to, among other things, enjoin the 2011 Recapitalization. The defendants have moved for the Texas court to stay this litigation in favor of the Pittman litigation in Delaware, which has an overlapping class definition.

Other Matters The Company is involved in various claims and litigation that arise from time to time in the ordinary course of the Company s business. Management does not believe that after final disposition any of these matters is likely to have a material adverse impact on the Company s financial condition, results of operations and cash flows.

Government Investigations:

MoneyGram has been served with subpoenas to produce documents and testify before a grand jury in the U.S. District Court for the Middle District of Pennsylvania. The subpoenas sought information related to, *inter alia*, MoneyGram s U.S. and Canadian agents, as well as certain transactions involving such agents, fraud complaint data, and MoneyGram s consumer anti-fraud program during the period from 2004 to 2009. MoneyGram has provided information requested pursuant to the subpoenas and continues to provide additional information relating to the investigation. In addition, the Company has been provided with subpoenas for the testimony of certain current and former employees in connection with the investigation. The Company has also been notified of a request for interviews of one current executive officer and one former chief executive officer of the Company. The U.S. Department of the Treasury Financial Crimes Enforcement Network, or FinCEN, also requested information, which information was subsequently provided by MoneyGram, concerning MoneyGram s reporting of fraudulent transactions during this period. In November 2010, MoneyGram met with representatives from the U.S. Attorney s Office for the Middle District of Pennsylvania, or the MDPA USAO, and representatives of FinCEN to discuss the investigation. In July 2011, MoneyGram had further discussions with the MDPA USAO and representatives of the Asset Forfeiture and Money Laundering Section of the U.S. Department of Justice, or the US DOJ. MoneyGram has been informed that it is being investigated by the federal grand jury in connection with these matters for the period 2004 to early 2009 as well as MoneyGram s anti-money laundering program during that period. In January 2012, meetings were held between representatives of the Company, the MDPA USAO and the Criminal Division of the US DOJ to discuss the investigation. MoneyGram continues to engage in discussions and cooperate with such government representatives regarding the ongoing investigation. During the course of these discussions, the Company was advised that consideration is being given to a range of possible outcomes, including the seeking of criminal penalties against the Company. However, no conclusions can be drawn at this time as to the outcome of the investigation, and we are unable to predict the probable loss, or range of loss, if any, associated with this matter.

MoneyGram has also received Civil Investigative Demands from a working group of nine state attorneys general who have initiated an investigation into whether the Company has taken adequate steps to prevent consumer fraud during the period from 2007 to 2011. The Civil Investigative Demands seek information and documents relating to the Company s procedures to prevent fraudulent transfers and consumer complaint information. MoneyGram continues to cooperate fully with the states in this matter. MoneyGram has submitted the information and documents requested by the states. No claims have been made against MoneyGram at this time.

Other Matters The Company is involved in various government inquiries and other matters that arise from time to time. 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.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange under the symbol MGI . No dividends on our common stock were declared by our Board of Directors in 2011 or 2010. See Management s Discussion and Analysis of Financial Condition and Results of Operations Mezzanine Equity and Stockholders Deficit and Note 12 *Stockholders Deficit* of the Notes to Consolidated Financial Statements. As of February 28, 2012, there were 10,482 stockholders of record of our common stock. On November 14, 2011, we effected a one-for-eight reverse stock split of our issued and outstanding common stock. All share and per share amounts have been retroactively adjusted to reflect the stock split with the exception of the Company s treasury stock, which was not a part of the reverse stock split.

The high and low sales prices for our common stock for the periods presented were as follows:

	2011		2010	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
First	$ 27.44	$ 19.44	$ 31.28	$ 20.24
Second	$ 33.12	$ 25.12	$ 32.08	$ 18.72
Third	$ 29.28	$ 16.72	$ 23.20	$ 15.92
Fourth	$ 23.04	$ 15.90	$ 23.52	$ 18.00

The Board of Directors has authorized the repurchase of a total of 12,000,000 shares, as announced publicly 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. The Company may consider repurchasing shares from time-to-time, subject to limitations in our debt agreements. Shares of MoneyGram common stock tendered to the Company in connection with the exercise of stock options or vesting of restricted stock are not considered repurchased shares under the terms of the repurchase authorization. As of December 31, 2011, we have repurchased 6,795,017 shares of our common stock under this authorization and have remaining authorization to repurchase up to 5,204,983 shares. The Company repurchased 17 shares in the fourth quarter of 2011. The following table summarizes the share repurchases during the three months ended December 31, 2011:

Period	**(a) Total number of shares purchased**	**(b) Average price paid per share**	**(c) Total number of shares purchased as part of publicly announced plans or programs**	**(d) Maximum number of shares that may yet be purchased under the plans or programs [1]**
October 1 October 31				
November 1 November 30				
December 1 December 31	17	16.28	17	5,204,983
Total	17		17	5,204,983

The terms of our debt agreements place significant limitations on the amount of restricted payments we may make, including dividends on our common stock. With certain exceptions, we may only make restricted payments in an aggregate amount not to exceed $25.0 million, subject to an incremental build-up based on our consolidated net income in future periods. As a result, our ability to declare or pay dividends or distributions to the stockholders of the Company s common stock is materially limited at this time. No dividends were paid on our common stock in 2011 and 2010.

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STOCKHOLDER RETURN PERFORMANCE

The following graph compares the cumulative total return from December 31, 2006 to December 31, 2011 for our common stock, our peer group index of payment services companies and the S&P 500 Index. The peer group index of payment services companies, referred to as the Peer Group Index, consists of: Euronet Worldwide Inc., Fidelity National Information Services, Inc., Fiserv, Inc., Global Payments Inc., MasterCard, Inc., Online Resources Corporation, Total System Services, Inc., Visa, Inc. and The Western Union Company. The graph assumes the investment of $100 in each of our common stock, our Peer Group Index and the S&P 500 Index on December 31, 2006, and the reinvestment of all dividends as and when distributed.

COMPARISON OF CUMULATIVE TOTAL RETURN*

AMONG MONEYGRAM INTERNATIONAL, INC.,

S&P 500 INDEX AND PEER GROUP INDEX

*$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
MONEYGRAM INTERNATIONAL, INC.	100.00	49.47	3.28	9.27	8.72	7.14
S&P 500 INDEX	100.00	105.49	66.46	84.05	96.71	98.75
PEER GROUP INDEX	100.00	124.59	78.48	124.26	113.57	153.63

Item 6. SELECTED FINANCIAL DATA

The following table presents our selected consolidated financial data for the periods indicated. The information set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and Notes thereto. For the basis

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of presentation of the information set forth below, see Management s Discussion and Analysis of Financial Condition and Results of Operations Basis of Presentation.

YEAR ENDED DECEMBER 31,	2011	2010	2009	2008	2007
(Dollars and shares in thousands, except per share data)					
Operating Results					
Revenue					
Global Funds Transfer segment	$ 1,152,716	$ 1,053,281	$ 1,025,449	$ 1,015,929	$ 861,403
Financial Paper Products segment	93,332	109,515	122,783	238,193	470,127
Other	1,721	3,857	13,479	16,459	18,463
Total revenue	1,247,769	1,166,653	1,161,711	1,270,581	1,349,993
Total operating expenses	1,105,252	1,008,255	1,086,313	1,151,760	1,139,749
Operating income	142,517	158,398	75,398	118,821	210,244
Total other expense, net (1)	102,747	100,018	97,720	456,012	1,203,512
Income (loss) from continuing operations before income taxes (2)	39,770	58,380	(22,322)	(337,191)	(993,268)
Income tax expense (benefit)	(19,636)	14,579	(20,416)	(75,806)	78,481
Income (loss) from continuing operations	$ 59,406	$ 43,801	$ (1,906)	$ (261,385)	$ (1,071,749)
(Loss) earnings per common share:					
Basic	$ (9.03)	$ (8.77)	$ (11.87)	$ (33.54)	$ (103.55)
Diluted	$ (9.03)	$ (8.77)	$ (11.87)	$ (33.54)	$ (103.55)
Weighted-average shares outstanding:					
Basic	48,576	10,398	10,312	10,307	10,352
Diluted	48,576	10,398	10,312	10,307	10,352
Financial Position					
Excess (shortfall) of assets over payment service obligations (3)	$ 211,659	$ 230,229	$ 313,335	$ 391,031	$ (551,812)
Substantially restricted assets (3)	4,417,034	4,414,965	5,156,789	5,829,030	7,210,658
Total assets	5,175,578	5,115,736	5,929,663	6,642,296	7,935,011
Payment service obligations	4,205,375	4,184,736	4,843,454	5,437,999	7,762,470
Long-term debt	810,888	639,946	796,791	978,881	345,000
Mezzanine equity (4)		999,353	864,328	742,212	
Stockholders' (deficit) equity (4)	(110,198)	(942,482)	(883,013)	(781,736)	(488,517)
Other Selected Data					
Capital expenditures	$ 50,136	$ 43,025	$ 38,258	$ 40,357	$ 71,142
Depreciation and amortization	$ 46,051	$ 48,074	$ 57,091	$ 56,672	$ 51,979
Cash dividends declared per share	$	$	$	$	$ 0.20
Average investable balances (5)	$ 3,255,405	$ 3,684,317	$ 4,246,507	$ 4,866,339	$ 6,346,442
Net investment margin (6)	0.51%	0.56%	0.75%	1.23%	2.28%
Approximate number of countries and territories served	190	190	190	190	180
Number of money order locations (7)	45,000	46,000	49,000	59,000	59,000
Number of money transfer locations (7)	267,000	227,000	190,000	176,000	143,000

(1) Total other expense, net for 2011 includes net securities gains of $32.8 million from the receipt of settlements equal to all outstanding principal from two securities classified in other asset-backed securities previously written down to a nominal fair value and debt extinguishment costs of $37.5 million relating to the termination of the 2008 senior facility in connection with the 2011 Recapitalization and the partial redemption of the Second Lien Notes. Total other expense, net for 2008 includes net securities losses of $340.7 million from the realignment of the investment portfolio in the first quarter of 2008, other-than-temporary impairments and declines in the value of our trading investments. Total other expense, net for 2007 includes net losses of $1.2 billion related to other-than-temporary impairments in the Company s investment portfolio.

(2) Income from continuing operations before income taxes for 2011 includes $4.8 million of legal accruals related primarily to shareholder litigation, $3.4 million of asset impairments and $23.5 million of expense related to our global transformation initiative. Income from continuing operations before income taxes for

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2010 includes a $16.4 million gain related to the reversal of a patent lawsuit; $1.8 million of legal accruals related primarily to shareholder litigation; $1.8 million of asset impairments and $5.9 million of expense related to our global transformation initiative. Loss from continuing operations before income taxes for 2009 includes $54.8 million of legal reserves relating to securities litigation, stockholder derivative claims, a patent lawsuit and a settlement with the FTC; $18.3 million of goodwill and asset impairments and a $14.3 million net curtailment gain on our benefit plans. Loss from continuing operations before income taxes for 2008 includes a $29.7 million net loss on the termination of swaps, a $26.5 million gain from put options on our trading investments, a $16.0 million valuation loss from changes in the fair value of embedded derivatives on our Series B Stock and a goodwill impairment of $8.8 million related to a discontinued business. Loss from continuing operations before income taxes for 2007 includes a goodwill impairment of $6.4 million related to a discontinued business.

(3) Assets in excess of payment service obligations are substantially restricted assets less payment service obligations as calculated in Note 2 *Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements. Substantially restricted assets are composed of cash and cash equivalents, receivables and investments.

(4) Mezzanine Equity related to our Series B Stock. Following the 2011 Recapitalization, all amounts included in mezzanine equity were converted into components of stockholders deficit and no shares of Series B Stock remained issued at December 31, 2011. See Note 11 *Mezzanine Equity* of the Notes to Consolidated Financial Statements for the terms of the Series B Stock.

(5) Investable balances are composed of cash and cash equivalents and all classes of investments.

(6) Net investment margin is determined as net investment revenue (investment revenue less investment commissions) divided by daily average investable balances.

(7) Includes 29,000, 27,000, 28,000, 30,000 and 18,000 locations in 2011, 2010, 2009, 2008 and 2007, respectively, which offer both money order and money transfer services.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and related Notes. 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 under the caption Risk Factors in Part 1, Item 1A of this Annual Report on Form 10-K.

Basis of Presentation

The financial statements in this Annual Report on Form 10-K are presented on a consolidated basis and include the accounts of the Company and our subsidiaries. See Note 2 *Summary of Significant Accounting Policies* of the Notes to the Consolidated Financial Statements for further information regarding consolidation. References to MoneyGram, the Company, we, us and our are to MoneyGram International, Inc. and its subsidiaries and consolidated entities. Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America, also referred to as GAAP.

Fee and other revenue Fee and other revenue consists of transaction fees, foreign exchange revenue and miscellaneous revenue. Transaction fees are earned on money transfer, money order, bill payment and official check transactions. Money transfer transaction fees vary based on the principal amount of the transaction, the originating location and the receiving location. Money order, bill payment and official check transaction fees are fixed per transaction. Foreign exchange revenue is derived from the management of currency exchange spreads on money transfer transactions involving different send and receive currencies. Miscellaneous revenue primarily consists of processing fees on rebate checks and controlled disbursements, service charges on aged outstanding money orders and money order dispenser fees.

Investment revenue Investment revenue consists of interest and dividends generated through the investment of cash balances received primarily from the sale of official checks, money orders and other payment instruments.

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These cash balances are available to us for investment until the payment instrument is presented for payment. Investment revenue varies depending on the level of investment balances and the yield on our investments. Investment balances vary based on the number of payment instruments sold, the principal amount of those payment instruments and the length of time that passes until the instruments are presented for payment.

Fee and other commissions expense We incur fee commissions primarily on our money transfer products. In a money transfer transaction, both the agent initiating the transaction and the agent disbursing the funds receive a commission that is generally based on a percentage of the fee charged to the consumer. We generally do not pay commissions to agents on the sale of money orders. In certain limited circumstances for large agents, we may pay a fixed commission amount based on money order volumes transacted by that agent. Other commissions expense includes the amortization of capitalized agent signing bonus payments.

Investment commissions expense Investment commissions consist 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 that financial institution.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31,	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**	**2011 vs. 2010**	**2010 vs. 2009**
(Amounts in thousands)				**($)**	**($)**	**(%)**	**(%)**
Revenue							
Fee and other revenue	$ 1,230,858	$ 1,145,312	$ 1,128,492	$ 85,546	$ 16,820	7%	1%
Investment revenue	16,911	21,341	33,219	(4,430)	(11,878)	(21)%	(36)%
Total revenue	1,247,769	1,166,653	1,161,711	81,116	4,942	7%	0%
Expenses							
Fee and other commissions expense	547,573	500,759	497,105	46,814	3,654	9%	1%
Investment commissions expense	431	737	1,362	(306)	(625)	(42)%	(46)%
Total commissions expense	548,004	501,496	498,467	46,508	3,029	9%	1%
Compensation and benefits	235,696	226,422	199,053	9,274	27,369	4%	14%
Transaction and operations support	227,762	185,782	284,277	41,980	(98,495)	23%	(35)%
Occupancy, equipment and supplies	47,739	46,481	47,425	1,258	(944)	3%	(2)%
Depreciation and amortization	46,051	48,074	57,091	(2,023)	(9,017)	(4)%	(16)%
Total operating expenses	1,105,252	1,008,255	1,086,313	96,997	(78,058)	10%	(7)%
Operating income	142,517	158,398	75,398	(15,881)	83,000	(10)%	110%
Other expense							
Net securities gains	(32,816)	(2,115)	(7,790)	(30,701)	5,675	NM	NM
Interest expense	86,165	102,133	107,911	(15,968)	(5,778)	(16)%	(5)%
Debt extinguishment costs	37,522			37,522		NM	NM
Other	11,876		(2,401)	11,876	2,401	NM	NM
Total other expenses, net	102,747	100,018	97,720	2,729	2,298	3%	2%
Income (loss) before income taxes	39,770	58,380	(22,322)	(18,610)	80,702	NM	NM
Income tax (benefit) expense	(19,636)	14,579	(20,416)	(34,215)	34,995	NM	NM

Net income (loss)	$ 59,406	$ 43,801	$ (1,906)	$ 15,605	$ 45,707	NM	NM

NM = Not meaningful

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Following is a summary of our operating results in 2011:

Total fee and other revenue increased in 2011 due to an increase in money transfer fee and other revenue, partially offset by lower revenue from bill payment products and the Financial Paper Products segment and the impact of certain businesses and products that were discontinued in 2010. Volume growth of 14 percent and the higher euro exchange rate drove the increase in money transfer fee and other revenue, partially offset by lower average money transfer fees per transaction, corridor mix and the $50 price band. See further discussion under *Fee and Other Revenue and Commissions Expense.*

Investment revenue decreased in 2011 due to a decline in average investment balances and lower yields earned on our investment portfolio.

Total commissions expense increased in 2011 due to money transfer volume growth, the higher euro exchange rate and signing bonus amortization, partially offset by lower volumes from bill payment products.

Total operating expenses increased in 2011 due to higher commissions expense, $15.2 million of incremental restructuring and reorganization costs, investments in marketing and higher legal and compensation costs. Legal costs in 2010 benefited from a $16.4 million reversal of a patent litigation settlement.

During 2011, the Company recognized $32.8 million of settlements equal to all outstanding principal from two securities. These securities had previously been written down to a nominal fair value.

Interest expense decreased 16 percent to $86.2 million in 2011 from $102.1 million in 2010, reflecting lower interest rates from refinancing activity, partially offset by higher outstanding debt balances.

We had an income tax benefit of $19.6 million on pre-tax income of $39.8 million in 2011, primarily reflecting the release of $34.0 million of valuation allowances on U.S. deferred tax assets related to historical net securities losses and a $9.7 million benefit from the disposition of a business.

The increase in the euro exchange rate increased total revenue by $16.5 million and total expenses by $12.7 million, for a net increase to our income before income taxes of $3.8 million.

Following is a summary of significant actions taken by the Company and economic conditions during the year that impacted our operating results, liquidity and capital structure in 2011:

Capital Transactions Following shareholder approval on May 18, 2011, the Company completed the 2011 Recapitalization with THL and Goldman Sachs. As a result of the recapitalization, (i) THL converted all of its shares of the B Stock into 35.8 million shares of common stock and (ii) Goldman Sachs converted all of its shares of the B-1 Stock into 157,686 shares of D Stock, and (iii) THL received 3.5 million additional shares of common stock and $140.8 million in cash, and Goldman Sachs received 15,503 additional shares of D Stock and $77.5 million in cash. Under the 2011 Recapitalization, the Investors received a cash dividend payment for amounts earned under the terms of the B and B-1 Stock for the period from March 26, 2011 through May 18, 2011. During the year ended December 31, 2011, the Company recognized expense of $5.4 million for transaction costs related to the 2011 Recapitalization, which are recorded in the Other line in the Consolidated Statements of Income.

On November 14, 2011, the Company effected a reverse stock split of the Company s common stock at a ratio of 1-for-8 and decreased the number of authorized shares of common stock from 1,300,000,000 to 162,500,000. All share and per share amounts have been retroactively adjusted to reflect the stock split with the exception of the Company s treasury stock, which was not a part of the reverse stock split.

In November and December 2011, the Company completed a secondary offering pursuant to which the Investors sold an aggregate of 10,237,524 shares in an underwritten offering. In connection with the secondary offering, 63,950 shares of D Stock were converted to 7,993,762 shares of common stock. The Company did not receive proceeds from the offering and incurred transaction costs totaling $1.0 million for the year ended December 31, 2011, which are recorded in the Other line in the Consolidated Statement of Income.

Debt Refinancings On May 18, 2011, the Company entered into a credit agreement in connection with the New Credit Facility, referred to herein as the 2011 Credit Agreement, consisting of a $150.0 million, five-year revolving credit facility and a $390.0 million, six-and-one-half-year term loan. On November 21, 2011, the Company entered into an amendment to the 2011 Credit Agreement and obtained in incremental term loan in an aggregate principal amount of $150 million. The net proceeds from the term loan under the 2011 Credit Agreement were used to consummate the 2011 Recapitalization and to refinance the Company s existing 2008 senior facility. In connection with this refinancing, the Company incurred a $5.2 million debt extinguishment loss from the pro-rata write-off of unamortized deferred financing costs.

In connection with the secondary offering, the Company exercised an option to redeem a portion of its Second Lien Notes in November 2011. The redemption was completed through the issuance of the $150.0 million incremental term loan under the 2011 Credit Agreement, with the remaining balance paid from cash and cash equivalents. In connection with the redemption, the Company incurred a prepayment penalty of $23.2 million and wrote-off $9.1 million of unamortized deferred financing costs, for a total debt extinguishment loss of $32.3 million.

Global Economic Conditions Throughout 2011, worldwide economic conditions continued to remain weak, as evidenced by high unemployment rates, government assistance to citizens and businesses on a global basis, continued declines in asset values, restricted lending activity and low consumer confidence, among other factors. Historically, the money remittance industry has generally been resilient during times of economic softness as money transfers are deemed essential to many, with the funds used by the receiving party for food, housing and other basic needs. However, given the global reach and extent of the current economic recession, the growth of money transfer volumes and the average principal of money transfers continued to fluctuate by corridor and country in 2011, particularly in Europe.

The Company experienced transaction growth in Northern Europe, which was somewhat offset by weakness in Spain, Italy and Greece from economic and regulatory factors. New regulations in Italy, which include a tax on non-European Union residents and send limits at non-bank locations, limited our consumers ability to send money and slowed growth in the country. The impact of the new legislation was partially offset as a large Italian agent has a higher send limit than non-bank locations.

In addition, bill payment products available in the United States are not as resilient as money transfers given the consumer credit markets and the more discretionary nature of some items paid for by consumers using these products. Accordingly, the volume of bill payment transactions continued to be adversely impacted in 2011, particularly in the auto, housing and credit card sectors. The Company continues to actively pursue strategic initiatives to mitigate the economic impact on bill payment products, including the addition of 1,500 billers to the MoneyGram network and expansion of the products into Canada during 2011. While there have been some indicators of moderation and improvement during the fourth quarter of 2011, particularly in the United States, we continue to have limited visibility into the future and believe growth rates will continue to be hampered in 2012.

Money Transfer Pricing In the first half of 2010, we introduced a $50 price band that allows consumers to send $50 of principal for a $5 fee at most locations, or a $4.75 fee at a Wal-Mart location. As discussed further in *Global Funds Transfer Segment*, the $50 price band impacted revenue growth, as 2011 was the first full year of the pricing change.

Global Transformation Initiative In the second quarter of 2010, we announced the implementation of a global transformation initiative to realign our management and operations with the changing global market and streamline operations to promote a more efficient and scalable cost structure. The initiative includes organizational changes, relocation of certain operations and investment in technology, among other items. The Company has incurred $20.7 million and $5.4 million of cash outlays in 2011 and 2010, respectively, and recorded $23.5 million and $5.9 million of expenses during 2011 and 2010, respectively. We anticipate this initiative to generate annual pre-tax cost savings of $25.0 million to $30.0 million when fully implemented in 2012.

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FEE AND OTHER REVENUE AND COMMISSIONS EXPENSE

The following discussion provides a summary overview of results. See discussion for the Global Funds Transfer and Financial Paper Products segments for more detailed explanations of our results.

YEAR ENDED DECEMBER 31,	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
(Amounts in thousands)					
Fee and other revenue	$ 1,230,858	$ 1,145,312	$ 1,128,492	7%	1%
Fee and other commissions expense	547,573	500,759	497,105	9%	1%
Fee and other commissions expense as a % of fee and other revenue	44.5%	43.7%	44.1%		

Fee and Other Revenue

In 2011, fee and other revenue growth of $85.5 million, or seven percent, was primarily driven by money transfer transaction volume growth, a higher euro exchange rate and higher foreign exchange revenue, partially offset by changes in corridor mix, lower average face value per transaction and the $50 price band in the United States. Bill payment products, money order and official check fee and other revenue decreased due to volume declines.

In 2010, fee and other revenue growth of $16.8 million, or one percent, was primarily driven by money transfer transaction volume growth, changes in corridor mix and higher foreign exchange revenue, partially offset by a lower euro exchange rate and the introduction of the $50 price band in the United States. Official check fee and other revenue increased from repricing initiatives, partially offset by the run-off of financial institution customers. Bill payment products and money order fee and other revenue decreased from volume declines, with bill payment products also being adversely impacted by lower average fees per transaction due to industry mix.

Fee and Other Commissions

In 2011, fee and other commissions expense growth of $46.8 million, or nine percent, was primarily due to money transfer volume growth, a higher euro exchange rate and increased signing bonus amortization, partially offset by lower bill payment and money order volumes. Signing bonus amortization increased due to the signing of new agents. Commissions expense grew at a faster rate than revenue due to pay-out at a higher tier level from volume growth for certain key agents and corridor mix. Commissions expense as a percent of fee and other revenue increased to 44.5 percent in 2011 from 43.7 percent in 2010, primarily from the continued shift in overall product mix towards the Global Funds Transfer segment, particularly the money transfer product. Agents in the Global Funds Transfer segment are compensated through commissions we pay to them, whereas our Financial Paper Products agents and financial institution customers primarily earn their revenue through per item fees they charge directly to the consumer.

In 2010, fee and other commissions expense growth of $3.7 million, or one percent, was primarily due to money transfer transaction volume growth, partially offset by a lower euro exchange rate, a decrease in signing bonus amortization, lower average money transfer commission rates, declines in volumes for bill payment, money order and official check, and lower average bill payment fees from changes in industry mix. Signing bonus amortization decreased as certain historical signing bonuses were fully amortized in the prior year. Commissions expense as a percent of fee and other revenue increased to 43.7 percent in 2010 from 44.1 percent in 2009, primarily from the continued shift in overall product mix towards the Global Funds Transfer segment, particularly the money transfer product.

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Net Investment Revenue Analysis

YEAR ENDED DECEMBER 31,	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
(Amounts in thousands)					
Investment revenue	$ 16,911	$ 21,341	$ 33,219	(21)%	(36)%
Investment commissions expense	(431)	(737)	(1,362)	(42)%	(46)%
Net investment revenue	$ 16,480	$ 20,604	$ 31,857	(20)%	(35)%
Average balances:					
Cash equivalents and investments	$ 3,255,405	$ 3,684,317	$ 4,246,507	(12)%	(13)%
Payment service obligations	2,310,993	2,659,171	3,048,100	(13)%	(13)%
Average yields earned and rates paid (1):					
Investment yield	0.52%	0.58%	0.78%		
Investment commission rate	0.02%	0.03%	0.04%		
Net investment margin(2)	0.51%	0.56%	0.75%		

(1) Commissions are paid to financial institution customers based on amounts generated by the sale of official checks only.

(2) Average yields and rates are calculated by dividing the applicable amount of Net investment revenue by the applicable amount shown in the Average balances section. The Net investment margin is calculated by dividing Net investment revenue by the Cash equivalents and investments average balance.

Investment revenue in 2011 decreased $4.4 million, or 21 percent, compared to 2010. Lower average investment balances from the run-off of certain official check financial institution customers terminated in prior periods drove $2.5 million of the decrease, while lower yields earned on our investment portfolio drove a decrease of $1.9 million.

Investment revenue in 2010 decreased $11.9 million, or 36 percent, compared to 2009. Lower yields earned on our investment portfolio drove $7.5 million of the decrease, while lower average investment balances from the run-off of certain official check financial institution customers terminated in prior periods drove $4.4 million of the decrease.

Investment commissions expense in 2011 decreased $0.3 million, or 42 percent, compared to 2010 primarily from lower interest rates. Due to the sustained low federal funds rate, most of our financial institution customers continue to be in a negative commission position as of December 31, 2011, meaning we do not owe any commissions to our customers. While the majority of our contracts require that the financial institution customers pay us for the negative commission amounts, we have opted at this time to impose certain per-item and other fees rather than require payment of the negative commission amounts. We continue to monitor the negative commissions and assess our current fee structure for possible further changes.

Investment commissions expense in 2010 decreased $0.6 million, or 46 percent, compared to 2009 from lower rates resulting from the second phase of the repricing initiative that was implemented in the second quarter of 2009 and lower average investment balances.

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OPERATING EXPENSES

The following discussion relates to operating expenses, excluding commissions expense.

Compensation and benefits Compensation and benefits includes salaries and benefits, management incentive programs, related payroll taxes and other employee related costs. Following is a summary of the change in compensation and benefits:

YEAR ENDED DECEMBER 31,	2011	2010
(Amounts in thousands)		
Compensation and benefits expense for the prior year	$ 226,422	$ 199,053
Change from:		
Incentive compensation	8,084	1,636
Salaries and related payroll taxes	6,458	3,561
Restructuring and reorganization	3,603	2,970
Impact of change in Euro currency	2,542	(2,826)
Employee stock-based compensation	(9,994)	11,470
Other employee benefits	(1,419)	10,558
Compensation and benefits expense for the years ended December 31,	$ 235,696	$ 226,422

In 2011, incentive compensation increased primarily from stronger performance against current year objectives. Salaries and related payroll taxes increased from ordinary salary increases and our changing employee base mix as we invest in our sales, market development and compliance functions, partially offset by lower headcount from our restructuring and outsourcing initiatives. Restructuring and reorganization costs increased primarily due to employee severance costs associated with the centralization and relocation of certain functions. Employee stock-based compensation decreased from grants fully vesting in prior periods and forfeitures, partially offset by new grants. Other employee benefits decreased due to medical claim reimbursements in 2011 and non-restructuring severance costs in 2010. We incurred higher expense associated with our legacy defined benefit plans from the impact of lower interest rates on our obligations under those plans, net of a reduction in the number of eligible participants and reduced benefits in the legacy post-retirement medical plan.

In 2010, incentive compensation increased from higher participation levels that increased the compensation base as compared to the prior year, partially offset by lower sales incentives accruals. Salaries and related payroll taxes increased from ordinary salary increases. Restructuring and reorganization costs increased primarily due to employee severance costs associated with the centralization and relocation of certain functions. Stock-based compensation increased from grants made in 2010 and the second half of 2009 in connection with executive hires. Other employee benefits in 2009 included a $14.3 million net curtailment gain on benefit plans, partially offset by $3.9 million of executive severance costs.

Transaction and operations support Transaction and operations support expense 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; bank charges; and the impact of foreign exchange rate movements on our monetary transactions, assets and liabilities

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denominated in a currency other than the U.S. dollar. Following is a summary of the change in transaction and operations support:

YEAR ENDED DECEMBER 31, *(Amounts in thousands)*	**2011**	**2010**
Transaction and operations support expense for the prior year	$ 185,782	$ 284,277
Change from:		
Legal reserves	10,990	(72,078)
Restructuring and reorganization	10,690	1,303
Marketing costs	10,434	6,901
Consultant fees and outsourcing	6,647	(641)
Foreign currency transaction losses	3,287	2,474
Goodwill and asset impairments	(1,558)	(16,206)
Other	1,322	(5,223)
Provision for loss	168	(15,025)
Transaction and operations support expense for the years ended December 31,	$ 227,762	$ 185,782

In 2011, transaction and operations support expense increased from the following items, inclusive of $0.3 million of incremental expense from the higher euro exchange rate:

Legal fees and reserves increased primarily due to a $16.4 million benefit in 2010 from the reversal of a reserve for a patent litigation matter, partially offset by lower settlement reserve additions for securities and other litigation matters. In addition, we incurred overall lower legal fees for regulatory matters, general advisement and licensing matters supporting operational activities.

Restructuring and reorganization costs increased primarily due to employee relocation and resourcing costs for the centralization and relocation of certain functions, including preparation for further centralization and operational changes in 2012.

Marketing costs increased from our expanded investment in marketing and the timing of marketing campaigns in 2011. During 2011, the Company increased its investment in marketing as a percent of revenue to return to historic levels and support growth in money transfer. In future years, we expect to return to more normalized increases in marketing expense.

Consultant fees and outsourcing costs increased primarily due to the outsourcing of certain transactional support and information technology activities, as well as tax advisement and our continued investment in the enhancement of our operational processes and systems that support our infrastructure.

Foreign exchange losses increased due to the impact of high volatility in foreign currency exchange rates on our growing assets, liabilities, revenue and expenses not denominated in the U.S. dollar.

Other expenses primarily relate to incremental employee costs from headcount additions to support business growth and initiatives and invest in the development of our personnel, as well as increased security costs from process enhancements and business and product growth. Targeted cost savings initiatives related to telecommunications and agent forms partially offset these increases.

Included in 2010 expense is $1.5 million impairment from the disposition of a corporate aircraft.

In 2010, transaction and operations support expense decreased from the following items, inclusive of a $3.1 million benefit from a lower euro exchange rate:

Legal reserves and fees benefited in 2010 from a $16.4 million reversal of a reserve for a patent litigation matter. In addition, expenses in 2009 included $54.8 million of settlements related to securities litigation, the Federal Trade Commission and an unfavorable patent litigation ruling.

Restructuring and reorganization costs relate to the early phases of our global business transformation, primarily for the relocation of certain functions and preparation for 2011 actions.

Marketing costs increased to support transaction and agent growth.

Foreign exchange losses increased due to the impact of high volatility in foreign currency exchange rates on our growing assets, liabilities, revenue and expenses not denominated in the U.S. dollar.

Other expenses decreased from targeted cost savings initiatives, particularly related to telecommunications and agent forms, partially offset by costs related to the implementation of the European Union Payment Services Directive and international licensing requirements.

Provision for loss increased primarily due to the closure of an international agent.

Goodwill and asset impairments in 2009 related to the disposition of two businesses and a corporate aircraft, discontinuation of certain bill payment product offerings and the Financial Paper Products segment.

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. Expenses in 2011 increased $1.3 million, or three percent, compared to 2010 primarily due to $1.0 million of restructuring costs relating to facility consolidation and relocation, partially offset by cost reductions due to our facilities rationalization efforts. As reflected in the amounts discussed above, the increase in the euro exchange rate increased occupancy, equipment and supplies expense by $0.6 million in 2011.

Expenses in 2010 decreased $0.9 million, or two percent, compared to 2009 due to lower delivery, postage and freight costs from controlled spending and the timing of agent roll-outs, partially offset by $1.6 million of facility cease-use and related charges associated with restructuring activities. As reflected in the amounts discussed above, the decrease in the euro exchange rate decreased occupancy, equipment and supplies expense by $0.6 million in 2010.

Depreciation and amortization Depreciation and amortization expense includes depreciation on point of sale equipment, agent signage, computer hardware and software, capitalized software development costs, office furniture, equipment and leasehold improvements and amortization of intangible assets. Depreciation and amortization decreased $2.0 million, or four percent, in 2011 compared to 2010, primarily from lower depreciation expense on point of sale equipment, computer hardware and other equipment, partially offset by an increase in amortization of capitalized software from the 2010 implementation of a new system that increased the flexibility of our back office and improved operating efficiencies. As reflected in the amounts discussed above, the increase in the euro exchange rate increased depreciation and amortization expense by $0.5 million in 2011. In connection with our global transformation initiative, we plan to make further investments in our infrastructure to enhance operating efficiencies and support our continued growth. As a result of these investments, depreciation and amortization expense may increase in the future.

Depreciation and amortization decreased $9.0 million, or 16 percent, in 2010 compared to 2009, primarily from lower depreciation expense on point of sale equipment, computer hardware and other equipment, signs and amortization of capitalized software. As reflected in the amounts discussed above, the decrease in the euro exchange rate decreased depreciation and amortization expense by $0.5 million in 2010.

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OTHER EXPENSE, NET

Net Securities Gains Following is a summary of the components of net securities gains:

YEAR ENDED DECEMBER 31,	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
(Amounts in thousands)					
Realized gains from available-for-sale investments	$ (32,820)	$	$	$ (32,820)	$
Realized losses from available-for-sale investments			2		(2)
Other-than-temporary impairments from available-for-sale investments	4	334	4,069	(330)	(3,735)
Valuation gains on trading investments and related put options			(4,304)		4,304
Realized gains from trading investments and related put options		(2,449)	(7,557)	2,449	5,108
Net securities gains	$ (32,816)	$ (2,115)	$ (7,790)	$ (30,701)	$ 5,675

Net securities gains of $32.8 million in 2011 reflect the receipt of settlements equal to all outstanding principal from two securities classified in other asset-backed securities. These securities had previously been written down to a nominal fair value. In 2010, net securities gains include a $2.4 million realized gain from the call of a trading investment, net of the reversal of the related put option, partially offset by $0.3 million of other-than-temporary impairments related to other asset-backed securities. Net securities gains of $7.8 million in 2009 reflect a $7.6 million net realized gain from the call of two trading investments, net of the reversal of the related put options. Valuation gains of $4.3 million on the put option related to the remaining trading investment were partially offset by $4.1 million of other-than-temporary impairments related to other asset-backed securities.

Interest expense Interest expense decreased to $86.2 million in 2011 from $102.1 million in 2010 due to lower interest rates from our refinancing activities, partially offset by higher debt balances. Based on our outstanding debt balances and interest rates in effect at December 31, 2011, our interest expense is estimated at approximately $65.4 million in 2012. This amount will be reduced by any prepayments of debt we may make in 2012. As a result of our debt refinancings in 2011, we anticipate a significant reduction in interest expense in 2012.

Interest expense decreased to $102.1 million in 2010 from $107.9 million in 2009 from lower outstanding debt balances, partially offset by $8.6 million of pro rata write-offs of deferred financing costs and debt discount related to the $165.0 million of debt prepayments in 2011. In 2009, we recorded a $2.7 million pro rata write-off of deferred financing costs and debt discount in connection with the prepayment of $185.0 million of debt in 2009.

Debt Extinguishment Loss The Company recognized total debt extinguishment losses of $37.5 million in 2011. In connection with the refinancing of our 2008 senior debt facility in May 2011, we recorded $5.2 million of debt extinguishment costs, primarily from the write-off of unamortized deferred financing costs. In connection with the partial redemption of the Second Lien Notes in November 2011, the Company incurred a prepayment penalty of $23.2 million and wrote-off $9.1 million of unamortized deferred financing costs. See Note 9 *Debt* in the Notes to Consolidated Financial Statements for further information.

Other Other expenses as summarized below include items deemed to be non-operating based on management s assessment of the nature of the item in relation to our core operations.

(Amounts in thousands)	2011	2010	2009
Capital transaction costs	$ 6,446	$	$
Disposal loss from asset dispositions	972		
Impairment loss from asset dispositions	4,458		
Gain on forward foreign currency contracts			(2,401)
Total other	$ 11,876	$	$ (2,401)

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Capital transactions costs relate to the 2011 Recapitalization and the secondary offering. Losses from asset dispositions relate to land sold as part of our global business transformation and a former bill payment service. Impairment losses relate to land sold and held for sale and intangible assets acquired in the second quarter of 2011. In 2009, the Company recognized a gain upon maturity of derivative contracts hedging forecasted revenues denominated in Euro.

Income taxes In 2011, the Company recognized a tax benefit of $19.6 million, reflecting benefits of $34.0 million for the reversal of a portion of the valuation allowance on domestic deferred tax assets and $9.7 million on the sale of assets. Partially offsetting the benefit is tax expense for non-deductible restructuring expenses and a valuation allowance on a portion of deferred tax assets as a result of losses in certain jurisdictions outside of the United States. The effective tax rate for 2011 reflects the expected utilization of net tax loss carry-forwards based on the Company s review of current facts and circumstances, including the three year cumulative income position and expectations that the Company will maintain a cumulative income position in the future. Changes in facts and circumstances may cause the Company to record additional tax expense or benefits in the future. Based on current facts and circumstances, the Company does not anticipate any valuation allowance adjustments that will materially affect the effective rate in 2012.

In 2010, the Company had tax expense of $14.6 million, including the release of $11.9 million of valuation allowances on deferred tax assets in the U.S. jurisdiction. The decrease in the tax reserve in 2010 was driven by the favorable settlement or closing of years subject to state audit. Reversals and payments of 2009 legal reserves reduced the tax base on which loss carryovers can be utilized and the corresponding release of valuation allowances.

In 2009, the Company recognized a tax benefit of $20.4 million, primarily reflecting the release of $17.6 million of valuation allowances on deferred tax assets. Our pre-tax net loss of $22.3 million, when adjusted for our estimated book to tax differences, resulted in taxable income, which allowed us to release some valuation allowances on our tax loss carryovers. These book to tax differences include impairments on securities and other assets and accruals related to separated employees, litigation and unrealized foreign exchange losses.

During the second quarter of 2010, the IRS completed its examination of the Company s consolidated income tax returns for 2005 to 2007, and issued its Revenue Agent Report, or RAR, challenging the Company s tax position relating to net securities losses and disallowing the related deductions. The Company disagrees with the RAR regarding the net securities losses and filed a protest letter. The Company had conferences with the IRS Appeals Office in 2010 and through October 2011, but was unable to reach agreement with the IRS Appeals Division. The Company is also currently under examination for its 2008 and 2009 tax returns, which had similar deductions. As a result, the Company expects to receive Notices of Deficiency within the next 12 months disallowing approximately $908.5 million of cumulative deductions taken for net securities losses in its 2007, 2008 and 2009 tax returns. As of December 31, 2011, the Company has recognized a cumulative benefit of approximately $136.1 million relating to these deductions. If the Notices of Deficiency contain adjustments with which the Company does not agree, the Company anticipates that it will file a petition in the United States Tax Court contesting such adjustments. While we believe our position will be sustained, if the Company s petition is denied in its entirety, the expense the Company would recognize as of December 31, 2011 is $144.0 million, including any interest. The Company continues to believe that the amounts recorded in its consolidated financial statements reflect its best estimate of the ultimate outcome of this matter.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA) AND ADJUSTED EBITDA

We believe that EBITDA (earnings before interest, taxes, depreciation and amortization, including agent signing bonus amortization) and Adjusted EBITDA (EBITDA adjusted for significant items) provide useful information to investors because they are an indicator of the strength and performance of ongoing business operations, including our ability to service debt and fund capital expenditures, acquisitions and operations. These calculations are commonly used as a basis for investors, analysts and credit rating agencies 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. Finally, EBITDA and Adjusted EBITDA are financial measures used by management in reviewing results of operations, forecasting, assessing cash flow and capital, allocating resources and establishing employee incentive programs.

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Although we believe that EBITDA and Adjusted EBITDA enhance investors understanding of our business and performance, these non-GAAP financial measures should not be considered an exclusive alternative to accompanying GAAP financial measures. The following table is a reconciliation of these non-GAAP financial measures to the related GAAP financial measures.

YEAR ENDED DECEMBER 31, *(Amounts in thousands)*	**2011**	**2010**	**2009**
Income (loss) before income taxes	$ 39,770	$ 58,380	$ (22,322)
Interest expense	86,165	102,133	107,911
Depreciation and amortization	46,051	48,074	57,091
Amortization of agent signing bonuses	32,618	29,247	35,280
EBITDA	204,604	237,834	177,960
Significant items impacting EBITDA:			
Net securities gains	(32,816)	(2,115)	(7,790)
Severance and related costs	(31)	(346)	4,353
Restructuring and reorganization costs	23,470	5,853	
Capital transaction costs	6,446		
Asset impairment charges	3,372	1,829	18,329
Debt extinguishment	37,522		
Stock-based compensation expense	16,281	26,011	14,152
Net curtailment gain on benefit plans			(14,339)
Legal accruals	4,817	(14,572)	54,750
Adjusted EBITDA	$ 263,665	$ 254,494	$ 247,415

For 2011, EBITDA decreased $33.2 million, or 14 percent, to $204.6 million from $237.8 million in 2010. Adjusted EBITDA for 2011 increased $9.2 million, or four percent, from $254.5 million in 2010 to $263.7 million in 2011, primarily due to money transfer growth, partially offset by increases in marketing spend, compensation, fee commissions expenses and lower net investment revenue.

For 2010, EBITDA increased $59.9 million, or 34 percent, to $237.8 million from $178.0 million in 2009, reflecting lower legal accruals and asset impairment charges and the benefits of cost savings initiatives, partially offset by higher stock-based compensation and a net curtailment gain recorded in 2009. Adjusted EBITDA for 2010 increased $7.1 million, or three percent, to $254.5 million from $247.4 million in 2009, primarily due to money transfer growth and cost savings initiatives.

SEGMENT PERFORMANCE

Our reporting segments are primarily organized based on the nature of products and services offered and the type of consumer served. We primarily manage our business through two reporting segments, Global Funds Transfer and Financial Paper Products. The Global Funds Transfer segment provides global money transfers and bill payment services to consumers through a network of agents and, in select markets, company-operated locations. The Financial Paper Products segment provides money orders to consumers through our retail and financial institution locations in the United States and Puerto Rico, and provides official check services to financial institutions in the United States. Businesses that are not operated within these segments are categorized as Other, and primarily relate to discontinued products and businesses. Segment pre-tax operating income and segment operating margin are used to review operating performance and allocate resources.

Segment accounting policies are the same as those described in Note 2 *Summary of Significant Accounting Policies* in the Notes to the Consolidated Financial Statements. We manage our investment portfolio on a consolidated level, with no specific investment security assigned to a particular segment. Investment revenue is allocated to each segment based on the average investment balances generated by that segment s sale of payment instruments during the period. Net securities (gains) losses are not allocated as the segments do not have control

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over portfolio investment decisions. While the derivatives portfolio is also managed on a consolidated level, each derivative instrument is utilized in a manner that can be identified to a particular segment. Interest rate swaps historically used to hedge variable rate commissions were identified with the official check product in the Financial Paper Products segment, while forward foreign exchange contracts are identified with the money transfer product in the Global Funds Transfer segment. Any interest rate swaps related to our credit agreements are not allocated to the segments.

Also excluded from operating income for Global Funds Transfer and Financial Paper Products are interest and other expenses related to our credit agreements, items related to our preferred stock, operating income from businesses categorized as Other, certain pension and benefit obligation expenses, director deferred compensation plan expenses, executive severance and related costs and certain legal and corporate costs not related to the performance of the segments.

Unallocated expenses in 2011 include $9.5 million of corporate costs and $0.4 million of costs associated with our global transformation initiative. In 2010, unallocated expenses include $7.4 million of corporate costs, $5.9 million of costs associated with our global transformation initiative and $1.8 million of asset impairments.

Following is a reconciliation of segment operating income to the consolidated operating results:

YEAR ENDED DECEMBER 31,	**2011**	**2010**	**2009**
(Amounts in thousands)			
Operating income:			
Global Funds Transfer	$ 124,793	$ 139,314	$ 82,647
Financial Paper Products	29,168	36,508	27,372
Other	(1,556)	(2,367)	(4,316)
Total segment operating income	152,405	173,455	105,703
Other unallocated expenses	9,888	15,057	30,305
Total operating income	142,517	158,398	75,398
Net securities gains	(32,816)	(2,115)	(7,790)
Interest expense	86,165	102,133	107,911
Debt extinguishment costs	37,522		
Other	11,876		(2,401)
Income (loss) before income taxes	$ 39,770	$ 58,380	$ (22,322)

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GLOBAL FUNDS TRANSFER SEGMENT

YEAR ENDED DECEMBER 31, *(Amounts in thousands)*	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Money transfer revenue:					
Fee and other revenue	$ 1,039,525	$ 926,489	$ 890,675	12%	4%
Investment revenue	562	244	163	130%	50%
Total money transfer revenue	1,040,087	926,733	890,838	12%	4%
Bill payment revenue:					
Fee and other revenue	112,625	126,467	134,535	(11)%	(6)%
Investment revenue	4	81	76	(95)%	7%
Total bill payment revenue	112,629	126,548	134,611	(11)%	(6)%
Total Global Funds Transfer revenue:					
Fee and other revenue	1,152,150	1,052,956	1,025,210	9%	3%
Investment revenue	566	325	239	74%	36%
Total Global Funds Transfer revenue	1,152,716	1,053,281	1,025,449	9%	3%
Commissions expense	$ 545,688	$ 496,645	$ 488,116	10%	2%
Operating income	$ 124,793	$ 139,314	$ 82,647	(10)%	69%
Operating margin	10.8%	13.2%	8.1%		

Total revenue in the Global Funds Transfer segment consists primarily of fees on money transfers and bill payment transactions. For 2011 and 2010, Global Funds Transfer total revenue increased $99.4 million and $27.8 million, respectively, driven by money transfer volume growth, partially offset by a decline in bill payment revenue.

Money Transfer Fee and Other Revenue

YEAR ENDED DECEMBER 31, *(Amounts in thousands)*	2011	2010
Money Transfer fee and other revenue for the prior year	$ 926,489	$ 890,675
Change from:		
Volume	126,673	77,441
Euro exchange rate	16,456	(18,088)
Corridor mix and average face value per transaction	(19,889)	2,471
Introduction of $50 price band	(9,286)	(24,628)
Other	(918)	(1,382)
Money Transfer fee and other revenue for the year ended December 31,	$ 1,039,525	$ 926,489

In 2011, money transfer fee and other revenue increased 12 percent, driven by transaction volume growth of 14 percent and a higher euro exchange rate, partially offset by unfavorable changes in corridor mix, lower average face value per transaction and lower average money transfer fees from the $50 price band in the United States.

In 2010, money transfer fee and other revenue increased four percent due to transaction volume growth of nine percent, favorable changes in corridor mix and higher average face value per transaction, partially offset by lower average money transfer fees from the introduction of the $50 price band in the United States and the lower Euro exchange rate. In addition, money transfer fee and other revenue in 2009 included $1.3 million of early termination fees.

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Money Transfer Transactions and Agent Locations

YEAR ENDED DECEMBER 31,	2011 vs. 2010	2010 vs. 2009
Total transactions	14%	9%
Transactions originating outside of the United States	15%	15%
Transactions originating in the United States	13%	6%
Transactions originating in the United States excluding those sent to Mexico	13%	8%

Transactions and the related fee revenue are viewed as originating from the send side of a transaction. Accordingly, discussion of transactions by geographic location refers to the region originating a transaction. Money transfer transactions originating in the United States, excluding transactions sent to Mexico, increased due primarily to an increase in intra-United States remittances. Transactions sent to Mexico grew by 12 percent. Mexico represented approximately nine percent of our total transactions in 2011 and 2010.

Our money transfer agent base expanded 18 percent, 20 percent and eight percent in 2011, 2010 and 2009, respectively, primarily due to expansion in Africa, Asia Pacific, Indian subcontinent, Eastern Europe, Latin America and Western Europe.

Bill Payment Fee and Other Revenue

Bill payment fee and other revenue decreased 11 percent in 2011, with lower volumes contributing an $11.3 million decline and lower average fees from changes in industry mix contributing a $2.5 million decline. In 2010, bill payment fee and other revenue decreased six percent, with lower average fees from changes in industry mix contributing a $5.3 million decline and lower volumes contributing a $2.8 million decline. The impact of changes in industry mix reflect our continued growth in new emerging verticals that generate lower revenue per transaction than our traditional verticals. Due to economic conditions in the United States, volumes in our traditional verticals, such as auto and mortgage, continue to be negatively impacted. Bill payment transaction volume decreased seven percent and one percent in 2011 and 2010, respectively.

Global Funds Transfer Commissions Expense

YEAR ENDED DECEMBER 31, *(Amounts in thousands)*	2011	2010
Global Funds Transfer commissions expense for the prior year	$ 496,645	$ 488,116
Change from:		
Money Transfer volume growth	43,046	23,662
Euro exchange rate	7,941	(7,406)
Money transfer commission rates	452	(1,240)
Signing bonuses	3,644	(3,874)
Bill payment volumes	(6,238)	(2,946)
Bill payment commission rates	164	368
Other	34	(35)
Global Funds Transfer commissions expense for the year ended December 31	$ 545,688	$ 496,645

Commissions expense consists primarily of fees paid to our third-party agents for money transfer and bill payment services, as well as the amortization of capitalized agent signing bonuses. In 2011, signing bonus expense increased due to new ag