

MONEYGRAM INTERNATIONAL INC

Form 10-K

March 03, 2009

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

Form 10-K

(Mark One)

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008.**
- 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: 1-31950

MONEYGRAM INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*
1550 Utica Avenue South, Suite 100,
Minneapolis, Minnesota
(Address of principal executive offices)

16-1690064
*(I.R.S. Employer
Identification No.)*
55416
(Zip Code)

Registrant's telephone number, including area code
(952) 591-3000

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

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

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

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

The market value of 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, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was \$74.0 million.

82,540,662 shares of common stock were outstanding as of February 23, 2009.

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 2009 Annual Meeting or Form 10-K.

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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 services company. Our major products include global money transfers, money orders and payment processing solutions for financial institutions. Our core purpose is to help people and businesses by providing affordable, reliable and convenient payment services.

The MoneyGram® brand is recognized throughout the world, and we are committed to bringing greater control and choice to our customers. Our payment services enable consumers throughout the world, many of whom are not fully served by traditional financial institutions, to transfer money and pay bills, helping them meet the financial demands of their daily lives. Our payment services also help businesses operate more efficiently and cost-effectively.

History and Acquisitions

We conduct our business primarily through our wholly owned subsidiary MoneyGram Payment Systems, Inc. (MPSI). Through its predecessor, Travelers Express Company, Inc. (Travelers Express), MPSI has been in operation for nearly 70 years. Travelers Express acquired MPSI in 1998, adding the MoneyGram brand to our Company and adding international money transfer services to our payment service offerings. MoneyGram International, Inc. was incorporated in Delaware in December 2003 in connection with the June 30, 2004 spin-off from our former parent company, Viad Corp. On June 30, 2004, Viad Corp made a tax-free distribution of all of the issued and outstanding shares of common stock of MoneyGram to holders of record of Viad Corp stock.

In 2005, we consolidated the operations of Travelers Express with MPSI to eliminate overlapping costs of operating the two businesses under separate corporate entities, and to complete the transition of our business from the Travelers Express brand to the MoneyGram brand. Effective December 31, 2005, the entity that was formerly Travelers Express merged with and into MPSI, and we retired the Travelers Express brand.

In May 2006, our subsidiary MoneyGram Payment Systems Italy, S.r.l. (MPS Italy) acquired the assets of Money Express S.r.l., our former super-agent in Italy. The acquisition of Money Express S.r.l. provided us with opportunities for further expansion and distribution of our international money transfer services in the region. As a result of the acquisition, MPS Italy manages our network of agents in Italy.

In October 2007, we completed the acquisition of PropertyBridge, Inc. (PropertyBridge), a provider of electronic payment processing services for the real estate management industry. The acquisition provided us with additional rental payment opportunities in this key rental payment vertical and fit strategically with our existing bill payment service offerings.

Due to licensing requirements and marketing constraints in certain European countries, we began to develop a retail strategy in Western Europe during 2006 to offer our services through Company-owned retail stores and kiosks in addition to our typical agent model. In May 2006, we formed an entity in France, MoneyGram France S.A., which became a licensed financial institution in September 2006. We opened our first retail store in France shortly thereafter. During 2007 and 2008, we continued to develop this retail strategy in Western Europe. As of December 31, 2008, we

operate 22 Company-owned retail stores or kiosks in France and 34 in Germany. We expect to open additional locations in these and other markets on a targeted basis.

In August 2008, we completed the acquisition of MoneyCard World Express, S.A. (MoneyCard) and Cambios Sol, S.A., two money transfer super-agents located in Spain. The acquisition of these two entities, each of which manages part of our agent network in Spain, accelerates our expansion and distribution in this key send market. In 2009, we merged Cambios Sol, S.A. into MoneyCard and now maintain MoneyCard as our subsidiary.

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In December 2008, after evaluating our market opportunity for certain of our electronic payment services, we announced our decision to exit our ACH Commerce business and to cease providing Web, telephone and IVR-based bill payment services other than our PropertyBridge service and our eMoney Transfer service described below.

On February 2, 2009, we acquired the French assets of R. Raphael s & Sons PLC (Raphael s Bank). The acquisition of Raphael s Bank provides us with five highly productive money transfer stores in and around Paris, France that will be integrated into our French retail operations.

Capital Transaction

On March 25, 2008, following the deterioration of the asset-backed securities and broader credit markets and the corresponding losses in our investment portfolio, we completed a capital transaction pursuant to which we received a substantial infusion of both equity and debt capital (the Capital Transaction) to support the long-term needs of the business. The equity component of the Capital Transaction consisted of the sale to affiliates of Thomas H. Lee Partners, L.P. (THL) and affiliates of Goldman, Sachs & Co. (Goldman Sachs and together with THL, the Investors) in a private placement of 760,000 shares of Series B Participating Convertible Preferred Stock of the Company (the B Stock) and Series B-1 Participating Convertible Preferred Stock of the Company (the B-1 Stock, and together with the B Stock, the Series B Stock) for an aggregate purchase price of \$760.0 million. The issuance of the Series B Stock gave THL and Goldman Sachs an initial equity interest of approximately 79 percent. In connection with the Capital Transaction, we also paid Goldman Sachs an investment banking advisory fee equal to \$7.5 million in the form of 7,500 shares of B-1 Stock. For a description of the terms of the Series B Stock, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sale of Investments and Capital Transaction and Note 12 *Mezzanine Equity* of the Notes to Consolidated Financial Statements.

As part of the Capital Transaction, we entered into a Registration Rights Agreement with the Investors which requires us to promptly file a shelf registration statement with the United States Securities and Exchange Commission (SEC) relating to the Series B Stock issued to the Investors after a specified holding period. We are generally obligated to keep the shelf registration statement effective for up to 15 years or, if earlier, until all the securities owned by the Investors have been sold. The Investors are also entitled to five demand registrations and unlimited piggyback registrations.

As part of the Capital Transaction, MoneyGram Payment Systems Worldwide, Inc. (Worldwide), a wholly-owned subsidiary of the Company, issued Goldman Sachs \$500.0 million of senior secured second lien notes (the Notes) with a 10 year maturity. Additionally, Worldwide entered into a senior secured amended and restated credit agreement with JP Morgan Chase as agent for a group of lenders (the Senior Facility), amending the Company s existing \$350.0 million debt facility, adding \$250.0 million of term loans to bring the total facility to \$600.0 million. The new facility includes \$350.0 million in two term loan tranches and a \$250.0 million revolving credit facility. For a description of the terms of the Notes and Senior Facility, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sale of Investments and Capital Transaction and Note 10 *Debt* of the Notes to Consolidated Financial Statements.

Our Segments

We conduct our business through two segments: Global Funds Transfer and Payment Systems. For financial information regarding our business and our segments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Note 17 *Segment Information* of the Notes to Consolidated Financial Statements. Following is a description of each segment.

Global Funds Transfer Segment

Our Global Funds Transfer segment provides money transfer services, bill payment services and money orders to consumers, who are often 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 who may have a checking account with a financial institution, but prefer to

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use our products and services on the basis of convenience or value. We primarily offer services to consumers through third-party agents, including retail chains and independent retailers.

In 2008, the Global Funds Transfer segment had revenue of \$1,043.2 million, including net securities losses of \$49.4 million primarily attributable to our money order product line. During 2008, 2007 and 2006, our international operations generated 28 percent, 21 percent and 20 percent, respectively, of our total fee and investment revenue, and 32 percent, 29 percent and 28 percent, respectively, of our Global Funds Transfer segment fee and investment revenue.

Our largest agent, Walmart Stores, Inc. (Walmart), accounted for 26 percent, 20 percent and 17 percent of our total fee and investment revenue and 30 percent, 27 percent and 24 percent of the fee and investment revenue of our Global Funds Transfer segment in 2008, 2007 and 2006, respectively. Walmart is our only customer that accounts for more than 10 percent of our total fee and investment revenue. Our contract with Walmart in the United States provides for the sale by Walmart of our money orders, money transfer services and real-time, urgent bill payment services on an exclusive basis. In conjunction with our Capital Transaction, we extended the term of our agreement with Walmart through January 2013 and agreed to certain commission increases over the term of the contract.

In 2008, pursuant to our agreement with CVS Pharmacy, Inc. (CVS), we completed the rollout of our money transfer and money order services in more than 6,200 CVS locations. We also extended the term of our contract with another large agent, ACE Cash Express, Inc. Starting in late 2008, we began to offer our money transfer and urgent bill payment services through over 2,200 advanced-function ATMs located at 7-Eleven convenience stores in the United States. Outside of the United States, we expanded our money transfer relationship with Canada Post, renewed our money transfer agreement with Thomas Cook in the United Kingdom and renewed our money transfer agreement with Walmart de Mexico. We also entered into agent agreements with large banks in India and Poland. During 2008, 2007 and 2006, our 10 largest agents accounted for 42 percent, 36 percent and 34 percent, respectively, of our total fee and investment revenue and 49 percent, 49 percent and 48 percent, respectively, of the fee and investment revenue of our Global Funds Transfer segment.

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 DeltaWork[®] 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 service call centers in the United States, and we contract for additional call center services in Bulgaria and the Dominican Republic. We provide call center services 24 hours per day, 365 days per year and provide customer service in over 30 languages.

Money Transfers: During 2008, 94 percent of our Global Funds Transfer segment fee and other revenue was generated by our money transfer services (including bill payment). Money transfers are transfers of funds between consumers from one location to another and are used by consumers who want to transfer funds quickly, safely and efficiently to another individual. In a typical money transfer, a consumer visits an agent location, completes a form and pays our agent the money to be transferred along with a fee for the service. The fee paid by the sender is based on the amount to be transferred and the location at which the funds are to be received. Once our consumer pays our agent the money to be transferred and the service fee, our agent enters transaction data into our transaction processing system through one of our point-of-sale platforms and we process the transaction. The transferred funds are then made available for payment to the designated recipient at any agent location or, in select countries, via a deposit to the recipient's bank account. We pay both our send and receive agents a commission for the transaction. In a few instances, we offer our agents a tiered commission structure, rewarding the agent with a higher commission as the volume of its money transfer transactions increases.

We provide money transfer services through our worldwide network of agents and through Company-owned retail locations in the United States, France and Germany. We also offer our money transfer services on the Internet via our rapidly growing MoneyGram eMoneyTransfer service, which allows customers to use the Internet to send a money transfer using a credit card, debit card or direct debit from a bank account. While currently available in the United States only, we intend to expand our eMoneyTransfer service internationally.

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As of December 31, 2008, we offer money transfers to consumers in a choice of local currency, U.S. Dollars or Euros in 129 countries (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 our agents to settle with us in local currency and allow consumers to know the exact amount that will be received in the local currency of the receiving country, or in U.S. Dollars or Euros in certain countries.

As of December 31, 2008, our agent network consisted of approximately 176,000 money transfer agent locations in approximately 189 countries and territories worldwide. These agent locations are in the following geographic regions: 47,500 locations in Western Europe and the Middle East; 44,000 locations in North America; 24,600 locations in Latin America (including Mexico which represents 11,900 locations); 22,700 locations in Eastern Europe; 15,900 locations in the Indian subcontinent; 14,800 locations in Asia Pacific; and 6,500 locations in Africa. As of the date of this filing, our money transfer agent locations have grown to approximately 178,000.

We derive our money transfer revenues primarily from consumer transaction fees and revenues from currency exchange on international money transfers. 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. We strive to maintain our money transfer consumer fees at a price point below our primary competitor and above the niche players in the market.

Money Orders: MoneyGram money orders, which are sold through our agent locations in the U.S. and Puerto Rico, can be presented by our consumers to make a payment or for cash. In 2008, we issued approximately 232 million money orders through our network of 59,000 retail agent locations in the United States and Puerto Rico.

Our money orders are sold under the MoneyGram brand, as well as on a private label or co-branded basis with certain of our large retail agents in the United States. In most cases, we receive transaction fees from our agents for each money order sold. In many cases, we also receive monthly dispenser fees from our agents for the money order dispenser equipment we provide. We also earn income by investing the funds that are remitted by our agents until the money orders are cleared through the banking system or the proceeds of unclaimed money orders are escheated to the applicable states. Generally, a money order will remain outstanding for fewer than 10 days. We experienced losses in our investment portfolio in 2007 and 2008, with 13 percent of the losses allocable to our money order services. In the first quarter of 2008, we realigned our investment portfolio away from asset-backed securities into highly liquid assets to significantly reduce the risk of deterioration in our investment portfolio. As the realigned portfolio consists of highly liquid, short-term securities that produce a lower rate of return, our revenues and profit margins in our money order business were adversely affected.

Bill Payment Services: Our bill payment services include our ExpressPayment[®], utility bill payment and electronic payment services. Our bill payment services allow consumers to make urgent payments or pay routine bills through our network to certain creditors (billers). We maintain relationships with billers in key industries, including the credit card, mortgage, auto finance, telecom, satellite, property management, prepaid and collections industries. Our bill payment services generate revenue primarily from transaction fees charged to consumers for each bill payment transaction completed.

Our primary bill payment service offering is our ExpressPayment service, which enables a consumer to pay cash at an agent location for bills and obtain same-day notification of credit to the consumer's account with their biller. Our consumers can also use our ExpressPayment service to load and reload prepaid debit cards. Our ExpressPayment service is offered at all of our money transfer agent locations in the United States and at certain agent locations in select Caribbean countries. Our ExpressPayment bill payment service is also available for payments to select billers via the Internet at www.moneygram.com. As of December 31, 2008, we provided our ExpressPayment bill payment services to over 2,300 billers.

Our utility bill payment service allows customers to make low-cost, in-person payments of non-urgent bills for credit to a biller typically within two to three days. Through our PropertyBridge subsidiary, we also offer a complete bill payment solution to the property rental industry, including the ability to electronically accept security deposits and rent payments.

Stored Value Cards: We offer consumers in the United States a MoneyGram prepaid MasterCard®. Our prepaid card is accepted at all merchants that accept MasterCard debit cards. Cardholders can use the card at over 900,000

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ATMs in the United States and can load value on the card at one of over 30,000 agent locations in the United States. In 2009, we plan to offer consumers a MoneyGram-branded Visa® prepaid debit card. As planned, this card would be accepted at all merchants that accept Visa debit cards, be reloadable at one of our U.S. agent locations and be usable at over 900,000 ATMs in the United States.

Payment Systems Segment

Our Payment Systems segment provides official check services and money orders for financial institutions, as well as check processing and controlled disbursements processing for corporate and government customers in the United States. Key Payment Systems customers include banks, thrifts and credit unions. As of December 31, 2008, we provide official check services to over 15,000 branch locations of over 1,800 financial institutions.

We derive revenues in our Payment Systems segment from the investment of funds underlying outstanding official checks and money orders, per item fees for official checks and money orders and fees earned on our check and controlled disbursement processing. In 2008, due to losses in our investment portfolio, the realignment of our investment portfolio and the restructuring of our official check business, our Payment Systems segment posted negative revenues of \$116.3 million. Net securities losses of \$291.3 million were allocated to the Payment Systems segment during 2008, which represents approximately 86 percent of the total losses recorded on our investment portfolio for 2008. The segment's operating loss for 2008 was \$286.8 million.

In the first quarter of 2008, we realigned our investment portfolio away from asset-backed securities into highly liquid assets to significantly reduce the risk of deterioration in our investment portfolio. As the realigned portfolio consists of highly liquid, short-term securities that produce a lower rate of return, our revenues and profit margins in our official check and money order businesses were adversely affected.

Official Check Outsourcing Services: We provide official check outsourcing services through our PrimeLink® service. Financial institutions use our PrimeLink service to issue official checks. Consumers use these official checks in transactions where a payee requires a check drawn on a bank or other third party. Official checks are commonly used in consumer loan closings, such as closings of home and car loans, and other critical situations where the payee requires assurance of payment and funds availability. Financial institutions also use official checks to pay their own obligations.

Throughout 2008, we implemented the restructuring of our official check business model by reducing the commissions we pay, exiting certain large customer relationships and focusing on providing official check services to small and mid-sized financial institutions. The reduction of the commission rate paid to the majority of our official check financial institution customers resulted in an average contractual payout rate of the effective federal funds rate less approximately 85 basis points. We have entered into termination agreements with the majority of our top 10 official check customers, who in 2007 accounted for approximately \$2 billion of our official check payment obligations. As of December 31, 2008, approximately 240 of our approximately 1,800 financial institutions have provided some form of notification of intent to terminate their official check agreements with us. Outside of the top 10 customers we planned to exit, these termination notifications represented approximately \$627 million of our average official check payment obligations in 2007. Of the financial institutions that have provided notification, approximately 200 financial institutions have stopped or reduced their issuance of official checks.

Money Orders: Our Payment Systems segment also offers money orders through financial institutions in a manner very similar to how money orders are offered through retail agents in our Global Funds Transfer segment.

Check Processing: Through our subsidiary FSMC, Inc. (FSMC), we offer high-volume check processing and controlled disbursement processing. FSMC is a leading processor of promotional payments and rebates. Through

FSMC, we also process checks issued under the Special Supplemental Nutrition Program to Women, Infants and Children administered by the U.S. Department of Agriculture through various states. Our revenues from this area are primarily derived from fees.

Clearing and Cash Management Bank Relationships

Our business involves the movement of money. On average, we move approximately \$1.0 billion daily to settle our payment instruments and make related settlements with our agents and financial institutions. We generally receive a

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similar amount on a daily basis from our agents and financial institutions in connection with our payment services. 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. Three banks that clear official checks for us gave notice that they will not renew their clearing agreements when those agreements expire in mid-2009. The loss of our clearing arrangements with these three clearing banks has not had an adverse effect on our official check business as we are moving the impacted clearing volume to the remaining clearing banks. In the second half of 2008, one clearing bank extended their agreement with us for a five year period and another large bank extended their agreement with us for a three year period. After the exit of the three banks in 2009, we will have five official check clearing banks, all of which have agreed to significantly increase their clearing activity for us. We believe these relationships provide sufficient capacity for our official check business. We rely on two banks to clear our retail money orders. We entered into a new five-year agreement with the smaller of our two money order clearing banks in early 2009 and are in the process of negotiating a new agreement with our primary money order clearing bank.

We also maintain contractual relationships with a variety of domestic and international cash management banks for 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 the first half of 2008, our current international cash management bank informed us of its intent to terminate our relationship. This bank has indicated its willingness to continue the relationship while we convert to our new primary international cash management banking relationship. We currently anticipate completing this process in the first half of 2009.

Sales and Marketing

We market our products and services through a number of dedicated sales and marketing teams. In the United States, a dedicated sales and marketing team markets our money transfer services, money orders and bill payment services to our two principal agent distribution channels: large national chain accounts, including large retailers and financial institutions, and smaller retail chains and independent accounts. Our retail agent base includes general merchandise, check cashing, grocery, drug and convenience store retailers and bank locations. Dedicated sales and marketing teams also market our bill payment services directly to billers, including billers in key market verticals, and market our official check and money order services to financial institutions. Internationally, we have sales and marketing teams for our money transfer services located in or near the following regions: Western Europe, including the United Kingdom; Eastern Europe; Asia; the Middle East; Africa; Canada; and Mexico, Latin America and the Caribbean.

Our sales and marketing efforts continue to be supported by a wide range of consumer advertising methods. Signage remains a core focus of building global awareness of our brand. We strive to ensure that our signs are displayed prominently at our agent locations, and that our signage displays our brand consistently across the markets we serve. We also use traditional media methods to reach our consumers, including television, radio and print advertising, as well as advertising our services at community and cultural events throughout the world.

In the first quarter of 2008, we released our new global branding and our new customer loyalty program, MoneyGram Rewards®. Our new global branding is the result of over two years of global research and differentiates MoneyGram from other payment services providers. We developed MoneyGram Rewards to build loyalty and repeat usage with consumers around the world. The program includes features such as a new discount structure based on a consumer's use of our services, email notifications to the sender when the funds are picked up and a more streamlined customer service experience. Consumers can enroll for the program through our call center or at www.mymoneygram.com. We continue to assess the effectiveness of our new global branding and MoneyGram Rewards program, including their respective impact on our transaction volume and our global brand image and awareness.

Product and Infrastructure Development and Enhancements

Our product development activities remain focused on new ways to transfer money and pay bills through enhancements to our current services and the development of new products and services. Recent enhancements

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and new products supplement our Global Funds Transfer segment. We have also invested in new infrastructure to increase efficiencies and support our strategic initiatives. We believe new features, products and infrastructure will provide customers with added flexibility and convenience to help meet their financial services needs.

New Product and Product Enhancements: Our Internet-based money transfer service, eMoneyTransfer, continued to grow during 2008. In 2009, we plan to make significant enhancements to our eMoneyTransfer service which will provide better usability and efficiency in completing a transaction for our online customers, as well as more cost-effective transaction processing. In 2009, we plan to offer our MoneyGram Rewards 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 currently intend to expand MoneyGram Rewards internationally in 2009. Both eMoneyTransfer and MoneyGram Rewards relate to our Global Funds Transfer segment.

Infrastructure Development: We continue to invest in our infrastructure, including settlement and commission processing, agent and customer data management and set-up, and other important financial systems. This investment is intended to increase the flexibility of our back office, thereby improving operating efficiencies and communications between our agents and our marketing, sales, customer service and accounting functions. Our ongoing investment in technology and process re-engineering is designed to allow us to create an infrastructure able to support our strategic initiatives, increase speed to market for new products, enhance information repositories for regulatory and compliance reporting and provide a better overall customer and agent experience.

We are continuing our efforts to automate our agent on-boarding process, which is intended to improve our speed to market for new agents, enhance departmental tracking and increase organizational accountability. The on-boarding process includes a business process management tool, which allows us to automate a formerly paper-intensive process.

Competition

The markets in which we compete are very competitive and our segments face a variety of competitors. In addition, new competitors or alliances among established companies may emerge. Consolidation among payment services companies, and money transmitters in particular, has occurred and may continue. We compete for agents and financial institution customers on the basis of value, service, quality, technical and operational differences, price and financial incentives paid to agents once they have entered into an agreement. In turn, we compete for consumers on the basis of number and location of outlets, price, convenience and technology.

Money transfer, money order and bill payment services within our Global Funds Transfer segment compete in a very competitive and concentrated industry, with a small number of large competitors and a large number of small, niche competitors. Our primary competition comes from The Western Union Company, including its Orlandi Valuta, Vigo and Pago Facil brands (collectively, Western Union). Western Union has a larger agent base, a more established brand name and substantially greater financial and marketing resources than we do. In addition to Western Union, the U.S. Postal Service is a large competitor with respect to money orders. We also compete with banks and niche person-to-person money transfer service providers that serve select regions. Our PropertyBridge services compete against providers of electronic bill payment services and companies that focus on the rent payment and other key verticals.

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.

Official check services within our Payment Systems segment compete primarily with financial institutions that have developed internal processing capabilities or services similar to ours and do not outsource official check services. Competitors to our money order services within our Payment Systems segment are largely the same competitors to our money order services within our Global Funds Transfer segment.

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Regulation

Compliance with legal requirements and government 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 globally. These laws and regulations include international, federal and state anti-money laundering laws and regulations; money transfer and payment instrument licensing laws; escheatment laws; privacy laws; 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 program to stay current with the most recent legal and regulatory changes. During 2009, we intend to increase our compliance personnel headcount significantly and make certain 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 the anti-money laundering laws and regulations in many of the countries in which we operate, particularly in the European Union (the EU). 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 governments' watch-lists, including but not limited to, the watch list maintained by the U.S. Treasury Department's Office of Foreign Assets Control (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;
- 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 through third-party agents with whom we contract and our ability to directly control our agents' compliance is limited. As a money services business, the Company and its 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 online training as part of our agent compliance training program.

Money Transfer and Payment Instrument Licensing. The majority of U.S. states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands require us to be licensed to conduct business within their jurisdictions. Licensing requirements generally include minimum net worth, provision of surety bonds, compliance with operational procedures and reserves or permissible investments that must be maintained in an amount equivalent to outstanding payment obligations, as defined by the various states. The types of securities that are considered permissible investments vary from state to state, but generally include cash and cash equivalents, U.S. government securities and other highly rated debt instruments. Most states require us to file reports on a quarterly or more

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frequent basis to verify our compliance with their requirements. Many states also subject us to periodic examinations and require us and our agents to comply with federal and state anti-money laundering laws and regulations.

In connection with the Capital Transaction, we sold certain investments at a realized loss of \$260.6 million. As a result of these portfolio sales, we were not in compliance for a brief period of time with minimum net worth requirements of the states in which we are licensed to conduct our money transfer and other payment services businesses, as well as certain other requirements of one state. This failure to meet minimum net worth or other requirements may result in the states imposing certain fines and other penalties in the future, although no state has taken any action at this time. Upon the closing of the Capital Transaction, we were again in compliance with the minimum net worth requirements of all states and certain other requirements of one state, and continue to be in compliance.

The European Union has adopted the European Commission's 2007 Payments Services Directive (PSD). When implemented, the PSD will create a new licensing framework for our services in the EU. The initial and ongoing costs to comply with the PSD are not yet determined and could be significant. The PSD will be effective November 1, 2009, and we are currently undertaking efforts intended to ensure our organizational readiness for and compliance with the PSD.

Escheatment Regulation. Unclaimed property laws of every state, the District of Columbia, Puerto Rico and the U.S. 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 which subjects 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 (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 the European Privacy Directive (the Privacy Directive). We abide by the U.S. Department of Commerce's Safe Harbor framework principles to assist in compliance with the Privacy Directive. In some cases, the privacy laws of an EU member state may be more restrictive than the Privacy 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.

Other. In the United States, we sell our MoneyGram-branded stored value card and also load stored value cards of other card issuers through our ExpressPayment system. Stored value 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.

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 ExpressPayment, globe with arrows logo, MoneyGram Rewards,

The Power is in Your Hands[®], FormFree and AgentConnect 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. Intellectual property rights in processing equipment, computer systems, software and business processes held by us and our

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subsidiaries provide us with a competitive advantage. Even though not all of these assets are protectable, we take appropriate measures to protect our intellectual property.

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, including a number of patents for automated money order dispensing systems and printing techniques, many of which have expired. We also have patent applications pending in the United States that relate to our money transfer, money order, PrimeLink 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, 2008, we had approximately 1,800 full-time employees in the United States and 506 full-time employees internationally. 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 52, was appointed Executive Chairman in January 2009. Ms. Patsley also serves on the boards of directors of the Molson Coors Brewing Company, 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.

Anthony P. Ryan, age 46, was appointed President and Chief Executive Officer in January 2009. Mr. Ryan had served as Executive Vice President and Chief Operating Officer since November 2007. Mr. Ryan previously served as Executive Vice President and President, Global Payment Products and Services from August 2006 to November 2007, Executive Vice President and Division President, Global Funds Transfer from November 2005 to August 2006 and Vice President and General Manager of Global Funds Transfer from 2001 to November 2005. Mr. Ryan previously served as Chief Financial Officer from 1997 to 2001 and as Controller from 1996 to 1997. Prior to joining the Company, Mr. Ryan spent 10 years at First Data Corporation, most recently as Director of Finance.

David J. Parrin, age 54, has served as Executive Vice President and Chief Financial Officer since November 2005. Mr. Parrin previously served as Vice President and Chief Financial Officer from June 2002 to November 2005. From 1998 to 2002, Mr. Parrin was with the investment firm of Dain Rauscher Corporation (now RBC Wealth Management), serving from 1999 to 2002 as Executive Vice President and Chief Financial Officer. From 1994 to 1998, Mr. Parrin served as Senior Vice President and Corporate Controller of U.S. Bancorp. Prior to that, Mr. Parrin spent 17 years with the accounting firm Ernst & Young LLP, most recently as audit partner.

Jean C. Benson, age 41, has served as Senior Vice President, Controller since May 2007. Ms. Benson previously served as Vice President, Controller from August 2001 to May 2007. From 1994 to 2001, Ms. Benson was with Metris Companies, Inc., a financial products and services company, serving as Corporate Controller and Executive Vice President of Finance from 1996 to 2001. From 1990 to 1994, Ms. Benson was an auditor with the accounting firm Deloitte & Touche LLP.

Daniel J. Collins, age 45, has served as Senior Vice President, Treasurer since August 2008. Mr. Collins previously served as Vice President, Audit from June 2004 to August 2008. From 2000 to 2004, Mr. Collins served as Controller of the investment firm of Dain Rauscher Corporation (now RBC Wealth Management). From 1997 to 2000,

Mr. Collins served as Division CFO, Consumer Products for U.S. Bank. Prior to that, Mr. Collins spent 4 years with the accounting firm Coopers & Lybrand (now PricewaterhouseCoopers) and 6 years with the accounting firm Ernst & Young, LLP, most recently as senior manager.

Mary A. Dutra, age 57, has served as Executive Vice President, Global Payment Processing and Settlement since August 2006. Ms. Dutra previously served as Executive Vice President and Division President, Payment Systems

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from November 2005 to August 2006, Vice President and General Manager of Payment Systems from June 2004 to November 2005 and General Manager and Vice President, Global Operations from November 1994 to June 2004. Ms. Dutra joined the Company in 1988 as Manager of Payment Services and served in positions of increasing responsibility from 1988 to 1994. Prior to that, Ms. Dutra spent 15 years with Norwest Bank Minnesota, N.A. (now Wells Fargo Bank, N.A.).

Mubashar Hameed, age 45, has served as Executive Vice President and Chief Information Officer since November 2008. From 2005 to 2007, Mr. Hameed served as President and Chief Executive Officer of FuzionOne, an information technology consulting firm he founded in 2005. From 2006 to 2007, Mr. Hameed served as Senior Vice President and Chief Information Officer of Fiserv Output Solutions, a division of Fiserv, Inc., an information services company. From 1995 to 2005, Mr. Hameed was with General Electric Company, where he held the positions of Chief Information Officer of its Security and Aero Energy businesses, and served as Chief Software Technology Officer of its Commercial Finance division. From 1988 to 1994, Mr. Hameed held information technology positions at Linder & Associates, Inc. and M.H. Engineering, Inc.

John Hempsey, age 56, has served as Chief Executive Officer of the Company's subsidiary, MoneyGram International Ltd, since May 2003. From 2001 to 2003, Mr. Hempsey served as a non-executive board member of Travelex Group Limited, a payment services company. From 1982 to 2001, Mr. Hempsey was with Thomas Cook Global Financial Services prior its acquisition by Travelex Group, serving most recently as Chief Executive Officer. From 1974 to 1982, Mr. Hempsey was with the accounting firms Peat, Marwick, Mitchell & Co. (now KPMG LLP) and Arthur Young & Co. (now Ernst & Young LLP).

Theodore L. Hill, age 46, has served as Vice President, Global Services and General Manager, Paper Products of the Company's subsidiary, MoneyGram Payment Systems, Inc., since 2008. From 2007 to 2008, Mr. Hill served as Vice President, Global Services and from 2000 to 2007 served as Vice President, Customer Setup and Support. Mr. Hill had served as Senior Director, Customer Setup and Support from 1999 to 2000, Director, Global Client Services from 1995 to 1999 and Manager, Control Operations from 1989 to 1995. From 1984 to 1989, Mr. Hill was with Sears, Roebuck & Co.

Teresa H. Johnson, age 57, has served as Executive Vice President, General Counsel and Secretary since November 2005. Ms. Johnson previously served as Vice President, General Counsel and Secretary from June 2004 to November 2005 and Chief Legal Counsel from 1997 to 2004. From 1992 to 1997, Ms. Johnson was with SUPERVALU INC., a food retailer and distributor, serving most recently as Associate General Counsel and Corporate Secretary. From 1987 to 1992, Ms. Johnson served as Deputy General Counsel of food retailer, Giant Eagle, Inc.. From 1979 to 1987, Ms. Johnson was in private practice, most recently as a partner of the law firm Buchanan Ingersoll PC (now Buchanan Ingersoll & Rooney PC).

Lonnie S. Keene, age 54 has served as Executive Vice President and Chief Compliance Officer since May 2008. From 2002 to May 2008, Mr. Keene served as Vice President and Associate General Counsel of the investment banking firm, Goldman, Sachs & Co. From 1998 to 2002, Mr. Keene was in private practice both domestically and abroad, most recently with the law firm Wollmuth, Maher & Deutsch LLP. From 1988 to 1998, Mr. Keene held positions at the U.S. Embassy in Beijing, the U.S. Department of State and the White House.

Daniel J. O Malley, age 44, has served as Senior Vice President, Global Payment Systems/President Americas since April 2007. 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.

Cindy J. Stemper, age 51, has served as Executive Vice President, Human Resources and Corporate Services since November 2006. Ms. Stemper previously served as Executive Vice President, Human Resources and Facilities from November 2005 to November 2006, Vice President of Human Resources and Facilities from June 2004 to November 2005 and Vice President of Human Resources from 1996 to June 2004. Ms. Stemper joined the Company in 1984 and served in positions of increasing responsibility from 1984 to 1996.

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Available Information

Our principal executive offices are located at 1550 Utica Avenue South, Minneapolis, Minnesota 55416 and our telephone number is (952) 591-3000. Our website address is www.moneygram.com. 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 as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission (the "SEC").

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

Our increased debt service, significant debt covenant requirements, our debt rating and any future cash dividends paid on our preferred stock could impair our financial condition and adversely affect our ability to operate and grow our business.

As a result of the Capital Transactio