



# **FORM 10-Q**

**MONEYGRAM INTERNATIONAL INC – MGI**

**Filed: May 12, 2005 (period: March 31, 2005)**

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(mark one)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly**

Period Ended March 31, 2005

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

Commission File Number 001-31950

**MoneyGram International, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

1550 Utica Avenue South, Minneapolis, Minnesota  
(Address of principal executive offices)

55416  
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

As of May 6, 2005, 86,361,991 shares of Common Stock, \$0.01 par value, were outstanding.

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**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****MONEYGRAM INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2004</u>
	(Dollars in thousands, except share and per share data)	
<b>Assets</b>		
Cash and cash equivalents (substantially restricted)	\$ 874,487	\$ 927,042
Receivables (substantially restricted)	864,082	771,966
Investments (substantially restricted)	6,195,937	6,335,493
Property and equipment	97,450	88,154
Intangible assets	14,687	15,210
Goodwill	395,526	395,526
Deferred tax assets	34,103	31,841
Other assets	<u>79,317</u>	<u>65,503</u>
Total assets	<u>\$ 8,555,589</u>	<u>\$ 8,630,735</u>
<b>Liabilities and Stockholders' Equity</b>		
Payment service obligations	\$ 7,612,340	\$ 7,640,581
Debt	150,000	150,000
Derivative financial instruments	30,436	65,063
Pension and other postretirement benefits	111,966	110,661
Accounts payable and other liabilities	<u>87,740</u>	<u>99,239</u>
Total liabilities	7,992,482	8,065,544
Commitments and contingencies		
Stockholders' equity:		
Preferred shares – undesignated, \$0.01 par value, 5,000,000 authorized, none issued	—	—
Preferred shares – junior participating, \$0.01 par value, 2,000,000 authorized, none issued	—	—
Common shares, \$0.01 par value: 250,000,000 shares authorized, 88,556,077 shares issued in 2005 and 2004	886	886
Additional paid-in capital	77,301	79,833
Retained earnings	533,535	506,609
Unearned employee benefits and other	(24,400)	(31,037)
Accumulated other comprehensive income	16,728	25,691
Treasury stock: 1,983,744 and 801,130 shares in 2005 and 2004	<u>(40,943)</u>	<u>(16,791)</u>
Total stockholders' equity	<u>563,107</u>	<u>565,191</u>
Total liabilities and stockholders' equity	<u>\$ 8,555,589</u>	<u>\$ 8,630,735</u>

See Notes to Consolidated Financial Statements

**MONEYGRAM INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

	<u>Three months ended March 31</u>	
	<u>2005</u>	<u>2004</u>
	(Dollars in thousands, except per share data)	
<b>Revenue</b>		
Fee and other revenue	\$ 138,519	\$ 113,622
Investment revenue	89,502	76,654
Net securities gains (losses)	<u>(106)</u>	<u>1,045</u>
Total revenue	227,915	191,321
Fee commissions expense	52,188	40,503
Investment commissions expense	<u>57,953</u>	<u>49,746</u>
Total commissions expense	110,141	90,249
Net revenue	117,774	101,072
<b>Expenses</b>		
Compensation and benefits	29,274	32,746
Transaction and operations support	35,644	28,242
Depreciation and amortization	7,436	7,223
Occupancy, equipment and supplies	8,374	7,595
Interest expense	<u>1,389</u>	<u>1,220</u>
Total expenses	82,117	77,026
Income from continuing operations before income taxes	35,657	24,046
Income tax expense	<u>7,868</u>	<u>4,833</u>
<b>Income from continuing operations</b>	27,789	19,213
Income and gain from discontinued operations, net of tax	<u>—</u>	<u>21,780</u>
<b>Net income</b>	<u>\$ 27,789</u>	<u>\$ 40,993</u>
<b>Basic earnings per share</b>		
Income from continuing operations	\$ 0.33	\$ 0.22
Income from discontinued operations, net of tax	<u>—</u>	<u>0.25</u>
Earnings per common share	<u>\$ 0.33</u>	<u>\$ 0.47</u>
Average outstanding common shares	<u>84,576</u>	<u>86,710</u>
<b>Diluted earnings per share</b>		
Income from continuing operations	\$ 0.32	\$ 0.22
Income from discontinued operations, net of tax	<u>—</u>	<u>0.25</u>
Earnings per common share	<u>\$ 0.32</u>	<u>\$ 0.47</u>
Average outstanding and potentially dilutive common shares	<u>86,023</u>	<u>87,217</u>

See Notes to Consolidated Financial Statements

## MONEYGRAM INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	<u>Three Months Ended March 31</u>	
	<u>2005</u>	<u>2004</u>
	<u>(Dollars in thousands)</u>	
Net income	\$ 27,789	\$ 40,993
Other comprehensive income:		
Net unrealized (losses) gains on available-for-sale securities:		
Net holding (losses) gains arising during the period, net of tax expense (benefit) of (\$23,799) and \$16,006	(39,666)	26,677
Reclassification adjustment for net realized gains (losses) included in net income, net of tax expense (benefit) of \$664 and \$2,615	<u>1,108</u>	<u>4,358</u>
	<u>(38,558)</u>	<u>31,035</u>
Net unrealized gains (losses) on derivative financial instruments:		
Net holding gains (losses) arising during the period, net of tax expense (benefit) of \$11,593 and (\$13,008)	19,322	(21,680)
Reclassifications from other comprehensive income to net income, net of tax expense (benefit) of (\$6,926) and (\$11,213)	<u>11,544</u>	<u>18,688</u>
	<u>30,866</u>	<u>(2,992)</u>
Unrealized foreign currency translation losses, net of tax expense (benefit) of (\$763) and (\$245)	<u>(1,271)</u>	<u>(408)</u>
Other comprehensive (loss) income	<u>(8,963)</u>	<u>27,635</u>
Comprehensive income	<u>\$ 18,826</u>	<u>\$ 68,628</u>

See Notes to Consolidated Financial Statements.

## MONEYGRAM INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	<u>Three Months Ended March 31</u>	
	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 27,789	\$ 40,993
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net earnings in discontinued operations	—	(21,780)
Depreciation and amortization	7,436	7,223
Investment impairment charges	1,878	5,928
Net gain on sale of investments	(1,772)	(6,973)
Net amortization of investment premium	2,465	7,084
Other non-cash items, net	5,262	5,187
Changes in assets and liabilities:		
Other assets	(262)	22,653
Accounts payable and other liabilities	<u>(11,956)</u>	<u>(10,392)</u>
Total adjustments	3,051	8,930
Change in cash and cash equivalents (substantially restricted)	52,555	(59,230)
Change in receivables, net (substantially restricted)	(93,515)	4,898
Change in payment service obligations	<u>(28,241)</u>	<u>259,249</u>
Net cash (used in) provided by continuing operating activities	<u>(38,361)</u>	<u>254,840</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments classified as available-for-sale	325,607	177,352
Proceeds from maturities of investments classified as available-for-sale	245,435	509,830
Purchases of investments classified as available-for-sale	(495,761)	(985,050)
Purchases of property and equipment	(16,787)	(6,023)
Proceeds from the sale of Game Financial Corporation, net of cash sold	—	15,247
Other investing activities	<u>—</u>	<u>490</u>
Net cash provided by (used in) investing activities	<u>58,494</u>	<u>(288,154)</u>
<b>Cash flows from financing activities</b>		
Payments on debt	—	(247)
Net change in revolver	—	2,000
Proceeds from exercise of options	1,410	457
Tax benefits from stock option exercises	136	373
Purchase of treasury stock	(20,816)	—
Cash dividends paid	<u>(863)</u>	<u>(7,807)</u>
Net cash used in financing activities	<u>(20,133)</u>	<u>(5,224)</u>
Net cash provided by discontinued operations	<u>—</u>	<u>4,706</u>
Net change in cash and cash equivalents	—	(33,832)
Cash and cash equivalents – beginning of period	<u>—</u>	<u>33,832</u>
Cash and cash equivalents – end of period	<u>\$ —</u>	<u>\$ —</u>

See Notes to Consolidated Financial Statements

## MONEYGRAM INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Employee Benefits and Other	Accumulated Other Comprehensive Income	Treasury Stock	Total
	(Dollars in thousands, except per share data)						
<b>Balance at December 31, 2004</b>	\$ 886	\$ 79,833	\$506,609	\$ (31,037)	\$ 25,691	\$ (16,791)	\$565,191
Net income			27,789				27,789
Dividends (\$0.01 per share)			(863)				(863)
Employee benefit plans		(2,532)		6,637		(3,336)	769
Treasury shares acquired						(20,816)	(20,816)
Unrealized foreign currency translation adjustment					(1,271)		(1,271)
Unrealized gain on available-for- sale securities					(38,558)		(38,558)
Unrealized gain on derivative financial instruments					30,866		30,866
	<hr/>						
<b>Balance at March 31, 2005</b>	\$ 886	\$ 77,301	\$533,535	\$ (24,400)	\$ 16,728	\$ (40,943)	\$563,107

See Notes to Consolidated Financial Statements

**MONEYGRAM INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)****1. Basis of Presentation**

The accompanying unaudited consolidated financial statements of MoneyGram International, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for future periods. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004.

**2. Discontinued Operations**

On June 30, 2004, the Company was spun off from Viad Corp (“Viad”). The Company is considered the divesting entity and treated as the “accounting successor” to Viad for financial reporting purposes. During the first quarter of 2004, the Company completed the sale of one of its subsidiaries, Game Financial Corporation. The results of operations of the continuing businesses of Viad (“New Viad”) and Game Financial Corporation included in the Consolidated Statements of Income in “Income and gain from discontinued operations, net of tax” include the following:

	<u>New Viad</u>		<u>Game Financial Corporation</u>	
	<u>Three Months Ended March</u>		<u>Three Months Ended March</u>	
	<u>31</u>		<u>31</u>	
(Dollars in thousands)	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue	\$ —	\$ 207,555	\$ —	\$ 10,668
Earnings before income taxes	—	16,143	—	852
Gain on disposition	—	—	—	11,417
Income and gain from discontinued operations, net of tax	—	9,847	—	11,932

### 3. Unrestricted Assets

The Company has unrestricted cash and cash equivalents, receivables and investments to the extent those assets exceed all payment service obligations as shown in the following table:

(Dollars in thousands)	March 31 2005	December 31 2004
Cash and cash equivalents	\$ 874,487	\$ 927,042
Receivables	864,082	771,966
Investments	<u>6,195,937</u>	<u>6,335,493</u>
	7,934,506	8,034,501
Amounts restricted to cover payment service obligations	<u>(7,612,340)</u>	<u>(7,640,581)</u>
Unrestricted assets	<u>\$ 322,166</u>	<u>\$ 393,920</u>

### 4. Investments (Substantially Restricted)

The amortized cost and market value of investments by type are as follows at March 31, 2005:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of states and political subdivisions	\$ 850,514	\$ 43,612	\$ (202)	\$ 893,924
Mortgage-backed and other asset-backed securities	4,380,375	64,586	(20,722)	4,424,239
Obligations of U.S. government agencies	386,908	4,740	(4,249)	387,399
Corporate debt securities	419,391	16,268	(1,897)	433,762
Preferred and common stock	<u>59,474</u>	<u>1,043</u>	<u>(3,904)</u>	<u>56,613</u>
Total	<u>\$6,096,662</u>	<u>\$130,249</u>	<u>\$ (30,974)</u>	<u>\$6,195,937</u>

The amortized cost and market value of investments by type are as follows at December 31, 2004:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of states and political subdivisions	\$ 863,691	\$ 59,855	\$ (249)	\$ 923,297
Mortgage-backed and other asset-backed securities	4,442,162	94,706	(12,905)	4,523,963
Obligations of U.S. government agencies	369,446	2,683	(718)	371,411
Corporate debt securities	442,145	19,463	(1,652)	459,956
Preferred and common stock	<u>59,411</u>	<u>1,318</u>	<u>(3,863)</u>	<u>56,866</u>
Total	<u>\$6,176,855</u>	<u>\$178,025</u>	<u>\$ (19,387)</u>	<u>\$6,335,493</u>

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All securities are classified as available-for-sale at March 31, 2005 and December 31, 2004. The amortized cost and market value of securities at March 31, 2005 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations, sometimes without call or prepayment penalties. Maturities of mortgage-backed and other asset-backed securities depend on the repayment characteristics and experience of the underlying obligations.

(Dollars in thousands)	Amortized Cost	Market Value
In one year or less	\$ 60,252	\$ 60,698
After one year through five years	254,485	258,568
After five years through ten years	892,552	924,080
After ten years	449,524	471,739
Mortgage-backed and other asset-backed securities	4,380,375	4,424,239
Preferred and common stock	<u>59,474</u>	<u>56,613</u>
Total	<u>\$6,096,662</u>	<u>\$6,195,937</u>

At March 31, 2005 and December 31, 2004, net unrealized gains of \$99.3 million (\$60.6 million net of tax) and \$158.6 million (\$99.1 million net of tax), respectively, are included in the Consolidated Balance Sheets in "Accumulated other comprehensive income." During the quarters ended March 31, 2005 and 2004, net unrealized gains totaling \$1.1 million and \$4.4 million, respectively, were reclassified from "Accumulated other comprehensive income" to earnings in connection with the sale of the underlying securities.

Gross realized gains and losses on sales of securities classified as available-for-sale, using the specific identification method, and other-than-temporary impairments were as follows:

(Dollars in thousands)	Three Months Ended March 31	
	2005	2004
Gross realized gains	\$ 6,264	\$ 7,055
Gross realized losses	(4,492)	(82)
Other-than-temporary impairments	<u>(1,878)</u>	<u>(5,928)</u>
Net securities gains and losses	<u>\$ (106)</u>	<u>\$ 1,045</u>

At March 31, 2005, the investment portfolio had the following aged unrealized losses:

(Dollars in thousands)	Less than 12 months		12 months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Obligations of states and political sub-divisions	\$ 27,364	\$ (202)	\$ —	\$ —	\$ 27,364	\$ (202)
Mortgage-backed and other asset-backed securities	1,714,165	(16,351)	126,658	(4,371)	1,840,823	(20,722)
Obligations of U.S. government agencies	320,025	(3,858)	11,603	(391)	331,628	(4,249)
Corporate debt securities	125,228	(1,589)	7,225	(308)	132,453	(1,897)
Preferred and common stock	<u>12,428</u>	<u>(182)</u>	<u>10,678</u>	<u>(3,722)</u>	<u>23,106</u>	<u>(3,904)</u>
Total	<u>\$2,199,210</u>	<u>\$ (22,182)</u>	<u>\$156,164</u>	<u>\$ (8,792)</u>	<u>\$2,355,374</u>	<u>\$ (30,974)</u>

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At December 31, 2004, the investment portfolio had the following aged unrealized losses:

(Dollars in thousands)	<u>Less than 12 months</u>		<u>12 months or More</u>		<u>Total</u>	
	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>
Obligations of states and political sub-divisions	\$ 14,749	\$ (136)	\$ 8,789	\$ (113)	\$ 23,538	\$ (249)
Mortgage-backed and other asset-backed securities	1,207,356	(9,135)	169,746	(3,770)	1,377,102	(12,905)
Obligations of U.S. government agencies	106,769	(718)	—	—	106,769	(718)
Corporate debt securities	171,492	(1,331)	7,296	(321)	178,788	(1,652)
Preferred and common stock	15,884	(1,063)	7,200	(2,800)	23,084	(3,863)
Total	<u>\$1,516,250</u>	<u>\$ (12,383)</u>	<u>\$193,031</u>	<u>\$ (7,004)</u>	<u>\$1,709,281</u>	<u>\$ (19,387)</u>

The Company has determined that the unrealized losses reflected above represent temporary impairments. Sixteen and twenty-one securities had unrealized losses for more than 12 months as of March 31, 2005 and December 31, 2004, respectively. The Company believes that the unrealized losses generally are caused by liquidity discounts and increases in the risk premiums required by market participants, rather than a fundamental weakness in the credit quality of the issuer or underlying assets.

Of the \$31.0 million of unrealized losses at March 31, 2005, \$27.3 million relates to securities with an unrealized loss position of less than 20 percent of amortized cost, the degree of which suggests that these securities do not pose a high risk of being other than temporarily impaired. Of the \$27.3 million, \$22.1 million relates to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a Moody's equivalent rating of Aaa, Aa, A or Baa or a Standard & Poor's equivalent rating of AAA, AA, A or BBB. The remaining \$5.2 million relates to U.S. government agency fixed income securities. Two preferred stock securities have an unrealized loss of \$3.7 million at March 31, 2005 which is greater than or equal to 20 percent of amortized cost. These securities were evaluated considering factors such as the financial condition and near and long-term prospects of the issuer and deemed to be temporarily impaired.

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## 5. Derivative Financial Instruments

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The notional amount of the swap agreements totaled \$3.1 billion and \$3.4 billion at March 31, 2005 and December 31, 2004, respectively, with an average fixed pay rate of 4.6 % and 4.8% and an average variable receive rate 2.8% and 2.1% at March 31, 2005 and December 31, 2004, respectively. The variable rate portion of the swaps is generally based on Treasury bill, federal funds or 6 month LIBOR. As the swap payments are settled, the net difference between the fixed amount the Company pays and the variable amount the Company receives is reflected in the Consolidated Statements of Income through "Investment commissions expense." As of March 31, 2005, the Company estimates that approximately \$13.8 million (net of tax) of the unrealized loss reflected in Stockholders' Equity will be reflected in the income statement through "Investment commissions expense" within the next 12 months as the swap payments are settled.

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## 6. Sale of Receivables

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The balance of sold receivables as of March 31, 2005 and December 31, 2004 was \$370.5 million and \$345.5 million, respectively. The average receivables sold totaled \$407.8 million and \$417.8 million during the quarter ended March 31, 2005 and 2004, respectively. The expense of selling the agent receivables is included in the Consolidated Statements of Income in "Investment commissions expense" and totaled \$3.6 million and \$2.2 million during the quarter ended March 31, 2005 and 2004, respectively.

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## 7. Income Taxes

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For the year ended December 31, 2004, the effective tax rate was 26.8 percent. For the three months ended March 31, 2005, the effective tax rate of 22.1 percent reflects the impact of the reversal of \$2.1 million of tax reserves that were deemed to be no longer needed due to the passage of time.

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## 8. Stockholders' Equity

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Following is a summary of common stock and treasury stock share activity during the quarter ended March 31, 2005:

<u>(Amounts in thousands)</u>	<u>Common Stock Shares</u>	<u>Treasury Stock Shares</u>
Balance at December 31, 2004	88,556	801
Stock repurchases	—	1,007
Submission of shares for withholding taxes upon exercise of stock options and release of restricted stock	—	173
Forfeiture of restricted stock, net of grants	<u>—</u>	<u>3</u>
Balance at March 31, 2005	<u>88,556</u>	<u>1,984</u>

During the three months ended March 31, 2005, the Company repurchased 1,006,586 shares of its common stock at an average cost of \$20.68 per share.

The Company has an employee equity trust (the "Trust") used to fund employee compensation and benefit plans. The fair market value of the shares held by the Trust is recorded in the "Unearned employee benefits and other" component in the Consolidated Balance Sheets and is reduced as shares are released to fund employee benefits. During the quarter ended March 31, 2005, the Company released 246,223 shares upon the exercise of stock options and the vesting of restricted stock. As of March 31, 2005, 1,143,940 shares of MoneyGram common stock remained in the Trust.

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The components of accumulated other comprehensive income include:

(Dollars in thousands)	March 31 2005	December 31 2004
Unrealized gain on securities classified as available-for-sale	\$ 60,590	\$ 99,148
Unrealized loss on derivative financial instruments	(7,161)	(38,027)
Cumulative foreign currency translation adjustments	5,073	6,344
Minimum pension liability adjustment	<u>(41,774)</u>	<u>(41,774)</u>
Accumulated other comprehensive income	<u>\$ 16,728</u>	<u>\$ 25,691</u>

On May 10, 2005, the Company's Board of Directors declared a cash dividend of \$0.01 per share to be paid on July 1, 2005 to stockholders of record on June 15, 2005.

## 9. Pensions and Other Benefits

Net periodic pension cost for the defined benefit pension plan and the combined Supplemental Executive Retirement Plans ("SERPs") includes the following components:

(Dollars in thousands)	Three Months Ended March 31	
	2005	2004
Service cost	\$ 429	\$ 728
Interest cost	3,013	2,815
Expected return on plan assets	(2,201)	(2,407)
Amortization of prior service cost	192	129
Recognized net actuarial loss	<u>998</u>	<u>464</u>
Net periodic pension cost	<u>\$ 2,431</u>	<u>\$ 1,729</u>

Benefits paid through the defined benefit pension plan and the combined SERPs were \$4.2 million and \$3.9 million for the three months ended March 31, 2005 and 2004, respectively. The Company made contributions to the defined benefit pension plan and the combined SERPs totaling \$1.2 million and \$0.7 million during the three months ended March 31, 2005 and 2004, respectively.

Net periodic postretirement benefit cost for the defined benefit postretirement plans includes the following components:

(Dollars in thousands)	Three Months Ended March 31	
	2005	2004
Service cost	\$ 129	\$ 123
Interest cost	144	145
Amortization of prior service cost	(74)	(72)
Recognized net actuarial loss	<u>4</u>	<u>5</u>
Net periodic pension cost	<u>\$ 203</u>	<u>\$ 201</u>

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Benefits paid through, and contributions made to, the defined benefit postretirement plan were less than \$0.1 million in both the three months ended March 31, 2005 and 2004.

The Company incurred expenses related to the 401(k) defined contribution plan totaling \$0.5 million and \$0.4 million during the three months ended March 31, 2005 and 2004, respectively. The Company made contributions to the 401(k) defined contribution plan totaling \$2.4 million and \$0.4 million during the three months ended March 31, 2005 and 2004, respectively. Contributions during the three months ended March 31, 2005 included a discretionary profit sharing contribution totaling \$1.9 million.

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### 10. Earnings Per Share

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Basic earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares for the assumed conversion of all potentially dilutive stock options. Since our common stock was not issued until June 30, 2004, the weighted average number of common shares outstanding during the three months ended March 31, 2004 equals Viad's historical weighted average number of common shares outstanding for applicable periods. The following table presents the calculation of basic and diluted net income per share:

<u>(Dollars and shares in thousands, except per share data)</u>	<u>Three Months Ended March 31</u>	
	<u>2005</u>	<u>2004</u>
Income from continuing operations available to common stockholders	27,789	19,213
Income from discontinued operations, net of tax	<u>—</u>	<u>21,780</u>
Net income available to common stockholders	<u>\$ 27,789</u>	<u>\$ 40,993</u>
Average outstanding common shares	84,576	86,710
Dilutive shares related to stock-based compensation	<u>1,447</u>	<u>507</u>
Average outstanding and potentially dilutive common shares	<u>86,023</u>	<u>87,217</u>
Basic earnings per share:		
Basic earnings per share from continuing operations	\$ 0.33	\$ 0.22
Basic earnings per share from discontinued operations, net of tax	<u>—</u>	<u>0.25</u>
Basic earnings per share	<u>\$ 0.33</u>	<u>\$ 0.47</u>
Diluted earnings per share:		
Diluted earnings per share from continuing operations	\$ 0.32	\$ 0.22
Diluted earnings per share from discontinued operations, net of tax	<u>—</u>	<u>0.25</u>
Diluted earnings per share	<u>\$ 0.32</u>	<u>\$ 0.47</u>

Options to purchase 1,511,754 and 2,547,000 shares of common stock were outstanding at March 31, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per share because the effect would be antidilutive.

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## 11. Stock-Based Compensation

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The Company has a share-based compensation plan, the 2004 Omnibus Incentive Plan, which provides for the following types of awards to officers, directors and certain key employees: (a) incentive and nonqualified stock options; (b) stock appreciation rights; (c) restricted stock; and (d) performance based awards. Additionally, non-employee directors receive an initial grant of nonqualified options and restricted stock when they become directors and an additional grant of nonqualified options and restricted stock each year of their term. Under the 2004 Omnibus Incentive Plan, the Company may grant any combination of awards up to the equivalent of two percent of the outstanding shares of common stock in each fiscal year. Any shares not used in a fiscal year may be carried over to the next fiscal year. Forfeited and cancelled awards become available for new grants. As of March 31, 2005, the Company has remaining authorization to issue awards totaling up to 1,989,463 shares of common stock under the 2004 Omnibus Incentive Plan. On May 10, 2005, the Company's stockholders approved the 2005 Omnibus Incentive Plan, which authorizes the issuance of awards up to 7,500,000 shares of common stock. In connection with the approval of the 2005 Omnibus Incentive Plan, no new awards may be granted under the 2004 Omnibus Incentive Plan.

Through December 31, 2004, the Company accounted for its stock-based compensation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123 allowed stock options to be valued using the intrinsic value method in accordance with Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*. Effective January 1, 2005, the Company adopted SFAS No. 123R, *Share-Based Payment*, using the modified prospective method. This standard requires that all share-based compensation awards be measured at fair value at the date of grant and expensed over their vesting or service periods. The adoption of SFAS No. 123R reduced income from continuing operations before income taxes and net income for the three months ended March 31, 2005 by \$0.5 million and \$0.3 million, respectively, while basic and diluted earnings per share were reduced by less than \$0.01 for the quarter. Cash used by operating activities and cash provided by financing activities for the three months ended March 31, 2005 were increased by \$0.1 million as a result of the adoption of SFAS No. 123R.

Option awards are granted with an exercise price equal to the market price of the company's common stock on the date of grant. Stock options granted in 2005 become exercisable in a three-year period in an equal number of shares each year and have a term of ten years. Stock options granted in 2004 become exercisable in a five-year period in an equal number of shares each year and have a term of seven years. Stock options granted in 2003 become exercisable in a three-year period in an equal number of shares each year and have a term of ten years. Stock options granted in calendar years 2002 and prior became exercisable in a two-year period in an equal number of shares each year and have a term of ten years. All stock options granted since 1998 contain certain forfeiture and non-compete provisions.

For purposes of determining the fair value of stock option awards, the Company uses the Black-Scholes single option pricing model and the assumptions set forth in the following table. Expected volatility is based on the historical volatility of the Company since the spin-off on June 30, 2004. The Company uses historical information to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

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	2005	2004
Expected dividend yield	0.2%	0.2%
Expected volatility	24.1%	25.2%
Risk-free interest rate	3.8%	3.2%
Expected term	5 years	5 years

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Following is a summary of stock option activity:

	Shares	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Options outstanding at December 31, 2004	5,596,741	\$ 17.99		
Granted	373,600	20.51		
Exercised	(85,089)	15.57		
Canceled	<u>(41,765)</u>	18.24		
Options outstanding at March 31, 2005	<u>5,843,487</u>	<u>\$ 18.19</u>	<u>5.81</u> years	<u>\$ 8,147</u>
Options exercisable at March 31, 2005	<u>4,654,811</u>	<u>\$ 18.02</u>	<u>5.34</u> years	<u>\$ 7,262</u>

The weighted-average grant date fair value of options granted during 2005 and 2004 was \$5.95 and \$5.49, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2005 and 2004 was \$0.4 million and \$1.1 million, respectively. Cash received from option exercises for the three months ended March 31, 2005 and 2004 was \$1.4 million and \$0.5 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$0.1 million and \$0.4 million for the three months ended March 31, 2005 and 2004, respectively.

The Company has granted both restricted stock and performance-based restricted stock. The vesting of restricted stock is typically three years from the date of grant. The vesting of performance-based restricted stock is contingent upon the Company obtaining certain financial thresholds established on the grant date. Provided the incentive performance targets established in the year of grant are achieved, the performance-based restricted stock awards granted subsequent to 2002 will vest in a three-year period from the date of grant in an equal number of shares each year. Vesting could accelerate if performance targets are met at certain achievement levels. The performance-based restricted stock awards granted in 2002 will vest in 2006 and 2007 in an equal number of shares each year. Future vesting in all cases is subject generally to continued employment with MoneyGram or Viad. Holders of restricted stock and performance-based restricted stock have the right to receive dividends and vote the shares, but may not sell, assign, transfer, pledge or otherwise encumber the stock.

Restricted stock awards were valued at the quoted market price of the Company's common stock on the date of grant and expensed using the straight-line method over the vesting or service period of the award. Following is a summary of restricted stock activity:

	Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding at December 31, 2004	1,097,145	\$ 19.06
Granted	61,900	20.41
Vested and issued	(474,436)	20.40
Canceled	<u>(9,385)</u>	19.39
Restricted stock outstanding at March 31, 2005	<u>675,224</u>	\$ 18.22

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The Company recognized expense totaling \$0.5 million and \$0.4 million related to its options and restricted stock, respectively, during the quarter ended March 31, 2005. For the quarter ended March 31, 2004, the Company recognized income totaling \$0.3 million related to its restricted stock as a result of cancellations; no expense was recognized for its options. As of March 31, 2005, there was \$6.0 million and \$2.4 million of total unrecognized compensation expense related to nonvested options and restricted stock, respectively. That expense is expected to be recognized over a weighted average period of 2.88 years for options and 1.36 years for restricted stock. The total fair value of options that vested during the three months ended March 31, 2005 and 2004 was \$1.3 million and \$0.6 million, respectively, on the vesting date. The total fair value of restricted stock that vested during the three months ended March 31, 2005 and 2004 was \$9.4 million and \$5.8 million, respectively.

Assuming that the Company had recognized compensation cost for stock option grants in accordance with the fair value method of accounting prior to January 1, 2005, net income and diluted and basic income per share would be as follows:

(Dollars in thousands, except per share data)	Three Months Ended March 31	
	2005	2004
Net income, as reported	\$ 27,789	\$ 40,993
Plus: stock-based compensation expense as reported, net of tax	940	(329)
Less: stock-based compensation expense determined under the fair value method, net of tax	<u>(940)</u>	<u>(732)</u>
Pro forma net income	<u>\$ 27,789</u>	<u>\$ 39,932</u>
Basic earnings per share:		
As reported	<u>\$ 0.33</u>	<u>\$ 0.47</u>
Pro forma	<u>\$ 0.33</u>	<u>\$ 0.46</u>
Diluted earnings per share:		
As reported	<u>\$ 0.32</u>	<u>\$ 0.47</u>
Pro forma	<u>\$ 0.32</u>	<u>\$ 0.46</u>

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## 12. Commitments and Contingencies

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At March 31, 2005, the Company had various reverse repurchase agreements, letters of credit and overdraft facilities totaling \$1.9 billion to assist in the management of investments and the clearing of payment service obligations. Included in this amount is a reverse repurchase agreement with one clearing bank totaling \$1.0 billion. Under an agreement with one clearing bank, the Company is subject to certain financial covenants relating to liquidity, interest coverage, leverage and debt to earnings before interest, taxes and depreciation and amortization. At March 31, 2005, the Company was in compliance with these covenants. At March 31, 2005, no amounts were outstanding under the reverse repurchase agreements or the overdraft facilities.

The Company has agreements with certain other co-investors to provide funds related to investments in limited partnership interests. As of March 31, 2005, the total amount of unfunded commitments related to these agreements was \$9.0 million.

### 13. Segment Information

Our business is conducted through two reportable segments, Global Funds Transfer and Payment Systems, which are determined based upon factors such as the type of customers, the nature of products and services provided and the distribution channels used to provide those services. The following table reconciles segment operating income to the income from continuing operations before income taxes as reported in the financial statements.

(Dollars in thousands)	Three Months Ended March 31	
	2005	2004
Total revenue		
Global Funds Transfer	\$ 147,145	\$ 120,968
Payment Systems	<u>80,770</u>	<u>70,353</u>
Total revenue	<u>\$ 227,915</u>	<u>\$ 191,321</u>
Operating Income		
Global Funds Transfer	\$ 26,429	\$ 20,978
Payment Systems	<u>13,240</u>	<u>9,190</u>
Total operating income	39,669	30,168
Interest expense	1,389	1,220
Other unallocated expenses	<u>2,623</u>	<u>4,902</u>
Income from continuing operations before income taxes	<u>\$ 35,657</u>	<u>\$ 24,046</u>
Depreciation and amortization		
Global Funds Transfer	\$ 6,460	\$ 6,377
Payment Systems	<u>976</u>	<u>846</u>
Total depreciation and amortization	<u>\$ 7,436</u>	<u>\$ 7,223</u>
Capital expenditures		
Global Funds Transfer	\$ 16,691	\$ 5,728
Payment Systems	<u>96</u>	<u>295</u>
Total capital expenditures	<u>\$ 16,787</u>	<u>\$ 6,023</u>

The following table presents revenue by major geographic area:

(Dollars in thousands)	Three Months Ended March 31	
	2005	2004
United States	\$ 185,979	\$ 159,099
Foreign	<u>41,936</u>	<u>32,222</u>
Total revenue	<u>\$ 227,915</u>	<u>\$ 191,321</u>

## 14. Subsequent Event

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On April 29, 2005, the Company closed on the acquisition of substantially all of the assets of ACH Commerce L.L.C., an ACH payment processor. The acquisition provides the Company with the technology and systems platform to expand its line of payment services. The purchase price and acquired net assets are not material to the Company.

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

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The following discussion should be read in conjunction with MoneyGram International, Inc.'s ("MoneyGram," "the Company," "we," "us" and "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 under "Forward-Looking Statements" and elsewhere in this Quarterly Report.

### Basis of Presentation

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). On June 30, 2004, the Company was spun off from Viad Corp ("Viad"). MoneyGram is considered the divesting entity and treated as the "accounting successor" to Viad for financial reporting purposes. During the first quarter of 2004, the Company completed the sale of one of its subsidiaries, Game Financial Corporation. The results of operations of the continuing businesses of Viad and Game Financial Corporation are included in the Consolidated Statements of Income in "Income and gain from discontinued operations, net of tax." There are certain amounts incurred in the first quarter of 2004 related to other investment income, debt and Viad's centralized corporate functions that are related to Viad but in accordance with GAAP, are not allowed to be reflected in discontinued operations. The consolidated financial statements may not necessarily be indicative of our results of operations, financial position and cash flows in the future or what our results of operations, financial position and cash flows would have been had we operated as a stand-alone company during the first quarter of 2004.

### Highlights

The following are financial highlights of the first quarter 2005:

- Global Funds Transfer segment revenue grew 22 percent, driven by 29 percent revenue growth and 36 percent volume growth in money transfer.
- Global Funds Transfer segment marketing expenditures increased by over 40 percent from the prior year to further invest in our brand.
- The net investment margin of 1.91 percent (see Table 3) improved over the net investment margin in the first quarter of 2004 of 1.64 percent, primarily due to \$5.3 million in pretax cash flows from previously impaired investments.
- We had fee income of \$2.2 million pretax related to a payment received due to an early customer contract termination in the Payment Systems segment.
- Transaction and operations support expense increased \$2.2 million due to legal matters within the Global Funds Transfer segment.
- The early adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, Share-Based Payments, resulted in \$0.5 million of pretax expense related to the expensing of stock options.
- Tax expense of \$7.9 million, for an effective rate of 22 percent, includes the benefit from \$2.1 million of tax reserves that were no longer needed.
- We repurchased 1,006,586 shares of our common stock at an average price of \$20.68 per share.

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As reflected in the Consolidated Statements of Income in “Income and gain from discontinued operations, net of tax,” net income for the first quarter of 2004 includes \$10.4 million of income and \$11.4 million of gain relating to the continuing businesses of Viad and Game Financial Corporation.

**Table 1 – Results of Operations**

	Three Months Ended March 31		2005 vs 2004 (%)	As a Percentage of Total Revenue	
	2005	2004		2005	2004
	(Dollars in thousands)			(%)	(%)
Revenue:					
Fee and other revenue	\$138,519	\$113,622	22	61	59
Investment revenue	89,502	76,654	17	39	40
Securities gains and losses, net	(106)	1,045	(110)	0	1
Total revenue	227,915	191,321	19	100	100
Fee commissions expense	52,188	40,503	29	23	21
Investment commissions expense	57,953	49,746	16	25	26
Total commissions expense	110,141	90,249	22	48	47
Net revenue	117,774	101,072	17	52	53
Expenses:					
Compensation and benefits	29,274	32,746	(11)	13	17
Transaction and operations support	35,644	28,242	26	16	15
Depreciation and amortization	7,436	7,223	3	3	4
Occupancy, equipment and supplies	8,374	7,595	10	4	4
Interest expense	1,389	1,220	14	1	1
Total expenses	82,117	77,026	7	36	40
Income from continuing operations before income taxes	35,657	24,046	48	16	13
Income tax expense	7,868	4,833	63	3	3
Income from continuing operations	\$ 27,789	\$ 19,213	45	12	10

Compared to the first quarter of 2004, total revenue increased by \$36.6 million, or 19 percent, and net revenue increased \$16.7 million, or 17 percent, primarily driven by transaction growth in the money transfer business, higher than expected cash flows from previously impaired investments and lower investment impairment costs as the overall credit quality of the portfolio improved. Total operating expenses excluding commissions increased by \$5.1 million, or seven percent, primarily due to higher marketing costs, partially offset by lower compensation and benefits costs.

**Table 2 – Net Fee Revenue Analysis**

	Three Months Ended March 31		2005 vs 2004 (%)
	2005	2004	
	(Dollars in thousands)		
Fee and other revenue	\$ 138,519	\$ 113,622	22
Fee commissions expense	(52,188)	(40,503)	29
Net fee revenue	<u>\$ 86,331</u>	<u>\$ 73,119</u>	<u>18</u>
Commissions as a % of fee and other revenue	37.7%	35.6%	

Fee and other revenue includes fees on money transfer transactions, money orders and, to a lesser extent, official check transactions, and is a growing portion of our total revenue, increasing to 61 percent of total revenue for the first quarter of 2005 from 59 percent for the first quarter of 2004. Fee and other revenue in the first quarter of 2005 increased 22 percent compared to the same period in the prior year, primarily driven by transaction growth in our money transfer and urgent bill payment products, with volume increasing 36 percent during the first quarter of 2005 as compared to the first quarter of 2004. Revenue growth rates are lower than money transfer volume growth rates due to targeted pricing initiatives in the money transfer business and product mix (higher money transfer transaction growth with a slight decline in money order growth).

Fee commissions consist primarily of fees paid to our third-party agents for the money transfer service. Fee commissions expense was up 29 percent in the first quarter of 2005 compared to 2004, primarily driven by higher money transfer transaction volume.

Net fee revenue increased \$13.2 million, or 18 percent, in the first quarter of 2005 compared to 2004, driven by the increase in money transfer and urgent bill payment transactions. Growth in net fee revenue was less than fee and other revenue growth primarily due to product mix, as well as targeted pricing initiatives.

**Table 3 – Net Investment Revenue Analysis**

	Three Months Ended March 31		2005 vs 2004 (%)
	2005	2004	
	(Dollars in thousands)		
Components of net investment revenue:			
Investment revenue	\$ 89,502	\$ 76,654	17
Investment commissions expense (1)	(57,953)	(49,746)	16
Net investment revenue	<u>\$ 31,549</u>	<u>\$ 26,908</u>	<u>17</u>
Average balances:			
Cash equivalents and investments	\$6,703,839	\$6,584,946	\$118,893
Payment service obligations (2)	5,240,596	5,159,649	80,947
Average yields earned and rates paid (3):			
Investment yield	5.41%	4.68%	0.73%
Investment commission rate	4.48%	3.88%	0.61%
Net investment margin	1.91%	1.64%	0.27%

- (1) Investment commissions expense includes payments made to financial institution customers based on short-term interest rate indices on the outstanding balances of official checks sold by that financial institution, as well as costs associated with swaps and the sale of receivables program.
- (2) Commissions are paid to financial institution customers based upon average outstanding balances generated by the sale of official checks only. The average balance in the table reflects only the payment service obligations for which commissions are paid and does not include the average balance of the sold receivables (\$407.8 million and \$417.8 million for the three months ended March 31, 2005 and 2004, respectively) as these are not recorded in the Consolidated Balance Sheets.
- (3) Average yields/rates are calculated by dividing the applicable amount shown in the “Components of net investment revenue” section by the applicable amount shown in the “Average balances” section, divided by the number of days in the period presented and multiplied by the number of days in the year. The “Net investment margin” is calculated by dividing “Net investment revenue” by the “Cash equivalents and investments” average balance, divided by the number of days in the period presented and multiplied by the number of days in the year.

Investment revenue increased 17 percent in the first quarter of 2005 compared to 2004 due primarily to \$5.3 million of pretax cash flows from previously impaired investments, as well as higher yields and higher average investable balances.

Investment commissions expense in the first quarter of 2005 increased by 16 percent from the same period in 2004 as rising short-term rates resulted in higher commissions paid to financial institution customers, partially offset by lower swap costs.

Net investment revenue increased 17 percent in the first quarter of 2005 compared to the prior year, with the net investment margin increasing 27 basis points to 1.91 percent. The net investment margin in 2005 benefited from the higher average investable balances and yields and the higher than expected cash flows from previously impaired investments, while the 2004 net investment margin benefited from lower short-term rates.

**Table 4 – Summary of Gains, Losses and Impairments**

	<b>Three Months Ended</b>		
	<b>March 31</b>		<b>2005 vs</b>
	<b>2005</b>	<b>2004</b>	<b>2004</b>
	(Dollars in thousands)		
Gross realized gains	\$ 6,264	\$ 7,055	\$ (792)
Gross realized losses	(4,492)	(82)	(4,410)
Other-than-temporary impairments	<u>(1,878)</u>	<u>(5,928)</u>	<u>4,050</u>
Net securities gains and losses	<u>\$ (106)</u>	<u>\$ 1,045</u>	<u>\$ (1,152)</u>

Net securities gains and losses decreased to a loss of \$0.1 million in the first quarter of 2005 from a gain of \$1.0 million in the first quarter of 2004 as a result of higher realized losses, partially offset by lower investment impairments as the overall credit quality of the portfolio improved in 2005. The higher realized losses in the first quarter of 2005 are due to portfolio repositioning activities, as well as changes in the yield curve. Impairments in 2005 related primarily to the investments backed by aircraft collateral. Impairments in 2004 related primarily to investments backed by aircraft and manufactured housing collateral.

**Expenses**

Expenses include various operating expenses, other than commissions. As MoneyGram is the accounting successor to Viad, expenses in the three months ended March 31, 2004 also include corporate overhead that Viad did not allocate to its subsidiaries and, consequently, cannot be classified as discontinued operations. Included in expenses for the three months ended March 31, 2004 are approximately \$4.2 million of expenses allocated from Viad that did not recur in 2005. However, we are obligated under our Interim Services Agreement with Viad to pay approximately \$1.6 million annually, or \$0.4 million quarterly, beginning on July 1, 2004 for certain corporate services provided to MoneyGram by Viad. Following is a discussion of the operating expenses presented in Table 1.

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*Compensation and benefits* – Compensation and benefits includes salaries and benefits, management incentive programs, severance costs and other employee related costs. Included in the three months ended March 31, 2004 are \$2.3 million of expenses allocated from Viad that did not recur in 2005. Compensation and benefits decreased 11 percent in the first quarter of 2005 as compared to 2004, primarily driven by the timing of incentive and benefit expenses, partially offset by the hiring of additional employees and the impact of expensing stock options. The total number of employees increased to support money transfer growth and public company responsibilities following the spin-off. As a result of the adoption of SFAS No. 123R in the first quarter of 2005, we incurred \$0.5 million of additional compensation expense related to stock options.

*Transaction and operations support* – Transaction and operations support expenses include marketing costs, professional fees and other outside services costs, telecommunications and forms expense related to our products. Included in the three months ended March 31, 2004 are \$1.7 million of expenses allocated from Viad that did not recur in 2005. Transaction and operations support costs were up 26 percent in the first quarter of 2005 as compared to 2004, primarily driven by legal matters in the Global Funds Transfer segment, professional services and third-party processing costs and increased marketing expenditures. During the first quarter of 2005, the Company incurred \$2.2 million of costs related to the settlement of one legal matter and the accrual for an expected settlement in another legal matter. We incurred higher professional services costs primarily due to the on-going compliance initiatives related to Section 404 of the Sarbanes-Oxley Act, software development and other projects. In addition, we incurred additional costs related to the eMoney Transfer service that was launched in March 2004 as we moved the processing of this service in-house. As planned, marketing expenditures increased more than 40 percent over the prior year as we invested in our money transfer brand.

*Depreciation and amortization* – Depreciation and amortization includes depreciation on point of sale equipment, computer hardware and software (including capitalized software development costs), and office furniture, equipment and leasehold improvements. Depreciation and amortization expense in the first quarter of 2005 increased three percent over the same period in 2004, primarily due to the amortization of capitalized software developed to enhance the money transfer platform and the depreciation of our investment in global money transfer signs. These investments helped drive the growth and brand recognition in the money transfer product.

*Occupancy, equipment and supplies* – Occupancy, equipment and supplies includes facilities rent and maintenance costs, software and equipment maintenance costs, freight and delivery costs, and supplies. Included in the three months ended March 31, 2004 are \$0.2 million of expenses allocated from Viad that did not recur in 2005. Occupancy, equipment and supplies in the first quarter of 2005 increased ten percent over 2004 due primarily to higher office rent, property taxes and software expense and maintenance, partially offset by reduced equipment maintenance costs. In the first quarter of 2004, we received a refund for property taxes from our landlord; no such refund was received in 2005. Software expense and maintenance increases relate primarily to purchased certificates and licenses to support our growth and compliance initiatives, as well as licensing costs which were incurred by Viad prior to the spin-off. Equipment maintenance costs in the first quarter of 2004 were higher than the current year as we placed new kiosks and phones at a large customer.

*Interest expense* – Interest expense in the first quarter of 2005 increased 14 percent over 2004 despite lower average outstanding debt balances due primarily to rising interest rates. Interest expense in the first quarter of 2004 related to the historical debt of Viad, while interest expense in 2005 relates to the debt incurred by the Company in connection with the spin-off.

*Income taxes* – The effective tax rate was 22 percent in the first quarter of 2005 as compared to 20 percent in the first quarter of 2004. The corporate tax rate is lower than the statutory rate due primarily to income from tax-exempt bonds in our investment portfolio. The effective tax rate for the first quarter of 2005 benefited from the reversal of \$2.1 million of tax reserves that were deemed to be no longer needed due to the passage of time. We expect additional tax reserve reversals in the second quarter of 2005, again due to the passage of time, resulting in an expected annual effective tax rate for 2005 of 23 to 24 percent. Our corporate tax rate reflects the income we generate from non-taxable securities. As tax exempt income becomes a smaller percentage of total income, our marginal tax rate will increase.

**Segment Performance**

We measure financial performance by our two business segments – Global Funds Transfer and Payment Systems. The business segments are determined based upon factors such as the type of customers, the nature of products and services provided and the distribution channels used to provide those services. The Global Funds Transfer segment primarily provides money transfer services and domestic money orders, as well as bill payment services. The Payment Systems segment primarily provides official check services and money orders for financial institutions, as well as processes controlled disbursements. Segment pre-tax operating income and segment operating margin are used to evaluate performance and allocate resources.

We manage our investment portfolio on a consolidated level and the specific investment securities are not identifiable to a particular segment. However, average investable balances are allocated to our segments based upon the average balances generated by that segment's sale of payment instruments. The investment yield is generally allocated based upon the total average investment yield. Gains and losses are allocated based upon the allocation of average investable balances. Our derivatives portfolio is also managed on a consolidated level and the derivative instruments are not specifically identifiable to a particular segment. The total costs associated with our derivatives portfolio are allocated to each segment based upon the percentage of that segment's average investable balances to the total average investable balances. Table 5 reconciles segment operating income to income from continuing operations before income taxes as reported in the financial statements.

**Table 5 – Segment Information**

	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Dollars in thousands)</b>	
Operating income:		
Global Funds Transfer	\$ 26,429	\$ 20,978
Payment Systems	13,240	9,190
Total segment operating income	39,669	30,168
Interest expense	1,389	1,220
Other unallocated expenses	2,623	4,902
Income from continuing operations before income taxes	<u>\$ 35,657</u>	<u>\$ 24,046</u>

Other unallocated expenses in the first quarter of 2004 include Viad corporate overhead that was not allocated to its subsidiaries and could not be classified as discontinued operations, as well as certain pension and benefit obligation expenses that were retained by the Company in the spin-off that are not allocated to the segments. In 2005, other unallocated expense represents pension and benefit obligation expense, as well as interim service fees paid to Viad.

**Table 6 – Global Funds Transfer Segment**

	<b>Three Months Ended March 31</b>		<b>2005 vs 2004</b>
	<b>2005</b>	<b>2004</b>	<b>2004</b>
	<b>(Dollars in thousands)</b>		<b>(%)</b>
Total revenue	\$ 147,145	\$ 120,968	22
Operating income	26,429	20,978	26
Operating margin	18.0%	17.3%	

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Global Funds Transfer revenue includes investment revenue, securities gains and losses and fees on money transfers, retail money orders and bill payment products. Global Funds Transfer revenue increased 22 percent in the first quarter of 2005 over the first quarter of 2004, primarily driven by the growth in the money transfer and urgent bill payment services as total transaction volume grew 36 percent. Domestic originated transactions (including urgent bill payment) grew 35 percent in the first quarter of 2005, while international originated transactions grew 48 percent. This growth is a result of our targeted pricing initiatives to provide a strong consumer value proposition supported by targeted marketing efforts. In addition, the money transfer agent base expanded 15 percent over the first quarter of 2005, primarily in the international markets, to over 78,500 locations.

Retail money order volume declined three percent in the first quarter of 2005 as compared to the first quarter of 2004, which is better than the industry trend. Based on current industry information, the trend in paper-based payment instruments is estimated to be an annual decline of five to eight percent. Investment revenue in Global Funds Transfer increased 20 percent in the first quarter of 2005 as compared to 2004, primarily due to higher interest rates earned on the portfolio and an increase in average investable balances, as well as \$1.1 million of pretax cash flows from previously impaired investments.

Commissions expense consists of fees paid to our third-party agents for the money transfer service and costs associated with swaps and the sale of receivables program. Commissions expense in the first quarter of 2005 increased 29 percent as compared to 2004, primarily driven by the 36 percent transaction volume growth in fee and other revenue. Commissions expense as a percentage of revenue increased by two percentage points over the prior year, primarily due to business mix as we continue to see growth in the money transfer business as compared to money orders.

Operating margin was 18.0 percent in the first quarter of 2005 as compared to 17.3 percent in the first quarter of 2004 as a result of leverage realized from lower expense growth. These operating margins do not yet reflect the full impact of our planned increase in investments in the brand, new products and delivery channels or compliance initiatives in the remainder of 2005. Operating margins in the remainder of 2005 will be impacted by these planned initiatives, as well as the continued shift in product mix from retail money orders to money transfer.

### **Table 7 – Payment Systems Segment**

	<b>Three Months Ended March</b>		<b>2005 vs 2004</b>
	<b>2005</b>	<b>31 2004</b>	
	<b>(Dollars in thousands)</b>		<b>(%)</b>
Total revenue	\$ 80,770	\$ 70,353	15
Operating income	13,240	9,190	44
Operating margin	16.4%	13.1%	
Taxable equivalent basis (1):			
Revenue	\$ 85,489	\$ 75,569	13
Operating income	17,959	14,406	25
Operating margin	21.0%	19.1%	

- (1) The taxable equivalent basis numbers are non-GAAP measures that are used by the Company's management to evaluate the effect of tax-exempt securities on the payment systems segment. The tax-exempt investments in the investment portfolio have lower pre-tax yields but produce higher income on an after-tax basis than comparable taxable investments. An adjustment is made to present revenue and operating income resulting from amounts invested in tax-exempt securities on a taxable equivalent basis. The adjustment is calculated using a 35 percent tax rate and is \$4.7 million and \$5.2 million for the first quarter of 2005 and 2004, respectively. The presentation of taxable equivalent basis numbers is supplemental to results presented under GAAP and may not be comparable to similarly titled measures used by other companies. These non-GAAP measures should be used in addition to, but not a substitute for measures presented under GAAP.

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Payment Systems revenue includes investment revenue, securities gains and losses, fees charged to our official check financial institution customers and fees earned on our rebate processing business. Revenue increased 15 percent during the first quarter of 2005 as compared to 2004, primarily due to an increase in investment revenue and \$2.2 million in fee revenue related to a payment received due to an early customer contract termination. Investment revenue increased \$9.6 million during the first quarter of 2005 as compared to 2004 as a result of \$4.2 million of pretax cash flows from previously impaired investments, as well as higher average investable balances and higher interest rates earned on the portfolio.

Commissions expense includes payments made to financial institution customers based on official check average investable balances and short-term interest rate indices, as well as costs associated with swaps and the sale of receivables program. Commissions expense increased 16 percent in the first quarter of 2005 as compared to 2004, primarily due to increased short-term interest rates that resulted in higher commissions paid to financial institution customers, partially offset by a decline in swap costs.

Operating margin in the first quarter of 2005 was 16.4 percent (21.0 percent on a taxable equivalent basis) as compared to 13.1 percent (19.1 percent on a taxable equivalent basis) in the first quarter of 2004. The increase is primarily due to the \$2.2 million in fee revenue related to the early customer contract termination and the \$4.2 million of pretax cash flows from previously impaired investments.

## **Outlook**

We believe that the following key items will have an impact on our future operations. We expect:

- Diluted earnings per share in 2005 to be in the range of \$1.11 to \$1.15.
- Net revenues to grow 10 to 15 percent to be in the range of \$465 to \$485 million.
- Our net investment margin in 2005 to be in the range of 150 to 165 basis points, including the effect of actual and anticipated cash flows on previously impaired investments. We expect cash flow recoveries in the second quarter of 2005 to be at approximately the same level as the first quarter of 2005.
- Investable balances to average \$6.5 billion in 2005.
- To continue paying a \$0.01 per share quarterly cash dividend, subject to Board approval.
- To continue to increase our marketing expenditures by over 40 percent to solidify brand recognition.
- To no longer incur certain overhead costs allocated to us by Viad prior to the spin-off. These costs were \$10.2 million during the first half of 2004.
- Our public company expenses to increase. In addition to other public company expenses, 2005 will be our first year of attesting to the operational effectiveness of our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, with the related costs expected to amount to approximately \$0.01 per share.
- Our effective tax rate to be approximately 23 to 24 percent in 2005, including the effect of actual and anticipated reversals of tax reserves.
- The early adoption of SFAS No. 123R, *Share-Based Payment*, to result in \$2.5 million of annual expense, or \$0.02 per diluted share.
- Income from continuing operations before taxes to grow 40 to 45 percent.

From time to time, events may occur which can result in unanticipated income or losses. Our outlook does not reflect such events.

## Liquidity and Capital Resources

One of our primary financial goals is to maintain an adequate level of liquidity to manage the fluctuations in the balances of payment service assets and obligations resulting from varying levels of sales of official checks, money orders and other payment instruments, the timing of the collections of receivables and the timing of the presentment of such instruments for payment. In addition, we strive to maintain adequate levels of liquidity for capital expenditures and other normal operating cash needs.

At March 31, 2005, we had cash and cash equivalents of \$874.5 million, net receivables of \$864.1 million and investments of \$6.2 billion, all substantially restricted for payment service obligations. We rely on the funds from ongoing sales of payment instruments and portfolio cash flows to settle payment service obligations as they are presented. Due to the continuous nature of the sales and settlement of our payment instruments, we are able to invest in securities with a longer term than the average life of our payment instruments.

We are regulated by various state agencies which generally require us to maintain liquid assets and investments with an investment rating of A or higher in an amount generally equal to the payment service obligation for regulated payment instruments (teller checks, agent checks, money orders and money transfers). We are not regulated by state agencies for our payment service obligations resulting from outstanding cashier's checks; however, we restrict the funds related to these payment instruments due to contractual arrangements and/or Company policy. Accordingly, assets restricted for regulatory or contractual reasons, and by Company policy are not available to satisfy working capital or other financing requirements. In addition, our Company policy limits our investment in below investment grade securities to 2.5 percent of our total investments and cash equivalents. As of March 31, 2005, we are in compliance with this policy.

As of March 31, 2005 and December 31, 2004, we had unrestricted cash and cash equivalents, receivables and investments to the extent those assets exceed all payment service obligations as summarized in Table 8. These amounts are generally available; however, management considers a portion of these amounts as providing additional assurance that regulatory requirements are maintained during the normal fluctuations in the value of investments.

**Table 8 – Unrestricted Assets**

	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2004</u>
	(Dollars in thousands)	
Cash and cash equivalents	\$ 874,487	\$ 927,042
Receivables, net	864,082	771,966
Investments	<u>6,195,937</u>	<u>6,335,493</u>
	7,934,506	8,034,501
Amounts restricted to cover payment service obligations	<u>(7,612,340)</u>	<u>(7,640,581)</u>
Unrestricted assets	<u>\$ 322,166</u>	<u>\$ 393,920</u>

The decrease in unrestricted assets is primarily due to fluctuations in the market value of our investments, changes in our working capital resulting from the timing of normal operational activities and the repurchase of our common stock.

**Table 9 – Cash Flows Provided By or Used In Operating Activities**

	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Dollars in thousands)</b>	
Net income	\$ 27,789	\$ 40,993
Total adjustments to reconcile net income	<u>3,051</u>	<u>8,930</u>
Net cash provided by continuing operating activities before changes in payment service assets and obligations	30,840	49,923
Change in cash and cash equivalents (substantially restricted)	52,555	(59,230)
Change in receivables, net (substantially restricted)	(93,515)	4,898
Change in payment service obligations	<u>(28,241)</u>	<u>259,249</u>
Net change in payment service assets and obligations	(69,201)	204,917
Net cash (used in) provided by continuing operating activities	<u>\$ (38,361)</u>	<u>\$ 254,840</u>

Table 9 summarizes the cash flows (used in) provided by continuing operating activities. Net cash provided by continuing operating activities before changes in payment service assets and obligations was \$30.8 million and \$49.9 million in the first quarter of 2005 and 2004, respectively, for a decrease of \$19.1 million. The decrease is primarily due to changes in other assets, such as prepaid expenses, partially offset by higher net income.

To understand the cash flow activity of our business, the cash provided by (used in) operating activities relating to the payment service assets and obligations should be reviewed in conjunction with the related cash provided by (used in) investing activities related to our investment portfolio. Table 10 summarizes the cash flows provided by or used by payment service assets and obligations, net of investment activity.

**Table 10 – Cash Flows Provided By or Used In Payment Service Assets and Obligations, Net of Investment Activity**

	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Dollars in thousands)</b>	
Net change in payment service assets and obligations	\$ (69,201)	\$ 204,917
Proceeds from sales and maturities of investments	571,042	687,182
Purchases of investments	<u>(495,761)</u>	<u>(985,050)</u>
Net investment activity	75,281	(297,868)
Cash flows provided by (used in) payment service assets and obligations, net of investment activity	<u>\$ 6,080</u>	<u>\$ (92,951)</u>

During the first quarter of 2005, the cash flows provided by payment service assets and obligations, net of investment activity, increased \$99.0 million over the first quarter of 2004. In the first quarter of 2004, a significant amount of investments matured, resulting in higher levels of proceeds and related reinvestment activity. In addition, the timing of payment service assets and obligations activity generated higher levels of cash during the first quarter of 2004, which the Company invested.

**Table 11 – Cash Flows Provided By or Used In Investing Activities**

	Three Months Ended March 31	
	2005	2004
(Dollars in thousands)		
Net investment activity	\$ 75,281	\$ (297,868)
Purchases of property and equipment	(16,787)	(6,023)
Proceeds from sale of Game Financial Corporation	—	15,247
Other	—	490
Other investing activity	(16,787)	9,714
Net cash provided by (used in) investing activities	<u>\$ 58,494</u>	<u>\$ (288,154)</u>

Investing activities primarily consist of activity within our investment portfolio as previously discussed. Other investing activity used cash of \$16.8 million in the first quarter of 2005 and generated cash of \$9.7 million in the first quarter of 2004. In the first quarter of 2004, we received \$15.2 million in proceeds from the sale of Game Financial Corporation. Capital expenditures for property and equipment of \$16.8 million and \$6.0 million in the first quarter of 2005 and 2004, respectively, related to our continued investment in the money transfer platform and the acquisition of an interest in a corporate aircraft.

*Cash Flows from Financing Activities:* Net cash used in financing activities was \$20.1 million and \$5.2 million in the first quarter of 2005 and 2004, respectively. During the first quarter of 2005, the main uses of cash related to the purchase of treasury stock for \$20.8 million and payments of dividends totaling \$0.9 million. Sources of cash in the first quarter of 2005 related primarily to \$1.4 million proceeds from stock option exercises. During the first quarter of 2004, dividends totaling \$7.8 million were paid on Viad common stock. Sources of cash during the first quarter of 2004 related primarily to draws under the historical Viad revolver of \$2.0 million.

**Other Funding Sources and Requirements**

At March 31, 2005, we had reverse repurchase agreements, letters of credit and overdraft facilities totaling \$1.9 billion available to assist in the management of our investments and the clearing of payment service obligations, with no amounts outstanding.

**Table 12 – Contractual Obligations**

	Payments due by period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
(Dollars in thousands)					
Debt	\$150,000	\$ —	\$150,000	\$ —	\$ —
Operating leases	45,949	5,292	10,156	9,871	20,630
Derivative financial instruments	(8,690)	(22,002)	7,227	5,908	177
Interim services agreement	2,051	1,641	410		
Other obligations	<u>9,467</u>	<u>9,207</u>	<u>260</u>		
Total contractual cash obligations	<u>\$198,777</u>	<u>\$ (5,862)</u>	<u>\$168,053</u>	<u>\$ 15,779</u>	<u>\$ 20,807</u>

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Debt consists of amounts outstanding under the variable rate term loan and revolving credit facility at March 31, 2005. Capital and operating leases consist of various leases relating to buildings and equipment. Derivative financial instruments represent the net payable (receivable) under our interest rate swap agreements. The interim services agreement is the obligation under our agreement with Viad for certain services to be provided to the Company. The amounts shown in Table 12 related to the interim services agreement represent maximum amounts payable. Under the terms of the agreement, we may at any time after June 30, 2005 request termination of certain services, which would reduce the contractual obligation amounts due to Viad under the agreement. Other obligations are unfunded capital commitments totaling \$9.0 million related to our limited partnership interests included in our investment portfolio, as well as \$0.5 million outstanding under capital lease obligations.

MoneyGram has a funded, noncontributory pension plan that is assumed from Viad in connection with the spin-off. Funding policies provide that payments to defined benefit pension trusts shall be equal to the minimum funding required by applicable regulations. During the first quarter of 2005, MoneyGram contributed \$0.3 million to the funded pension plans and expects to contribute an additional \$12.7 million in the remainder of 2005. MoneyGram also has certain unfunded pension and postretirement plans that require benefit payments over extended periods of time. During the first quarter of 2005, we paid benefits totaling \$1.0 million related to these unfunded plans. Benefit payments under these unfunded plans are expected to be \$2.0 million in the remainder of 2005. Expected contributions and benefit payments under these plans are not included in the table above.

Although no assurance can be given, we expect operating cash flows and short-term borrowings to be sufficient to finance our ongoing business, maintain adequate capital levels, and meet debt and clearing agreement covenants and investment grade rating requirements. Should financing requirements exceed such sources of funds, we believe we have adequate external financing sources available, including unused commitments under our credit facilities, to cover any shortfall.

On May 9, 2005, our universal shelf registration on Form S-3 became effective with the Securities and Exchange Commission. The universal shelf registration provides for the issuance of up to \$500.0 million of our securities, including common stock, preferred stock and debt securities. The securities may be sold from time to time in one or more series after the registration statement has become effective. The terms of the securities and any offering of the securities will be determined at the time of the sale. The shelf registration is intended to provide the Company with additional funding sources for general corporate purposes, including working capital, capital expenditures, debt payment, the financing of possible acquisitions or stock repurchases.

### **Stockholders' Equity**

On November 18, 2004, the Board authorized a plan to repurchase, at the Company's discretion, up to 2,000,000 shares of MoneyGram common stock. The Company repurchased 1,006,586 shares of its common stock under this plan at an average cost of \$20.68 per share during the first quarter of 2005. As of March 31, 2005, the Company has remaining authorization to repurchase up to 223,115 shares of MoneyGram common stock.

On February 17, 2005, the Board of Directors declared a dividend of \$0.01 per share of common stock, which was paid on April 1, 2005 for a total cost of \$0.9 million. On May 10, 2005, the Company's Board of Directors declared a cash dividend of \$0.01 per share to be paid on July 1, 2005 to stockholders of record on June 15, 2005. Any future determination to pay dividends on MoneyGram common stock will be at the discretion of our Board of Directors and will depend on our financial condition, results of operations, cash requirements, prospects and such other factors as our Board of Directors may deem relevant. The Company intends to continue paying a quarterly dividend of \$0.01 per share in 2005, subject to Board approval, which will be funded through cash generated from operating activities.

## Off-Balance Sheet Arrangements

We have an agreement to sell, on a periodic basis, undivided percentage ownership interests in certain receivables, primarily from our money order agents, in an amount not to exceed \$450.0 million. These receivables are sold to commercial paper conduits (trusts) sponsored by a financial institution and represent a small percentage of the total assets in these conduits. Our rights and obligations are limited to the receivables transferred, and are accounted for as sales transactions under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The assets and liabilities associated with these conduits, including our sold receivables, are not recorded or included in our financial statements. The agreement expires in June 2006. The business purpose of this arrangement is to accelerate cash flow for investment. The receivables are sold at a discount based upon short-term interest rates. Executive management regularly reviews performance under the terms of the agreement. On average, we sold receivables totaling \$407.8 million during the first quarter of 2005 for a total discount of \$3.6 million.

The Finance and Investment Committee of the Board of Directors generally must approve any transactions and strategies, including any potential off-balance sheet arrangements, which materially affect investment results and cash flows.

## Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements. Critical accounting policies are those policies that management believes are most important to the portrayal of a company's financial position and results of operations, and that require management to make estimates that are difficult, subjective or complex. With the exception of the adoption of SFAS No. 123R and the related impact on our accounting policy for stock-based compensation, there were no changes to our critical accounting policies of Fair Value of Investment Securities, other than Temporary Impairments, Derivative Financial Instruments, Goodwill, and Pension obligations during the first quarter of 2005. For further information regarding our critical accounting policies, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

*Stock-Based Compensation:* Prior to January 1, 2005, the Company accounted for its stock option grants under the intrinsic value method in accordance with Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*. This method defines compensation cost for stock options as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount the employee must pay to acquire the stock. As our stock option plans require the employee to pay an amount equal to the market price on the date of grant, no compensation expense was recognized under APB No. 25. Performance-based stock and restricted stock awards were accounted for under SFAS No. 123, *Accounting for Stock-Based Compensation*, and were valued at the quoted market price of the Company's stock at the date of grant and expensed using the straight-line method over the vesting or service period of the award. Effective January 1, 2005, the Company adopted SFAS No. 123R, which requires that all share-based compensation awards be measured at fair value at the date of grant. No modifications were made to outstanding share-based compensation awards prior to the adoption of SFAS No. 123R.

For purposes of determining the fair value of stock option awards, the Company uses the Black-Scholes single option pricing model and the assumptions set forth in the following table. Expected volatility is based on the historical volatility of the Company since the spin-off on June 30, 2004. The Company uses historical information to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures. The fair value of restricted stock awards is determined using the quoted market price of the Company's common stock on the date of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and, for stock option awards, is net of estimated forfeitures.

## Recent Accounting Developments

Effective January 1, 2005, the Company adopted SFAS No. 123R using the modified prospective method. This standard requires that all share-based compensation awards be measured at fair value at the date of grant and expensed over their vesting or service periods. The adoption of SFAS No. 123R reduced income from continuing operations before income taxes and net income for the three months ended March 31, 2005 by \$0.5 million and \$0.3 million, respectively, while basic and diluted earnings per share were each reduced by less than \$0.01 for the quarter. Cash used by operating activities and cash provided by financing activities for the three months ended March 31, 2005 were increased by \$0.1 million as a result of the adoption of SFAS No. 123R.

As of March 31, 2005, there was \$6.0 million and \$2.4 million of total unrecognized compensation expense as measured under SFAS No. 123R related to nonvested options and restricted stock, respectively. That expense is expected to be recognized over a weighted average period of 2.88 years for options and 1.36 years for restricted stock.

## Forward Looking Statements

The statements contained in this Form 10-Q that are not historical facts are forward-looking statements and are made under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances due to a number of factors, including, but not limited to:

- *Interest Rate Fluctuations.* Fluctuations in interest rates may materially adversely affect revenue derived from investment of funds received from the sale of our payment instruments.
- *Market Value of Securities.* Material changes in the market value of securities we hold may materially adversely affect our results of operation and financial condition.
- *Liquidity.* Material changes in our need for and the availability of liquid assets may affect our ability to meet our payment service obligations and may materially adversely our results of operation and financial condition.
- *Credit Risk.* If an issuer of securities in our investment portfolio defaulted on its payment obligations, the value of our securities would decline, adversely affecting the value of our investment portfolio. In addition, we may face credit risk if we are unable to collect on funds received by agents for our products and services or if we experience fraud.
- *Implementation of Technology and New Products.* We may be unable to successfully and timely implement new and/or improved technology, delivery methods and product offerings, including pre-paid debit/stored value cards and new bill payment services.
- *Business Interruption.* We may suffer direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from third parties or external events.
- *International.* Our business and results of operations may be adversely affected by political, economic or other instability in countries in which we have material agent relationships.
- *Security.* We may be subject to a material breach of security of any of our systems.
- *Regulation.* Changes in laws, regulations or other industry practices and standards may require significant systems redevelopment, reduce the market for or value of our products or services or render our products or services less profitable or obsolete.
- *Foreign Currency Exchange.* Our results of operations may be adversely affected by fluctuations in foreign currency exchange rates affecting certain receivables and payables denominated in foreign currency.
- *Growth Rates.* We cannot anticipate whether growth rates approximating recent levels for consumer money transfer transactions and other payment product markets will continue.
- *Agent Retention.* We may be unable to renew material retail agent and financial institution customer contracts, or we may experience a loss of business from significant agents or customers.
- *Competition.* We may be unable to compete against our large competitors, niche competitors or new competitors that may enter the markets in which we operate.
- *Product Development.* We may be unable compete or develop new products to keep pace with technological and competitive changes in the payment services industry.

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- *Litigation.* Our business and results of operations may be materially adversely affected by lawsuits or investigations.
- *Intellectual Property.* The loss of our intellectual property protection or the inability to secure or enforce intellectual property protection could harm our business and prospects.
- *Internal Controls.* We may be unable to timely comply with the internal control provisions of Section 404 of the Sarbanes–Oxley Act of 2002.
- *Catastrophic Events.* Catastrophic events could materially adversely impact our operating facilities, communication systems and technology, our clearing banks or major customers, or may have a material adverse impact on current economic conditions or levels of consumer spending.
- *Other Factors.* Additional risk factors may be described in our other filings with the Securities and Exchange Commission from time to time.

Interest rate risk, liquidity risk, credit risk, operational risk, regulatory risk and foreign currency exchange risk are the principal risks in our business activities. For a discussion of these risks, including sensitivity analysis, refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Enterprise Risk Management” in the Company’s Annual Report on Form 10–K for the year ended December 31, 2004.

Actual results may differ materially from historical and anticipated results. These forward–looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements to reflect events or circumstances arising after such date.

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### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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The Company believes that there have been no material changes in our market risk since December 31, 2004. For further information on market risk, refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Enterprise Risk Management” in the Company’s Annual Report on Form 10–K for the year ended December 31, 2004.

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### **Item 4. Controls and Procedures**

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As of the end of the period covered by this report (the “Evaluation Date”), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a–15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company’s disclosure controls and procedures were effective.

No change in the Company’s internal control over financial reporting (as defined in Rule 13a–15(f) of the Exchange Act) during the fiscal quarter ended March 31, 2005, has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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## **PART II. OTHER INFORMATION**

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### **Item 1. Legal Proceedings**

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We are party to a variety of legal proceedings that arise in the normal course of our business. In these actions, plaintiffs may request punitive or other damages that may not be covered by insurance. We accrue for these items as losses become probable and can be reasonably estimated. While the results of these legal proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated results of operations or financial position.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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On November 18, 2004, the Board authorized a stock repurchase program for up to 2,000,000 shares of MoneyGram common stock, as announced in a press release issued on November 18, 2004. The authorization is effective until such time as the Company has repurchased 2,000,000 shares.

The following table sets forth information in connection with purchases made by us, or on our behalf, of shares of our common stock during the quarterly period ended March 31, 2005. MoneyGram common stock surrendered 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 program. Included in the January 2005 activity are 39,149 shares surrendered to the Company in connection with the exercise of stock options.

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program</b>
January 1–January 31, 2005	933,835	\$ 20.81	894,686	335,015
February 1–February 28, 2005	111,900	\$ 22.46	111,900	223,115
March 1–March 31, 2005	<u>—</u>	\$ —	<u>—</u>	223,115
Total	<u>1,045,735</u>		<u>1,006,586</u>	

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**Item 6. Exhibits**

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Exhibits are filed with this Form 10–Q as listed in the accompanying Exhibit Index.

**SIGNATURES**

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

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

May 12, 2005

By: /s/ Jean C. Benson

\_\_\_\_\_  
Vice President and Controller  
Chief Accounting Officer and  
Authorized Officer

**EXHIBIT INDEX**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
*+10.1	MoneyGram International, Inc. 2005 Omnibus Incentive Plan
*+10.2	MoneyGram International, Inc. Supplemental Profit Sharing Plan (2005 Statement)
*+10.3	First Amendment of MoneyGram International, Inc. Performance Unit Incentive Plan (as adopted May 10, 2005)
*31.1	Section 302 Certification of Chief Executive Officer
*31.2	Section 302 Certification of Chief Financial Officer
*32.1	Section 906 Certification of Chief Executive Officer
*32.2	Section 906 Certification of Chief Financial Officer

\* Filed herewith.

+ Denotes form of management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

## MONEYGRAM INTERNATIONAL, INC.

## 2005 OMNIBUS INCENTIVE PLAN

As Adopted May 10, 2005

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**MONEYGRAM INTERNATIONAL, INC.  
2005 OMNIBUS INCENTIVE PLAN**

Section 1. Purpose.

The purpose of the Plan is to promote the interests of the Company and its stockholders by aiding the Company in attracting and retaining employees, officers, consultants, advisors and non–employee Directors capable of assuring the future success of the Company, to offer such persons incentives to put forth maximum efforts for the success of the Company’s business and to compensate such persons through various stock–based arrangements and provide them with opportunities for stock ownership in the Company, thereby aligning the interests of such persons with the Company’s stockholders.

Section 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

(a) “Affiliate” shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

(b) “Award” shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Dividend Equivalent, Performance Award, Stock Award or Other Stock–Based Award granted under the Plan.

(c) “Award Agreement” shall mean any written agreement, contract or other instrument or document evidencing an Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(d) “Board” shall mean the Board of Directors of the Company.

(e) “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(f) “Committee” shall mean the Human Resources Committee of the Board or any successor committee of the Board designated by the Board to administer the Plan. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b–3, and each member of the Committee shall be a “Non–Employee Director” within the meaning of Rule 16b–3 and an “outside director” within the meaning of Section 162(m) of the Code. The Company expects to have the Plan administered in accordance with the requirements for the award of “qualified performance–based compensation” within the meaning of Section 162(m) of the Code.

(g) “Company” shall mean MoneyGram International, Inc., a Delaware corporation, or any successor corporation.

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(h) “Director” shall mean a member of the Board.

(i) “Dividend Equivalent” shall mean any right granted under Section 6(d) of the Plan.

(j) “Eligible Person” shall mean any employee, officer, consultant, advisor or non–employee Director providing services to the Company or any Affiliate whom the Committee determines to be an Eligible Person. An Eligible Person must be a natural person.

(k) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(l) “Fair Market Value” shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. Notwithstanding the foregoing, unless otherwise determined by the Committee, the Fair Market Value of Shares on a given date for purposes of the Plan shall be the average of the high and low sales prices of the Shares on the New York Stock Exchange as reported in the consolidated transaction reporting system on such date or, if such Exchange is not open for trading on such date, on the most recent preceding date when such Exchange is open for trading.

(m) “Incentive Stock Option” shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

(n) “Non–Qualified Stock Option” shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.

(o) “Option” shall mean an Incentive Stock Option or a Non–Qualified Stock Option.

(p) “Other Stock–Based Award” shall mean any right granted under Section 6(g) of the Plan.

(q) “Participant” shall mean an Eligible Person designated to be granted an Award under the Plan.

(r) “Performance Award” shall mean any right granted under Section 6(e) of the Plan.

(s) “Performance Goal” shall mean one or more of the following performance goals, either individually, alternatively or in any combination, applied on a corporate, subsidiary, division, business unit or line of business basis: sales, revenue, costs, expenses, earnings (including one or more of net profit after tax, gross profit, operating profit, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization and net earnings), earnings per share, earnings per share from continuing operations, operating income, pre–tax income, operating income margin, net income, margins (including one or more of gross, operating and net income margins), returns (including one or more of return on actual or

proforma assets, net assets, equity, investment, capital and net capital employed), stockholder return (including total stockholder return relative to an index or peer group), stock price, economic value added, cash generation, cash flow, unit volume, working capital, market share, cost reductions and strategic plan development and implementation. Such goals may reflect absolute entity or business unit performance or a relative comparison to the performance of a peer group of entities or other external measure of the selected performance criteria. Pursuant to rules and conditions adopted by the Committee on or before the 90<sup>th</sup> day of the applicable performance period for which Performance Goals are established, the Committee may appropriately adjust any evaluation of performance under such goals to exclude the effect of certain events, including any of the following events: asset write-downs; litigation or claim judgments or settlements; changes in tax law, accounting principles or other such laws or provisions affecting reported results; severance, contract termination and other costs related to exiting certain business activities; and gains or losses from the disposition of businesses or assets or from the early extinguishment of debt.

(t) “Person” shall mean any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.

(u) “Plan” shall mean this MoneyGram International, Inc. 2005 Omnibus Incentive Plan, as amended from time to time.

(v) “Restricted Stock” shall mean any Share granted under Section 6(c) of the Plan.

(w) “Restricted Stock Unit” shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

(x) “Rule 16b–3” shall mean Rule 16b–3 promulgated by the Securities and Exchange Commission under the Exchange Act or any successor rule or regulation.

(y) “Section 162(m)” shall mean Section 162(m) of the Code and the applicable Treasury Regulations promulgated thereunder.

(z) “Shares” shall mean shares of Common Stock, par value of \$0.01 per share, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

(aa) “Stock Appreciation Right” shall mean any right granted under Section 6(b) of the Plan.

(bb) “Stock Award” shall mean any Share granted under Section 6(f) of the Plan.

### Section 3. Administration.

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the

Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement, provided, however, that, except as otherwise provided in Section 4(c) hereof, the Committee shall not reprice, adjust or amend the exercise price of Options or the grant price of Stock Appreciation Rights previously awarded to any Participant, whether through amendment, cancellation and replacement grant, or any other means; (vi) accelerate the exercisability of any Award or the lapse of restrictions relating to any Award; (vii) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended; (viii) determine whether, to what extent and under what circumstances cash, Shares, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder of the Award or the Committee; (ix) interpret and administer the Plan and any instrument or agreement, including any Award Agreement, relating to the Plan; (x) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award or Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award or Award Agreement, and any employee of the Company or any Affiliate.

(b) Delegation. The Committee may delegate its powers and duties under the Plan to one or more Directors (including a Director who is also an officer of the Company) or a committee of Directors, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion; provided, however, that the Committee shall not delegate its powers and duties under the Plan (i) with regard to officers or directors of the Company or any Affiliate who are subject to Section 16 of the Exchange Act or (ii) in such a manner as would cause the Plan not to comply with the requirements of Section 162(m) of the Code. In addition, the Committee may authorize one or more officers of the Company to grant Options under the Plan, subject to the limitations of Section 157 of the Delaware General Corporation Law; provided, however, that such officers shall not be authorized to grant Options to officers or directors of the Company or any Affiliate who are subject to Section 16 of the Exchange Act.

(c) Power and Authority of the Board of Directors. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan, unless the exercise of such powers and duties by the Board would cause the Plan not to comply with the requirements of Section 162(m) of the Code.

Section 4. Shares Available for Awards.

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under all Awards under the Plan shall be 7,500,000. Shares to be issued under the Plan will be authorized but unissued Shares, Shares that have been reacquired by the Company and designated as treasury shares or Shares held by the MoneyGram Employee Equity Trust. If an Award terminates or is forfeited or cancelled without the issuance of any Shares, or if any Shares covered by an Award or to which an Award relates are not issued for any other reason, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such termination, forfeiture, cancellation or other event, shall again be available for granting Awards under the Plan. If Shares of Restricted Stock are forfeited or otherwise reacquired by the Company prior to vesting, whether or not dividends have been paid on such Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award of Restricted Stock, to the extent of any such forfeiture or reacquisition by the Company, shall again be available for granting Awards under the Plan. Shares that are withheld in full or partial payment to the Company of the purchase or exercise price relating to an Award or in connection with the satisfaction of tax obligations relating to an Award shall again be available for granting Awards under the Plan, except that, after May 10, 2015, any Shares withheld in connection with the satisfaction of tax obligations relating to Restricted Stock shall not be available for granting Awards. Prior to May 10, 2015, any previously issued Shares that are used by a Participant as full or partial payment to the Company of the purchase or exercise price relating to an Award or in connection with the satisfaction of tax obligations relating to an Award shall again be available for granting Awards under the Plan.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.

(c) Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards, (iii) the purchase or exercise price with respect to any Award and (iv) the limitations contained in Section 4(d) of the Plan.

(d) Award Limitations Under the Plan.

(i) Section 162(m) Limitation for Certain Types of Awards. No Eligible Person may be granted Options, Stock Appreciation Rights or any other Award or Awards under the Plan, the value of which Award or Awards is based solely on an increase in the value of the Shares after the date of grant of such Award or Awards, for more than 500,000 Shares (subject to adjustment as provided in Section 4(c) of the Plan) in the aggregate in any calendar year.

(ii) Section 162(m) Limitation for Performance Awards. The maximum amount payable pursuant to all Performance Awards to any Participant in the aggregate in any calendar year shall be \$5,000,000 in value, whether payable in cash, Shares or other property. This limitation does not apply to any Award subject to the limitation contained in Section 4(d)(i) of the Plan.

(iii) Limitation on Awards Granted to Non-Employee Directors. Directors who are not also employees of the Company or an Affiliate may not be granted Awards in the aggregate for more than 3% of the Shares available for Awards under the Plan, subject to adjustment as provided in Section 4(c) of the Plan.

(iv) Limitation on Incentive Stock Options. The number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 7,500,000, subject to adjustment as provided in Section 4(c) of the Plan and subject to the provisions of Section 422 or 424 of the Code or any successor provision.

Section 5. Eligibility.

Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full-time or part-time employees (which term as used herein includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards.

(a) Options. The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee and shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option; provided, however, that the Committee may designate a per share exercise price below Fair Market Value on the date of grant (A) to the

extent necessary or appropriate, as determined by the Committee, to satisfy applicable legal or regulatory requirements of a foreign jurisdiction or (B) if the Option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Company or an Affiliate.

(ii) Option Term. The term of each Option shall be fixed by the Committee but shall not be longer than 10 years from the date of grant.

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right; provided, however, that the Committee may designate a per share grant price below Fair Market Value on the date of grant (A) to the extent necessary or appropriate, as determined by the Committee, to satisfy applicable legal or regulatory requirements of a foreign jurisdiction or (B) if the Stock Appreciation Right is granted in substitution for a stock appreciation right previously granted by an entity that is acquired by or merged with the Company or an Affiliate. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Awards of Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate. The minimum vesting period of such Awards shall be three years from the date of grant, unless the Award is conditioned on performance of the Company or an Affiliate or on personal performance (other than continued service with the Company or an Affiliate), in which case the Award may vest over a period of at least one year from the date of

grant; provided, however, that such minimum vesting period shall not apply to grants of up to 200,000 shares of Restricted Stock and Restricted Stock Units to non–employee Directors. Notwithstanding the foregoing, the Committee may permit acceleration of vesting of such Awards in the event of the Participant’s death, disability or retirement or a change in control of the Company.

(ii) Issuance and Delivery of Shares. Any Restricted Stock granted under the Plan shall be issued at the time such Awards are granted and may be evidenced in such manner as the Committee may deem appropriate, including book–entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock. Shares representing Restricted Stock that is no longer subject to restrictions shall be delivered to the Participant promptly after the applicable restrictions lapse or are waived. In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holder of the Restricted Stock Units.

(iii) Forfeiture. Except as otherwise determined by the Committee, upon a Participant’s termination of employment or resignation or removal as a Director (in either case, as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and all Restricted Stock Units held by the Participant at such time shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(d) Dividend Equivalents. The Committee is hereby authorized to grant Dividend Equivalents to Eligible Persons under which the Participant shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan and any applicable Award Agreement, such Dividend Equivalents may have such terms and conditions as the Committee shall determine.

(e) Performance Awards. The Committee is hereby authorized to grant to Eligible Persons Performance Awards which are intended to be “qualified performance–based compensation” within the meaning of Section 162(m). A Performance Award granted under the Plan may be payable in cash or in Shares (including, without limitation, Restricted Stock). Performance Awards shall, to the extent required by Section 162(m), be conditioned solely on the achievement of one or more objective Performance Goals, and such Performance Goals shall be established by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m). Subject to the terms of the Plan and any applicable Award Agreement, the Performance Goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other

terms and conditions of any Performance Award shall be determined by the Committee. The Committee shall also certify in writing that such Performance Goals have been met prior to payment of the Performance Awards to the extent required by Section 162(m).

(f) Stock Awards. The Committee is hereby authorized to grant to Eligible Persons Shares without restrictions thereon, as deemed by the Committee to be consistent with the purpose of the Plan. Subject to the terms of the Plan and any applicable Award Agreement, such Stock Awards may have such terms and conditions as the Committee shall determine.

(g) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Persons such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. The Committee shall determine the terms and conditions of such Awards, subject to the terms of the Plan and the Award Agreement. Shares, or other securities delivered pursuant to a purchase right granted under this Section 6(g), shall be purchased for consideration having a value equal to at least 100% of the Fair Market Value of such Shares or other securities on the date the purchase right is granted. The consideration paid by the Participant may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof), as the Committee shall determine.

(h) General.

(i) Consideration for Awards. Awards may be granted for no cash consideration or for any cash or other consideration as may be determined by the Committee or required by applicable law.

(ii) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) Forms of Payment under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents with respect to installment or deferred payments.

(iv) Term of Awards. The term of each Award shall be for a period not longer than 10 years from the date of grant.

(v) Limits on Transfer of Awards. Except as otherwise provided by the Committee or the terms of this Plan, no Award and no right under any such Award shall be transferable by a Participant other than by will or by the laws of descent and distribution. The Committee may establish procedures as it deems appropriate for a Participant to designate a Person or Persons, as beneficiary or beneficiaries, to exercise the rights of the Participant and receive any property distributable with respect to any Award in the event of the Participant's death. The Committee, in its discretion and subject to such additional terms and conditions as it determines, may permit a Participant to transfer a Non-Qualified Stock Option to any "family member" (as such term is defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act of 1933, as amended) at any time that such Participant holds such Option, provided that such transfers may not be for value (*i.e.*, the transferor may not receive any consideration therefor) and the family member may not make any subsequent transfers other than by will or by the laws of descent and distribution. Each Award under the Plan or right under any such Award shall be exercisable during the Participant's lifetime only by the Participant (except as provided herein or in an Award Agreement or amendment thereto relating to a Non-Qualified Stock Option) or, if permissible under applicable law, by the Participant's guardian or legal representative. No Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(vi) Restrictions; Securities Exchange Listing. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may cause appropriate entries to be made or legends to be placed on the certificates for such Shares or other securities to reflect such restrictions. If the Shares or other securities are traded on a securities exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been admitted for trading on such securities exchange.

#### Section 7. Amendment and Termination; Corrections.

(a) Amendments to the Plan. The Board may amend, alter, suspend, discontinue or terminate the Plan at any time; provided, however, that, notwithstanding any other provision of the Plan or any Award Agreement, prior approval of the stockholders of the Company shall be required for any amendment to the Plan that:

(i) requires stockholder approval under the rules or regulations of the Securities and Exchange Commission, the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc. that are applicable to the Company;

(ii) increases the number of shares authorized under the Plan as specified in Section 4(a) of the Plan;

(iii) increases the number of shares subject to the limitations contained in Section 4(d) of the Plan;

(iv) permits repricing of Options or Stock Appreciation Rights which is prohibited by Section 3(a)(v) of the Plan;

(v) permits the award of Options or Stock Appreciation Rights at a price less than 100% of the Fair Market Value of a Share on the date of grant of such Option or Stock Appreciation Right, contrary to the provisions of Sections 6(a)(i) and 6(b)(ii) of the Plan; and

(vi) would cause Section 162(m) of the Code to become unavailable with respect to the Plan.

(b) Amendments to Awards. Subject to the provisions of the Plan, the Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided in the Plan, the Committee may amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, but no such action may adversely affect the rights of the holder of such Award without the consent of the Participant or holder or beneficiary thereof.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award or Award Agreement in the manner and to the extent it shall deem desirable to implement or maintain the effectiveness of the Plan.

#### Section 8. Income Tax Withholding.

In order to comply with all applicable federal, state, local or foreign income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state, local or foreign payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the applicable taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (a) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (b) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

Section 9. General Provisions.

(a) No Rights to Awards. No Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant shall have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant.

(c) No Rights of Stockholders. Except with respect to Restricted Stock and Stock Awards, neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company with respect to any Shares issuable upon the exercise or payment of any Award, in whole or in part, unless and until the Shares have been issued.

(d) No Limit on Other Compensation Plans or Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation plans or arrangements, and such plans or arrangements may be either generally applicable or applicable only in specific cases.

(e) No Right to Employment or Directorship. The grant of an Award shall not be construed as giving a Participant the right to be retained as an employee of the Company or any Affiliate, or a Director to be retained as a Director, nor will it affect in any way the right of the Company or an Affiliate to terminate a Participant's employment at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement.

(f) Governing Law. The internal law, and not the law of conflicts, of the State of Delaware, shall govern all questions concerning the validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award.

(g) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(h) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award,

such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(i) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Share or whether such fractional Share or any rights thereto shall be canceled, terminated or otherwise eliminated.

(j) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

Section 10. Effective Date of the Plan.

The Plan shall be subject to approval by the stockholders of the Company at the annual meeting of stockholders of the Company to be held on May 10, 2005 and the Plan shall be effective as of the date of such stockholder approval.

Section 11. Term of the Plan.

The Plan shall terminate at midnight on May 10, 2015, unless terminated before then by the Board. Awards may be granted under the Plan until the Plan terminates or until all Shares available for Awards under the Plan have been purchased or acquired; provided, however, that Incentive Stock Options may not be granted following the 10-year anniversary of the Board's adoption of the Plan. The Plan shall remain in effect as long as any Awards are outstanding.

**MONEYGRAM INTERNATIONAL, INC.  
SUPPLEMENTAL PROFIT SHARING PLAN  
(2005 Statement)**

**As Adopted May 10, 2005**

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**MONEYGRAM INTERNATIONAL, INC.  
SUPPLEMENTAL PROFIT SHARING PLAN  
(2005 Statement)**

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**MONEYGRAM INTERNATIONAL, INC.  
SUPPLEMENTAL PROFIT SHARING PLAN  
(2005 Statement)**

**As adopted May 10, 2005**

**SECTION 1**

**INTRODUCTION AND DEFINITIONS**

1.1. **Statement of Plan.** MONEYGRAM INTERNATIONAL, INC. (hereinafter sometimes referred to as “MGI”) and certain affiliated corporations (together with MGI hereinafter sometimes collectively referred to as the “Employers” and separately as the “Employer”) hereby create a nonqualified, unfunded, deferred compensation plan for the benefit of a select group of management and highly compensated employees whose Profit Sharing Contribution for a Plan Year under the MoneyGram International, Inc. 401(k) Plan was reduced by sections 401(a)(17) and 415 of the Code or any other legal limitations.

1.2. **Definitions.** When the following terms are used herein with initial capital letters, they shall have the following meanings:

1.2.1. **Account** — the separate bookkeeping account representing the separate unfunded and unsecured general obligation of the Employers established with respect to each person who is a Participant in this Plan in accordance with Section 2 and to which is credited the amounts specified in Section 3 and Section 4, which will vest in accordance with Section 5 and from which are subtracted payments made pursuant to Section 6 and Section 7.

1.2.2. **Affiliate** — a business entity which is affiliated in ownership with MGI that is recognized as an Affiliate by the Chief Executive Officer for the purposes of this Plan.

1.2.3. **Beneficiary** — a person designated in accordance with Section 7.3 to receive all or a part of the Participant’s Account in the event of the Participant’s death prior to full distribution thereof. A person so designated shall not be considered a Beneficiary until the death of the Participant.

1.2.4. **Chief Executive Officer** — the chief executive officer of MGI.

1.2.5. **Code** — the Internal Revenue Code of 1986, as amended ( including, when the context requires, all regulations, interpretations and rulings issued thereunder).

1.2.6. **Disability** — a medically determinable physical or mental impairment which: (i) renders the individual incapable of performing any substantial gainful employment, (ii) can be expected to result in death or can be expected to last for a continuous period of not less than twelve

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(12) months, and (iii) is evidenced by a certification to this effect by a doctor of medicine approved by the Chief Executive Officer. In lieu of such a certification, a Participant shall be considered disabled if the Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant's Employer.

1.2.7. **Effective Date** — the date the Plan is adopted by the Board of Directors of MGI.

1.2.8. **Employers** — MGI and each business entity affiliated with MGI that employs persons who are designated for participation in this Plan (collectively the "Employers" and separately the "Employer").

1.2.9. **ERISA** — the Employee Retirement Income Security Act of 1974, as amended (including, when the context requires, all regulations, interpretations and rulings issued thereunder).

1.2.10. **Event of Maturity** — any of the occurrences described in Section 6 by reason of which a Participant or Beneficiary may become entitled to a distribution from this Plan.

1.2.11. **Human Resources Committee** — the Human Resources Committee of the Board of Directors of MGI (or any successor committee).

1.2.12. **MGI** — MoneyGram International, Inc. and any successor thereto.

1.2.13. **Participant** — an employee of an Employer who is designated as eligible to participate in this Plan and becomes a Participant in this Plan in accordance with the provisions of Section 2. An employee who has become a Participant shall be considered to continue as a Participant in this Plan until the date of the Participant's death or, if earlier, the date when the Participant is no longer employed by an Employer or an Affiliate and upon which the Participant no longer has any Account under this Plan (that is, the Participant has received a distribution of all of the Participant's Account or the Account has been forfeited as hereinafter provided).

1.2.14. **Plan** — the nonqualified, income deferral program maintained by MGI established for the benefit of Participants eligible to participate therein, as set forth in the Plan Statement. (As used herein, "Plan" does not refer to the documents pursuant to which this Plan is maintained. That document is referred to herein as the "Plan Statement"). The Plan shall be referred to as the "MONEYGRAM INTERNATIONAL, INC. SUPPLEMENTAL PROFIT SHARING PLAN."

1.2.15. **Plan Statement** — this document entitled "MONEYGRAM INTERNATIONAL, INC. SUPPLEMENTAL PROFIT SHARING PLAN (2005 Statement)" as

adopted by the Board of Directors of MGI (based upon recommendation by the Human Resources Committee), as the same may be amended from time to time thereafter.

1.2.16. **Plan Year** — the twelve (12) consecutive month period ending on any December 31.

1.2.17. **Termination of Employment** — a complete severance of an employee's employment relationship with the Employers and all Affiliates, if any, for any reason. A transfer from employment with an Employer to employment with an Affiliate of an Employer shall not constitute a Termination of Employment. A transfer from full-time employment to employment on a part-time basis shall not constitute a Termination of Employment. If an Employer who is an Affiliate ceases to be an Affiliate because of a sale of substantially all the stock or assets of that Employer, then Participants who are employed by that Employer shall be deemed to have thereby had a Termination of Employment for the purpose of commencing distributions from this Plan.

1.2.18. **Valuation Date** — the last business day of each calendar quarter of the Plan Year, and such other dates as may be specified by the Chief Executive Officer.

## SECTION 2

### PARTICIPATION

Any employee of the Employer selected for participation in this Plan by the Chief Executive Officer shall become a Participant in this Plan as of any fixed date selected by the Chief Executive Officer. The Chief Executive Officer shall not select any employee for participation unless the Chief Executive Officer determines that: (i) such employee's Profit Sharing Contribution for a Plan Year under the MoneyGram International, Inc. 401(k) Plan was reduced by sections 401(a)(17) and 415 of the Code or any other legal limitations, and (ii) such employee will be a member of a select group of management or highly compensated employees (as that expression is used in ERISA). Prior to the date that an employee selected for participation first becomes a Participant, such employee shall as a condition of participation in this Plan complete such forms as the Chief Executive Officer may require for the effective administration of this Plan.

## SECTION 3

### CREDITS TO ACCOUNTS

3.1. **Excess Credits.** The Chief Executive Officer may make a credit to a Participant's Account to the extent that it is determined that a Participant's Profit Sharing Contribution under the MoneyGram International, Inc. 401(k) Plan was reduced by sections 401(a)(17) and 415 of the Code or any other legal limitations. The Chief Executive Officer shall have sole discretion to determine

the amount of the reduction which shall be credited to this Plan, if any, and shall not have any obligation for uniformity of treatment among Participants or of any other person. In no event, however, shall the amount credited under this Plan with respect to a Plan Year exceed the amount by which the Participant's Profit Sharing Contribution under the MoneyGram International, Inc. 401(k) Plan was reduced by sections 401(a)(17) and 415 of the Code or any other legal limitations for such Plan Year. The Chief Executive Officer's decision to make an excess credit in any year shall not require approval of similar awards at all to any Participant or other person at any future date.

**3.2. Crediting to Accounts.** The Chief Executive Officer shall credit to the Account of each Participant the amount, if any, determined for that Participant under Section 3.1. Such credit may be recorded in cash. Such amount shall be credited as nearly as practicable as of the time or times when the credits are awarded.

## SECTION 4

### ADJUSTMENT OF ACCOUNTS

**4.1. Establishment of Accounts.** There shall be established for each Participant unfunded, bookkeeping Accounts which shall be adjusted each Valuation Date.

**4.2. Adjustments of Accounts.** From time to time but not less frequently than each Valuation Date, the Chief Executive Officer shall cause the value of each Account or portion of an Account to be increased (or decreased) from time to time for distributions, credits (including any earnings, gains or losses thereon) and expenses, if any, charged to the Account.

**4.3. Investment Adjustments.** The Human Resources Committee shall designate from time to time one or more investment options in which Accounts may be deemed invested. Such deemed investment options may include any investment which the Human Resources Committee deems appropriate, including, but not limited to, fixed interest credits, notional mutual fund(s) or an investment index. The Human Resources Committee shall have the sole discretion to determine the number of deemed investment options to be designated hereunder and the nature of the options and may change or eliminate the investment options from time to time. The Human Resources Committee shall adopt rules specifying the deemed investment options, the circumstances under which a particular option may be elected (or shall be automatically utilized), the minimum or maximum percentages which may be allocated to the investment option, the procedures (if any) for Participants' making or changing elections, the extent (if any) to which beneficiaries of deceased Participants may make investment elections and the effect of a Participant's or beneficiary's failure to make an effective investment election with respect to all or any portion of an Account.

## SECTION 5

### VESTING OF ACCOUNTS

The Account of each Participant shall be fully (100%) vested and nonforfeitable at all times.

## SECTION 6

### MATURITY

The vested portion of a Participant's Account shall mature and shall become distributable in accordance with Section 7 upon the earliest occurrence of any of the following events:

- (a) the Participant incurs a Termination of Employment;
- (b) the Participant dies;
- (c) the Participant incurs a Disability;
- (d) termination of this Plan, to the extent permitted under Section 409A of the Code and any regulations thereunder.

## SECTION 7

### DISTRIBUTIONS

**7.1. Time of Payment.** Upon the occurrence of an Event of Maturity effective as to a Participant, the Chief Executive Officer shall commence payment of the vested portion of such Participant's Account (reduced by the amount of any applicable payroll, withholding and other taxes). Distribution shall not be made to any Beneficiary until the Chief Executive Officer has determined that the Beneficiary is entitled to payment. Notwithstanding the foregoing, where payment under this Section 7 is made to any "key employee" (as defined under section 409A of the Code) on account of Termination of Employment, such payment shall commence no earlier than six (6) months following a Termination of Employment (or upon the death of the employee, if earlier) if required to comply with section 409A of the Code.

**7.2. Form of Payment.** Payment shall be made in a single lump sum.

**7.3. Designation of Beneficiaries.** A deceased Participant's vested Account shall be payable to the beneficiary or beneficiaries designated in the Participant's designation for the MoneyGram International, Inc. 401(k) Plan. If such designation fails, such benefit shall be payable in accordance with the rules for automatic beneficiaries under the MoneyGram International, Inc. 401(k) Plan.

**7.4. No Spousal Rights.** No spouse or surviving spouse of a Participant and no person designated to be a Beneficiary shall have any rights or interest in the benefits credited under this Plan including, but not limited to, the right to be the sole Beneficiary or to consent to the designation of Beneficiaries (or the changing of designated Beneficiaries) by the Participant.

7.5. **Death Prior to Full Distribution.** If, at the death of the Participant, any payment to the Participant was due or otherwise pending but not actually paid, the amount of such payment shall be included in the Account which are payable to the Beneficiary (and shall not be paid to the Participant's estate).

7.6. **Distributions in Cash.** Distributions from this Plan shall be made in cash.

## SECTION 8

### FUNDING OF PLAN

8.1. **Unfunded Obligation.** The obligation of the Employers to make payments under this Plan constitutes only the unsecured (but legally enforceable) promise of the Employers to make such payments. No Participant shall have any lien, prior claim or other security interest in any property of the Employers. The Employers shall have no obligation to establish or maintain any fund, trust or account (other than a bookkeeping account or reserve) for the purpose of funding or paying the benefits promised under this Plan. If such a fund, trust or account is established, the property therein shall remain the sole and exclusive property of the Employer that established it. The Employers shall be obligated to pay the benefits of this Plan out of their general assets.

8.2. **Corporate Obligation.** Neither MGI, the Board of Directors of MGI, the Chief Executive Officer, the Human Resources Committee, the Employers nor any of their directors, officers, agents or employees in any way secure or guarantee the payment of any benefit or amount which may become due and payable hereunder to or with respect to any Participant. Each person entitled or claiming to be entitled at any time to any benefit hereunder shall look solely to the assets of the Employers for such payments as unsecured general creditors. If, or to the extent that, Accounts have been paid to or with respect to a present or former Participant and that payment purports to be the payment of a benefit hereunder, such former Participant or other person or persons, as the case may be, shall have no further right or interest in the other assets of the Employers in connection with this Plan. No person shall be under any liability or responsibility for failure to effect any of the objectives or purposes of this Plan by reason of the insolvency of the Employers.

## SECTION 9

### AMENDMENT AND TERMINATION

9.1. **Amendment and Termination.** The Board of Directors of MGI (based upon recommendation by the Human Resources Committee) may unilaterally amend the Plan Statement prospectively, retroactively or both, at any time and for any reason deemed sufficient by it without notice to any person affected by this Plan and may likewise terminate this Plan both with regard to persons expecting to receive benefits in the future; provided, however, that the Participant's vested accrued benefit as of the date of such amendment or termination, if any, shall not be, without the written consent of the Participant, diminished or delayed by such amendment or termination.

**9.2. No Oral Amendments.** No modification of the terms of the Plan Statement or termination of this Plan shall be effective unless it is in writing and approved by the Board of Directors of MGI by a person authorized to execute such writing. No oral representation concerning the interpretation or effect of the Plan Statement shall be effective to amend the Plan Statement.

**9.3. Plan Binding on Successors.** MGI will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of MGI), by agreement, to expressly assume and agree to perform this Plan in the same manner and to the same extent that MGI would be required to perform it if no such succession had taken place.

## SECTION 10

### DETERMINATIONS — RULES AND REGULATIONS

10.1. **Determinations.** The Chief Executive Officer shall make such determinations as may be required from time to time in the administration of this Plan. The Chief Executive Officer shall have the discretionary authority and responsibility to interpret and construe the Plan Statement and to determine all factual and legal questions under this Plan, including but not limited to the entitlement of Participants and Beneficiaries, and the amounts of their respective interests. Each interested party may act and rely upon all information reported to them hereunder and need not inquire into the accuracy thereof, nor be charged with any notice to the contrary.

10.2. **Rules and Regulations.** Any rule not in conflict or at variance with the provisions hereof may be adopted by the Chief Executive Officer.

10.3. **Method of Executing Instruments.** Information to be supplied or written notices to be made or consents to be given by MGI, the Chief Executive Officer or any other person pursuant to any provision of the Plan Statement may be signed in the name of MGI, the Chief Executive Officer or any other person by any officer or other person who has been authorized to make such certification or to give such notices or consents.

10.4. **Claims Procedure.** Until modified by the Chief Executive Officer, the claim and review procedures set forth in this Section shall be the mandatory claim and review procedures for the resolution of disputes and disposition of claims filed under the Plan. An application for a distribution shall be considered as a claim for the purposes of this Section.

10.4.1. **Initial Claim.** An individual may, subject to any applicable deadline, file with the Chief Executive Officer a written claim for benefits under the Plan in a form and manner prescribed by the Chief Executive Officer.

- (a) If the claim is denied in whole or in part, the Chief Executive Officer shall notify the claimant of the adverse benefit determination within ninety (90) days after receipt of the claim.
- (b) The ninety (90) day period for making the claim determination may be extended for ninety (90) days if the Chief Executive Officer determines that special circumstances require an extension of time for determination of the claim, provided that the Chief Executive Officer notifies the claimant, prior to the expiration of the initial ninety (90) day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.

10.4.2. **Notice of Initial Adverse Determination.** A notice of an adverse determination shall set forth in a manner calculated to be understood by the claimant:

- (a) the specific reasons for the adverse determination;
- (b) references to the specific provisions of the Plan Statement (or other applicable Plan document) on which the adverse determination is based;
- (c) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary; and
- (d) a description of the claim and review procedures, including the time limits applicable to such procedure, and a statement of the claimant's right to bring a civil action under ERISA section 502(a) following an adverse determination on review.

10.4.3. **Request for Review.** Within sixty (60) days after receipt of an initial adverse benefit determination notice, the claimant may file with the Chief Executive Officer a written request for a review of the adverse determination and may, in connection therewith submit written comments, documents, records and other information relating to the claim benefits. Any request for review of the initial adverse determination not filed within sixty (60) days after receipt of the initial adverse determination notice shall be untimely.

10.4.4. **Claim on Review.** If the claim, upon review, is denied in whole or in part, the Chief Executive Officer shall notify the claimant of the adverse benefit determination within sixty (60) days after receipt of such a request for review.

- (a) The sixty (60) day period for deciding the claim on review may be extended for sixty (60) days if the Chief Executive Officer determines that special circumstances require an extension of time for determination of the claim, provided that the Chief Executive Officer notifies the claimant, prior to the expiration of the initial sixty (60) day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.
- (b) In the event that the time period is extended due to a claimant's failure to submit information necessary to decide a claim on review, the claimant shall have sixty (60) days within which to provide the necessary information and the period for making the claim determination on review shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information or, if earlier, the expiration of sixty (60) days.

- (c) The Chief Executive Officer's review of a denied claim shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

10.4.5. **Notice of Adverse Determination for Claim on Review.** A notice of an adverse determination for a claim on review shall set forth in a manner calculated to be understood by the claimant:

- (a) the specific reasons for the denial;
- (b) references to the specific provisions of the Plan Statement (or other applicable Plan document) on which the adverse determination is based;
- (c) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;
- (d) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain information about such procedures; and
- (e) a statement of the claimant's right to bring an action under ERISA section 502(a).

## 10.5. **Rules and Regulations.**

10.5.1. **Adoption of Rules.** Any rule not in conflict or at variance with the provisions hereof may be adopted by the Chief Executive Officer.

### 10.5.2. **Specific Rules.**

- (a) No inquiry or question shall be deemed to be a claim or a request for a review of a denied claim unless made in accordance with the established claim procedures. The Chief Executive Officer may require that any claim for benefits and any request for a review of a denied claim be filed on forms to be furnished by the Chief Executive Officer upon request.
- (b) All decisions on claims and on requests for a review of denied claims shall be made by the Chief Executive Officer unless delegated as provided for in the Plan, in which case references in this Section 10 to the Chief Executive Officer shall be treated as references to the Chief Executive Officer's delegate.

- (c) Claimants may be represented by a lawyer or other representative at their own expense, but the Chief Executive Officer reserves the right to require the claimant to furnish written authorization and establish reasonable procedures for determining whether an individual has been authorized to act on behalf of a claimant. A claimant's representative shall be entitled to copies of all notices given to the claimant.
- (d) The decision of the Chief Executive Officer on a claim and on a request for a review of a denied claim may be provided to the claimant in electronic form instead of in writing at the discretion of the Chief Executive Officer.
- (e) In connection with the review of a denied claim, the claimant or the claimant's representative shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.
- (f) The time period within which a benefit determination will be made shall begin to run at the time a claim or request for review is filed in accordance with the claims procedures, without regard to whether all the information necessary to make a benefit determination accompanies the filing.
- (g) The claims and review procedures shall be administered with appropriate safeguards so that benefit claim determinations are made in accordance with governing plan documents and, where appropriate, the plan provisions have been applied consistently with respect to similarly situated claimants.
- (h) For the purpose of this Section, a document, record, or other information shall be considered "relevant" if such document, record, or other information: (i) was relied upon in making the benefit determination; (ii) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination; (iii) demonstrates compliance with the administration processes and safeguards designed to ensure that the benefit claim determination was made in accordance with governing plan documents and that, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants; and (iv) constitutes a statement of policy or guidance with respect to the Plan concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination.
- (i) The Chief Executive Officer may, in its discretion, rely on any applicable statute of limitation or deadline as a basis for denial of any claim.

### 10.5.3. Limitations and Exhaustion.

- (a) No claim shall be considered under these administrative procedures unless it is filed with the Chief Executive Officer within two (2) years after the Participant knew (or reasonably should have known) of the general nature of the dispute giving rise to the claim. Every untimely claim shall be denied by the Chief Executive Officer without regard to the merits of the claim. No suit may be brought by or on behalf of any Participant or Beneficiary on any matter pertaining to this Plan unless the action is commenced in the proper forum before the earlier of:
  - (i) three (3) years after the Participant knew (or reasonably should have known) of the general nature of the dispute giving rise to the action, or
  - (ii) sixty (60) days after the Participant has exhausted these administrative procedures.
- (b) These administrative procedures are the exclusive means for resolving any dispute arising under this Plan:
  - (i) no Participant or Beneficiary shall be permitted to litigate any such matter unless a timely claim has been filed under these administrative procedures and these administrative procedures have been exhausted; and
  - (ii) determinations by the Chief Executive Officer (including determinations as to whether the claim was timely filed) shall be afforded the maximum deference permitted by law.
- (c) For the purpose of applying the deadlines to file a claim or a legal action, knowledge of all facts that a Participant knew or reasonably should have known shall be imputed to every claimant who is or claims to be a Beneficiary of the Participant or otherwise claims to derive an entitlement by reference to the Participant for the purpose of applying the previously specified periods.

## SECTION 11

### PLAN ADMINISTRATION

#### 11.1. Authority.

11.1.1. **Officers.** Administrative functions not assigned to the Chief Executive Officer (or generally assigned to MGI) shall be discharged by its officers or delegated and allocated as provided herein.

11.1.2. **Chief Executive Officer.** Except as hereinafter provided, the Chief Executive Officer of MGI may delegate or redelegate and allocate and reallocate to one or more persons or to a committee of persons jointly or severally, and whether or not such persons are directors, officers or employees, such functions assigned to the Chief Executive Officer or to MGI generally hereunder, as the Chief Executive Officer may from time to time deem advisable.

11.1.3. **Board of Directors.** Notwithstanding the foregoing, the Board of Directors of MGI shall have the exclusive authority (which may not be delegated except to a committee of the Board) to amend the Plan Statement and to terminate this Plan, based upon recommendation by the Human Resources Committee.

11.2. **Conflict of Interest.** If any individual to whom authority has been delegated or redelegated hereunder shall also be a Participant in this Plan, such Participant shall have no authority with respect to any matter specially affecting such Participant's individual interest hereunder or the interest of a person superior to him or her in the organization (as distinguished from the interests of all Participants and Beneficiaries or a broad class of Participants and Beneficiaries), all such authority being reserved exclusively to other individuals as the case may be, to the exclusion of such Participant, and such Participant shall act only in such Participant's individual capacity in connection with any such matter.

11.3. **Administrator.** MGI shall be the administrator for purposes of section 3(16)(A) of the ERISA.

11.4. **Service of Process.** In the absence of any designation to the contrary by the Chief Executive Officer, the Secretary of MGI is designated as the appropriate and exclusive agent for the receipt of service of process directed to this Plan in any legal proceeding, including arbitration, involving this Plan.

## SECTION 12

### CONSTRUCTION

12.1. **ERISA Status.** This Plan is adopted with the understanding that it is an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees as provided in section 201(2), section 301(3) and section 401(a)(1) of ERISA. Each provision shall be interpreted and administered accordingly.

12.2. **IRC Status.** This Plan is intended to be a nonqualified deferred compensation arrangement. The rules of section 401(a) *et. seq.* of the Code shall not apply to this Plan. The rules of section 3121(v) and section 3306(r)(2) of the Code shall apply to this Plan.

12.3. **Effect on Other Plans.** This Plan shall not alter, enlarge or diminish any person's employment rights or obligations or rights or obligations under any other qualified or nonqualified plan. It is specifically contemplated that this Plan will, from time to time, be amended and possibly terminated.

12.4. **Disqualification.** Notwithstanding any other provision of the Plan Statement or any election or designation made under this Plan, any individual who feloniously and intentionally kills a Participant shall be deemed for all purposes of this Plan and all elections and designations made under this Plan to have died before such Participant. A final judgment of conviction of felonious and intentional killing is conclusive for this purpose. In the absence of a conviction of felonious and intentional killing, the Chief Executive Officer shall determine whether the killing was felonious and intentional for this purpose.

#### 12.5. Rules of Document Construction.

- (a) An individual shall be considered to have attained a given age on such individual's birthday for that age (and not on the day before). Individuals born on February 29 in a leap year shall be considered to have their birthdays on February 28 in each year that is not a leap year.
- (b) Whenever appropriate, words used herein in the singular may be read in the plural, or words used herein in the plural may be read in the singular; the masculine may include the feminine; and the words "hereof," "herein" or "hereunder" or other similar compounds of the word "here" shall mean and refer to the entire Plan Statement and not to any particular paragraph or Section of the Plan Statement unless the context clearly indicates to the contrary.

- (c) The titles given to the various Sections of the Plan Statement are inserted for convenience of reference only and are not part of the Plan Statement, and they shall not be considered in determining the purpose, meaning or intent of any provision hereof.
- (d) Notwithstanding any thing apparently to the contrary contained in the Plan Statement, the Plan Statement shall be construed and administered to prevent the duplication of benefits provided under this Plan and any other qualified or nonqualified plan maintained in whole or in part by the Employers.

12.6. **References to Laws.** Any reference in the Plan Statement to a statute or regulation shall be considered also to mean and refer to any subsequent amendment or replacement of that statute or regulation unless, under the circumstances, it would be inappropriate to do so. The terms “spouse,” “nonspouse,” “married,” “surviving spouse,” and other similar terms shall be construed, interpreted and applied on a basis consistent with the federal statute known as the Defense of Marriage Act.

12.7. **Effect on Employment.** Neither the terms of the Plan Statement nor the benefits under this Plan nor the continuance thereof shall be a term of the employment of any employee. The Employers shall not be obliged to continue this Plan. The terms of this Plan shall not give any employee the right to be retained in the employment of any Employer.

12.8. **Choice of Law.** Except to the extent that federal law is controlling, this Plan Statement be construed and enforced in accordance with the laws of the State of Minnesota.

12.9. **ERISA Administrator.** MGI shall be the plan administrator of this Plan.

12.10. **Delegation.** No person shall be liable for an act or omission of another person with regard to a responsibility that has been allocated to or delegated to such other person pursuant to the terms of the Plan Statement or pursuant to procedures set forth in the Plan Statement.

12.11. **Not an Employment Contract.** This Plan is not and shall not be deemed to constitute a contract of employment between any Employer and any employee or other person, nor shall anything herein contained be deemed to give any employee or other person any right to be retained in any Employer’s employ or in any way limit or restrict any Employer’s right or power to discharge any employee or other person at any time and to treat him without regard to the effect which such treatment might have upon him as a Participant in this Plan.

12.12. **Tax Withholding.** The Employers (or any other person legally obligated to do so) shall withhold the amount of any federal, state or local income tax, payroll tax or other tax required to be withheld under applicable law with respect to any amount payable under this Plan. All benefits otherwise due hereunder shall be reduced by the amount to be withheld.

12.13. **Expenses.** All expenses of administering the benefits due under this Plan shall be borne by the Employers.

12.14. **Spendthrift Provision.** No Participant or Beneficiary shall have any interest in any Account which can be transferred nor shall any Participant or Beneficiary have any power to anticipate, alienate, dispose of, pledge or encumber the same while in the possession or control of the Employers. The Chief Executive Officer shall not recognize any such effort to convey any interest under this Plan. No benefit payable under this Plan shall be subject to attachment, garnishment, execution following judgment or other legal process before actual payment to such person.

The power to designate Beneficiaries to receive the Account of a Participant in the event of such Participant's death shall not permit or be construed to permit such power or right to be exercised by the Participant so as thereby to anticipate, pledge, mortgage or encumber such Participant's Account or any part thereof, and any attempt of a Participant so to exercise said power in violation of this provision shall be of no force and effect and shall be disregarded by the Employers.

This section shall not prevent the Chief Executive Officer from exercising, in its discretion, any of the applicable powers and options granted to it upon the occurrence of an Event of Maturity, as such powers may be conferred upon it by any applicable provision hereof.

**FIRST AMENDMENT  
OF  
MONEYGRAM INTERNATIONAL, INC.  
PERFORMANCE UNIT INCENTIVE PLAN  
(as adopted May 10, 2005)**

WHEREAS, MoneyGram International, Inc. (the “Company”) has heretofore established and maintains an incentive compensation plan which, in most recent amended and restated form, is embodied in a document entitled “MoneyGram International, Inc. Performance Unit Incentive Plan” (the “Plan”).

WHEREAS, the Company has reserved to itself the power to make further amendments of the Plan.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 9 of the Plan is amended and restated, in its entirety, as follows:

Section 9. Award Determination. The formula for calculating the number of Performance Units and the actual number of Performance Units to be awarded to any Participant will be determined by the Committee annually, upon recommendation by the Chief Executive Officer of the Corporation, no later than 90 days after the beginning of each new Performance Period. After such 90-day period, the Committee may, in its discretion, decrease the number of Performance Units awarded to any Participant. The Committee may not, however, increase the number of Performance Units awarded to any Participant after such 90-day period. The number of Performance Units awarded to any Participant under the Plan will be subject to the applicable limits set forth in the 2005 Omnibus Plan.

2. Except as herein expressly amended, the Plan shall continue in full force and effect.

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

I, Philip W. Milne, certify that:

1. I have reviewed this Quarterly Report on Form 10–Q of MoneyGram International, Inc. for the period ended March 31, 2005;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 12, 2005

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/s/ PHILIP W. MILNE

President and Chief Executive Officer

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

I, David J. Parrin, certify that:

1. I have reviewed this Quarterly Report on Form 10–Q of MoneyGram International, Inc. for the period ended March 31, 2005;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 12, 2005

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/s/ DAVID J. PARRIN

Chief Financial Officer

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

In connection with the Quarterly Report of MoneyGram International, Inc. (the “Company”) on Form 10–Q for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Philip W. Milne, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that:

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

Date: May 12, 2005

\_\_\_\_\_  
/s/ PHILIP W. MILNE

President and Chief Executive Officer

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

In connection with the Quarterly Report of MoneyGram International, Inc. (the “Company”) on Form 10–Q for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David J. Parrin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that:

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

Date: May 12, 2005

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/s/ DAVID J. PARRIN

Chief Financial Officer