

**UNITED STATES DISTRICT COURT  
DISTRICT OF MINNESOTA**

CITY OF ANN ARBOR EMPLOYEES' )  
RETIREMENT SYSTEM, Individually and )  
on Behalf of All Others Similarly Situated, )

Plaintiff, )

vs. )

MONEYGRAM INTERNATIONAL, )  
INC., PHILIP W. MILNE, DAVID J. )  
PARRIN and ANTHONY P. RYAN, )

Defendants. )

Civ. No.

CLASS ACTION

COMPLAINT FOR VIOLATION OF  
THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

## INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of MoneyGram International, Inc. (“MoneyGram” or the “Company”) between January 24, 2007 and January 14, 2008, inclusive (the “Class Period”), against MoneyGram and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (“1934 Act”).

2. MoneyGram, through its subsidiaries, provides payment services in the United States, as well as through a network of retail agents in North America, Latin America, western Europe, eastern Europe, Africa, India, Asia Pacific, and the Middle East. MoneyGram was founded in 1926 and is headquartered in Minneapolis, Minnesota.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company’s business and financial results related to its investments. As a result of defendants’ false statements, MoneyGram stock traded at artificially inflated prices during the Class Period, trading in the \$28-\$30 per share range during most of the Class Period.

4. On January 14, 2008, the Company issued a press release entitled “MoneyGram Announces Portfolio Valuation as of November 30 and Exclusive Discussions with Thomas H. Lee Partners for \$800 Million Equity Investment; Company Obtains Amendments and Waivers Under Credit Agreements; Realigns Official Check Business.”

5. On this news, MoneyGram’s stock price declined as low as \$5.66 per share before closing at \$6.15 per share on January 15, 2008, on volume of 19 million shares, a one-day decline of 50%.

6. Finally, on March 25, 2008, the Company publicly disclosed that the SEC had launched an investigation into MoneyGram's "financial statements, reporting and disclosures related to our investment portfolio." On the same day, MoneyGram also announced it had completed a transaction that would hand over a majority stake in the Company to new investors in which Thomas H. Lee Partners and Goldman Sachs Group bought \$760 million in preferred shares that can convert into 79% of MoneyGram's common shares at \$2.50 per share.

7. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) The Company lacked requisite internal controls to ensure that the reserves for the Company's investments in asset-backed securities were adequate, and, as a result, the Company's projections and reported results issued during the Class Period were based upon defective assumptions and/or manipulated facts; and

(b) The Company concealed the extent of its potential losses arising from its exposure to asset-backed securities containing uncollectible debt.

8. As a result of defendants' false statements, MoneyGram's stock price traded at inflated levels during the Class Period, allowing the three individual defendants to reap some \$7.8 million in compensation for 2006. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 75% from a high of \$30.11 per share in July 2007.

## **JURISDICTION AND VENUE**

9. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

10. (a) Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

(a) MoneyGram's principal executive offices are located at 1550 Utica Avenue South, Minneapolis, Minnesota.

## **PARTIES**

11. Plaintiff City of Ann Arbor Employees' Retirement System purchased MoneyGram common stock as described in the attached certification and was damaged thereby.

12. Defendant MoneyGram, through its subsidiaries, provides payment services in the United States, as well as through a network of retail agents in North America, Latin America, western Europe, eastern Europe, Africa, India, Asia Pacific, and the Middle East. It operates through two segments, Global Funds Transfer and Payment Systems. MoneyGram stock trades under the symbol MGI on the New York Stock Exchange.

13. Defendant Philip W. Milne ("Milne") is, and at all relevant times was, President and Chief Executive Officer ("CEO") of the Company. He served as Designated Chairman-Elect of the Board from August 2006 until his appointment as Chairman on January 1, 2007. During the Class Period, Milne was responsible for the Company's false financial statements and reaped compensation of \$4.8 million in 2006 due in part to the favorable, but false, portrayal of the Company's business.

14. Defendant David J. Parrin (“Parrin”) is, and at all relevant times was, Executive Vice President and Chief Financial Officer (“CFO”) of the Company. During the Class Period, Parrin was responsible for the Company’s false financial statements and reaped compensation of \$1.47 million in 2006 due in part to the favorable, but false, portrayal of the Company’s business.

15. Defendant Anthony P. Ryan (“Ryan”) has served as Executive Vice President and Chief Operating Officer (“COO”) of the Company since November 2007, and has held several executive positions since joining MoneyGram in 2001. During the Class Period, Ryan was responsible for the Company’s false financial statements and reaped compensation of \$1.499 million in 2006 due in part to the favorable, but false, portrayal of the Company’s business.

16. Defendants Milne, Parrin and Ryan (the “Individual Defendants”), because of their positions with the Company, possessed the power and authority to control the contents of MoneyGram’s quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. They were provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive

representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein at ¶¶25-28.

### **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

17. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about MoneyGram. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of MoneyGram common stock was a success, as it: (i) deceived the investing public regarding MoneyGram's prospects and business; (ii) artificially inflated the price of MoneyGram common stock; (iii) allowed defendants Milne, Parrin and Ryan to receive over \$7.8 million in compensation while MoneyGram stock traded at artificially inflated prices; and (iv) caused plaintiff and other members of the Class to purchase MoneyGram common stock at inflated prices.

18. Defendants were compensated under two plans:

(a) the MoneyGram International, Inc. Amended and Restated Management and Line of Business Incentive Plan (the "MIP"); and

(b) the MoneyGram International, Inc. Performance Unit Incentive Plan (the "PUP").

19. These plans were based on MoneyGram's reported performance. As the 2007 Proxy stated:

#### **Annual Performance-Based Incentive**

MoneyGram's annual incentive program, the MIP, is designed to focus executives on measures which, if accomplished, would have a positive impact on MoneyGram's operating results and/or financial condition. Awards under the MIP also reflect an evaluation of each executive's individual performance during the past year, in the context of the overall performance of MoneyGram and, in some cases, the executive's business unit or function.

During 2006, our annual performance-based incentive plan used performance measures that the Committee believed were important to MoneyGram's annual business objectives, and that supported growth and the creation of fundamental value. The performance metrics for 2006 for MoneyGram's operating results were earnings per share (weighted 60 percent), net income (weighted 15 percent), cash flow (weighted 15 percent) and other goals (weighted 10 percent). Other goals included the establishment of an enterprise risk management program, attainment of money order net revenue goals, achievement of ongoing Sarbanes Oxley compliance, retention of key customers and attainment of customer profitability initiatives. For Mr. Ryan, 70 percent of his 2006 MIP target bonus was tied to the financial results of the global funds transfer line of business and 30 percent of his target bonus was tied to financial results of MoneyGram, as a whole. The performance metrics for the line of business portion of the 2006 MIP were the same as the metrics for MoneyGram's overall financial performance, with a difference only in what constituted the "other goals" portion of the line of business metrics. Such difference was designed to focus Mr. Ryan on key initiatives of the specific line of business.

Target bonus levels under the annual incentive plan are set as a percentage of base salary and utilize data from the Compensation Peer Group and other nationally recognized executive compensation surveys as a reference point. In 2006, these target bonus levels were 90 percent of annual base salary for the Chief Executive Officer and 50 and 55 percent of annual base salary for the other Named Executive Officers. Bonus payments can exceed the targeted level, up to a maximum percentage of twice the annual target bonus level, if performance exceeds targeted levels and can decrease to zero if performance falls below minimum levels.

\* \* \*

An award denominated in units of MoneyGram common stock was designated for each level of performance for each Named Executive Officer.

The Named Executive Officers also received a grant under the PUP in February of 2006 for the three-year performance period ending December 31, 2008. The 2006-2008 award established three levels of performance at which payment could be earned: minimum, target and maximum levels of growth in earnings per share and operating income from continuing operations for the three-year period. An award denominated in units of MoneyGram common stock was designated for each level of performance for each Named Executive Officer. Although each award is denominated in units of MoneyGram common stock, if earned the award will be paid in cash. If the minimum level of growth is not achieved over the designated time period, no payout will be made.

20. Defendants received the following compensation for 2006:

Name	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non- Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Milne	2006	642,692		684,382	309,567	2,630,700	233,581	308,770	4,809,692
Parrin	2006	351,485		142,608	96,447	748,000	56,432	83,800	1,478,772
Ryan	2006	353,854		264,817	78,871	671,010	62,216	68,923	1,499,691

**BACKGROUND**

21. MoneyGram, through its subsidiaries, provides payment services. It operates through two segments, Global Funds Transfer and Payment Systems. The Global Funds Transfer segment provides money transfer services, money orders, and walk-in and electronic bill payment services to unbanked, underbanked, and convenience users. This segment also offers its money transfer services on the Internet to residents in the United States, as well as through a network of retail agents in North America, Latin America, western Europe, eastern Europe, Africa, India, Asia Pacific, and the Middle East. The Payment Systems segment primarily provides payment processing services that include official check outsourcing and sale of money orders, as well as automated clearing house processing services to financial institutions, thrifts, and credit unions. MoneyGram distributes its products through national agent accounts, smaller independent accounts, and check cashing outlets.

22. On April 19, 2006, the Company issued a press release entitled “MoneyGram International Announces First Quarter 2006 Results; Money Transfer Volume Grows 46 percent in First Quarter; Increases Guidance for 2006.” The release stated in part:

MoneyGram International, Inc. today announced first quarter 2006 net income of \$30.9 million, or \$0.36 per diluted share, compared to \$27.8

million, or \$0.32 per diluted share in the first quarter of 2005. The company also increased full year 2006 earnings guidance to \$1.36 to \$1.41 per diluted share, up from previous guidance of \$1.25 to \$1.30.

First quarter 2006 results reflect:

- Global Funds Transfer segment revenue growth of 24 percent compared to the first quarter of 2005. The growth was driven by money transfer transaction volume growth of 46 percent and money transfer revenue growth of 30 percent.
- Fee and other revenue of \$169.1 million, up 22 percent from the first quarter of 2005, driven primarily by growth in money transfer transaction volume.
- Net investment margin of 2.31 percent, as shown in Table One. Net investment margin was higher than anticipated due to \$3.8 million of pretax cash flow recoveries on previously impaired investments and income from limited partnership interests. In total, these items amounted to \$0.03 per diluted share.

23. On July 19, 2006, the Company issued a press release entitled “MoneyGram International Announces Second Quarter Financial Results; Money Transfer Volume Grows 42 percent in Second Quarter.” The release stated in part:

MoneyGram International, Inc. today announced second quarter 2006 net income of \$36.7 million, or \$0.42 per diluted share, compared to net income of \$26.1 million, or \$0.30 per diluted share in the second quarter 2005.

Second quarter 2006 results reflect:

- Global Funds Transfer segment revenue growth of over 26 percent compared to the second quarter 2005, driven by 42 percent growth of money transfer transaction volume and 30 percent growth of money transfer revenue.
- Fee and other revenue of \$186.8 million, up 25 percent from the second quarter of 2005 driven by the growth in money transfer transaction volume.
- Net investment margin of 2.71 percent, as shown in Table One, including \$8.6 million, or \$0.06 per diluted share after tax, of cash flows from previously impaired investments and income from limited partnership interests.

24. On October 18, 2006, the Company issued a press release entitled “MoneyGram International Announces Third Quarter Financial Results,” which stated in part:

MoneyGram International, Inc. today announced third quarter 2006 income from continuing operations of \$30.0 million, or \$0.35 per diluted share, compared to income from continuing operations of \$28.8 million, or \$0.33 per diluted share in the third quarter 2005.

Third quarter 2006 results reflect:

- Global Funds Transfer segment revenue growth of over 27 percent compared to the third quarter 2005, driven by 40 percent growth of money transfer transaction volume and 33 percent growth of money transfer revenue.
- Fee and other revenue of \$200.9 million, up 28 percent from the third quarter of 2005 driven by the growth in money transfer transaction volume.
- Net investment margin of 2.07 percent, as shown in Table One.

\* \* \*

Philip Milne, president and chief executive officer said, “We are very pleased with the continued volume and revenue performance in the money transfer business. Today’s results reflect that consumers increasingly identify our brand with convenient, reliable and affordable money transfer services. With another quarter of consistent results behind us, we proactively and strategically redeployed capital in growth initiatives like marketing and our retail strategy, in addition to returning cash to shareholders via our share repurchase program.”

**DEFENDANTS’ FALSE AND MISLEADING  
STATEMENTS ISSUED DURING THE CLASS PERIOD**

25. On January 24, 2007, the Company issued a press release entitled “MoneyGram International Announces Fourth Quarter and Full Year 2006 Results; Provides Earnings Guidance for 2007.” The release stated in part:

MoneyGram International, Inc. today announced full year 2006, income from continuing operations of \$124.1 million, or earnings per diluted share

from continuing operations of \$1.45, compared to \$112.2 million, or \$1.30 for the full year 2005. As noted below, the full year 2006 benefited from \$0.09 per diluted share of significant items versus \$0.16 per diluted share for the full year 2005. Fourth quarter 2006 income from continuing operations was \$26.4 million, or \$0.31 per diluted share, compared to \$29.6 million, or \$0.34 per diluted share in the fourth quarter of 2005. As noted below, the fourth quarter of 2005 benefited from \$0.03 per diluted share of significant items.

Fourth quarter 2006 results reflect:

- Global Funds Transfer segment revenue growth of 27 percent compared to the fourth quarter of 2005. The growth was driven by money transfer transaction volume growth of 36 percent and money transfer revenue growth of 34 percent.
- Net investment margin of 2.14 percent, as shown in Table One, including \$1.6 million pretax income, or \$0.01 after tax per diluted share from cash flows from previously impaired investments and income from limited partnership interests.
- Fee and other revenue of \$210 million, up 29 percent from the fourth quarter of 2005, driven primarily by growth in money transfer transaction volume.
- Advertising and marketing expense increase of over 50 percent, as the company devoted resources to global branding and the building of the retail strategy in Europe.
- A charge of \$1.0 million pretax or \$0.01 per diluted share after tax for capitalized technology and software licenses primarily due to the discontinuance of a development project.

“Last year was the best year in the Company’s history and I’d like to thank the entire MoneyGram team for their outstanding effort,” said Philip Milne, president, chief executive officer and chairman of the board. “Our money transfer business experienced exceptional growth as we continued to invest in marketing and our retail strategy. As we enter 2007, we expect to build on 2006’s momentum and leverage the marketing and other investments we have made in the business.”

\* \* \*

## Segment Highlights

MoneyGram operates in two reportable business segments, Global Funds Transfer and Payment Systems.

\* \* \*

For the Global Funds Transfer segment, which consists of money transfer (including urgent bill payment) and retail money orders, revenue increased 27 percent to \$223.3 million and operating income increased 9.8 percent to \$33.3 million in the fourth quarter of 2006 compared to the fourth quarter 2005. Revenue and operating income improved primarily as a result of growth in money transfer transaction volume and investment revenue from higher yields on the money order portfolio. Operating margin declined to 14.9 percent this quarter from 17.3 percent in the fourth quarter of 2005 due to increased money transfer commissions, marketing expenses to support the MoneyGram brand and the building of the retail strategy in Europe.

Money transfer transaction volume grew 36 percent and money transfer revenue (see Table Four) grew 34 percent to \$186.7 million compared to the fourth quarter of 2005. The money transfer agent network grew 24 percent to 110,000 agent locations from the fourth quarter of 2005. Money order transaction volume was down 5 percent, following a trend of declining use of paper-based payment instruments.

For the full year 2006, the Global Funds Transfer segment revenue was \$821.7 million and operating income was \$152.6 million, up over 25 percent from 2005. Both revenue and operating income improved primarily as a result of growth in money transfer transaction volume. Operating margin for the full year 2006 was 18.6 percent compared to 18.7 percent last year.

\* \* \*

The Payment Systems segment includes PrimeLink/Official Check outsourcing services, financial institution money orders and controlled disbursement processing services. Payment Systems revenue increased 2 percent to \$83.1 million in the fourth quarter of 2006 from \$81.7 million in the fourth quarter of 2005 due to growth in investment revenue from higher yields partially offset by lower balances. Operating income for the segment was \$7.6 million in the fourth quarter of 2006, compared to \$10.0 million in the fourth quarter of 2005. Operating income in the fourth quarter of 2006 included \$1.3 million of income from cash flows from previously impaired securities and limited partnership interests and a \$1.0 million charge for capitalized technology and software licenses due to the discontinuance of a development project. Operating income in the fourth quarter of 2005 included \$2.3 million of income from cash flows from previously impaired securities and limited partnership interests. Operating margin for the fourth quarter 2006 was 9.1 percent compared to 12.3 percent in the fourth quarter of 2005. The benefit to the operating margin from these items was 0.2 percentage points for the fourth

quarter of 2006 versus a benefit of 2.6 percentage points for the fourth quarter of 2005.

For the full year 2006, Payment Systems segment revenue was \$337.1 million, up 5 percent from \$321.6 million in 2005 due to higher yields partially offset by lower balances. Operating income was \$41.6 million compared to \$42.4 million in 2005 a decrease of 2%. Operating income for the full year 2006 included \$10.9 million of income from cash flows from previously impaired securities and limited partnership interests and a \$1.0 million charge for capitalized technology and software licenses due to the discontinuance of a development project. Operating income in 2005 included \$15.1 million of income from cash flows from previously impaired securities and limited partnership interests and a \$2.2 million customer termination fee. Operating margin for the full year 2006 was 12.3 percent compared to 13.2 percent in 2005. The benefit to the operating margin from these items was 2.6 percentage points for the full year of 2006 versus a benefit of 4.9 percentage points for the full year of 2005.

#### Share Repurchase

During the fourth quarter of 2006, MoneyGram International bought back 661,000 shares at an average price of \$32.70 per share. For the fiscal year 2006, the Company bought back nearly 2.2 million shares at an average price of \$30.91 per share. MoneyGram International has 1.8 million shares remaining under its current share buyback authorization.

#### 2007 Outlook

The company is offering the following guidance for full year 2007:

- Net revenue (total revenue less total commissions) is expected to be in the range of \$665 million to \$690 million.
- Net investment margin is expected to be in the range of 175 to 190 basis points. Average portfolio balances are expected to be in the range of \$6.0 billion to \$6.3 billion for the year.
- Income from continuing operations before taxes is expected to be in the range of \$180 million to \$192 million.
- Earnings per diluted share is expected to be in the range of \$1.47 to \$1.55.

26. On April 18, 2007, the Company issued a press release entitled “MoneyGram International Announces First Quarter 2007 Results; Money Transfer Volume Grows 30 percent.” The release stated in part:

Moneygram International, Inc. today announced first quarter 2007 net income of \$29.8 million, or \$0.35 per diluted share, compared to \$30.9 million, or \$0.36 per diluted share in the first quarter of 2006. The company’s first quarter 2006 results include \$3.8 million of pretax cash flow recoveries (or \$2.4 million after tax) on previously impaired investments and income from limited partnership interests, which amounted to \$0.03 per diluted share and a 1.2 percentage point impact on the operating margin.

First quarter 2007 results reflect:

- Global Funds Transfer segment revenue growth of 24 percent compared to the first quarter of 2006. The growth was driven by money transfer transaction volume growth of 30 percent and money transfer revenue growth of 31 percent.
- Net investment margin of 2.21 percent, as shown in Table One.
- Fee and other revenue of \$213 million, up 26 percent from the first quarter of 2006, driven primarily by growth in money transfer transaction volume.
- Expenses increase of 24 percent, driven by increased headcount, higher advertising and marketing investments, infrastructure costs supporting the growth in money transfer, and the incremental expenses attributable to the acquisition of our super agent in Italy, Money Express S.r.l., which we acquired in the second quarter of 2006.

Philip Milne, president and chief executive officer said, “We successfully continued our sales momentum into the first quarter of 2007 and I’d like to thank the entire MoneyGram team for their outstanding effort. We are very pleased with the performance of our money transfer business, which experienced transaction growth rates of 30 percent compared to a very strong first quarter last year. We also continued to invest in our brand and infrastructure in addition to expanding our retail presence in France and Germany.”

#### Segment Highlights

MoneyGram operates in two reportable business segments, Global Funds Transfer and Payment Systems.

\* \* \*

For the Global Funds Transfer segment, which consists of money transfer (including urgent bill payment) and retail money orders, revenue increased 24 percent to \$226.6 million. Revenue improved as a result of growth in money transfer transaction volume. Operating income decreased 6 percent to \$37.6 million in the first quarter of 2007 compared to the first quarter 2006. The decrease is due to increased money transfer commissions, compensation and benefits expense, advertising and marketing expense to support the brand, as well as other transaction and infrastructure costs related to the growth of the business and the global network, including the build out of the company's retail operations in Europe. The increased expenses caused a 520 basis points decrease in the operating margin from the first quarter of 2006.

Money transfer transaction volume grew 30 percent and money transfer revenue (see Table Four) grew 31 percent to \$190.1 million compared to the first quarter of 2006. The money transfer agent network grew 24 percent to 114,000 agent locations from the first quarter of 2006, with the addition of 4,000 locations in the first quarter of 2007. Money order transaction volume was down 4 percent, following a trend of declining use of paper-based payment instruments.

\* \* \*

The Payment Systems segment includes PrimeLink/Official Check outsourcing services, financial money orders and controlled disbursement processing services. Payment Systems revenue increased 3 percent to \$83.2 million in the first quarter of 2007 from \$80.7 million in the first quarter of 2006 due to higher investment yields partially offset by slightly lower balances. Operating income for the segment was \$9.6 million in the first quarter of 2007, compared to \$10.3 million in the first quarter of 2006, which benefited from \$2.9 million pretax of income from limited partnership interests and cash flows from previously impaired securities. Operating margin for the first quarter of 2007 was 11.5 percent compared to 12.8 percent in the first quarter of 2006. Income from limited partnership interests and cash flows from previously impaired securities added 320 basis points to the operating margin in the first quarter of 2006.

#### Share Repurchase

During the first quarter of 2007, MoneyGram International bought back 500,000 shares at an average price of \$29.47 per share. The company has 1.3 million shares remaining under its current share buyback authorization.

## 2007 Outlook

The company expects the following financial results in the full year 2007:

- Net revenue (total revenue less total commissions) is expected to be in the range of \$665 million to \$690 million.
- Net investment margin is expected to be in the range of 180 to 195 basis points up from previous guidance of 175 to 190 basis points. Average portfolio balances are expected to be in the range of \$6.0 - \$6.3 billion for the year.
- Income from continuing operations before taxes is expected to be in the range of \$183 million to \$195 million up from previous guidance of \$180 million to \$192 million.
- Additional tax expense of \$0.02 per share, due to the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes.
- Earnings per diluted share is expected to be in the range of \$1.47 to \$1.55 unchanged from previous guidance.

27. On July 18, 2007, the Company issued a press release entitled “MoneyGram International Announces Second Quarter 2007 Results; Money Transfer Volume Up 29 percent.” The release stated in part:

MoneyGram International, Inc. today announced second quarter 2007 net income of \$32.4 million, or \$0.38 per diluted share, compared to \$36.7 million, or \$0.42 per diluted share in the second quarter of 2006. The second quarter of 2006 benefited from \$8.6 million of pretax (or \$5.4 million after tax) cash flows from previously impaired investments and income from limited partnership interests, which amounted to \$0.06 per diluted share.

Second quarter 2007 results reflect:

- Global Funds Transfer segment revenue growth of 22 percent compared to the second quarter of 2006. The growth was driven by money transfer transaction volume growth of 29 percent and money transfer revenue growth of 29 percent.
- Net investment margin of 2.28 percent, as shown in Table One.

- Fee and other revenue of \$233 million, up 24 percent from the second quarter of 2006, driven primarily by continued growth of money transfer transaction volume.
- Expenses increase of 17 percent, driven by increased headcount and infrastructure costs supporting the growth in money transfer.

Philip Milne, president and chief executive officer said, “Our money transfer business continues to generate a robust growth rate, up 29 percent from last year. We are very pleased with MoneyGram International’s performance in the second quarter of 2007, especially given the strong quarter we reported in the second quarter of 2006. We continue to strengthen our global presence and our infrastructure, which we believe enhances our future transaction growth and leverages our money transfer platform. Additionally, we continue to be pleased with year over year performance of our investment portfolio that allows us to continue to invest in our money transfer platform.”

#### Segment Highlights

MoneyGram operates in two reportable business segments, Global Funds Transfer and Payment Systems.

\* \* \*

For the Global Funds Transfer segment, which consists of money transfer (including urgent bill payment) and retail money orders, revenue increased 22 percent to \$247 million. Revenue improved as a result of growth in money transfer transaction volume. Operating income was flat at \$41 million in the second quarter of 2007 compared to the second quarter 2006. Growth in money transfer transactions was offset by higher money transfer commissions and transaction and infrastructure costs related to the expansion of the business and the global network. The increased commissions and expenses had a 290 basis point impact on the operating margin compared to the second quarter of 2006.

Money transfer transaction volume grew 29 percent and money transfer revenue (see Table Four) grew 29 percent to \$209.2 million compared to the second quarter of 2006. The money transfer agent network grew 30 percent to 125,000 agent locations from the second quarter of 2006. As expected, money order transaction volume was down four percent compared to the second quarter of 2006.

\* \* \*

The Payment Systems segment includes PrimeLink/Official Check outsourcing services, financial money orders and controlled disbursement processing services. Payment Systems revenue decreased 5 percent to \$86.1 million in the second quarter of 2007 from \$90.9 million in the second quarter of 2006 primarily due to \$6.7 million of pretax income from limited partnership interests and cash flows from previously impaired securities earned in the second quarter of 2006. Operating income for the segment was \$9.9 million and operating margin 11.5 percent in the second quarter of 2007, compared to \$16.2 million and 17.8 percent in the second quarter of 2006. Operating income for the second quarter of 2006 benefited from the \$6.7 million of pretax income mentioned above, which added 650 basis points to the operating margin in that period.

#### Share Repurchase

During the second quarter of 2007, MoneyGram International bought back 650,000 shares at an average price of \$28.89 per share. The company has 5.7 million shares remaining under its current share buyback authorization.

#### 2007 Outlook

The company expects the following financial results in the full year 2007:

- Net revenue (total revenue less total commissions) is expected to be in the range of \$665 million to \$690 million, unchanged from previous guidance.
- Net investment margin is expected to be in the range of 200 to 215 basis points, up from previous guidance of 180 to 195 basis points. Average portfolio balances are expected to be in the range of \$6.0-\$6.3 billion for the year, unchanged from previous guidance.
- Income from continuing operations before taxes is expected to be in the range of \$183 million to \$192 million, compared to our previous guidance of \$183 to \$195 million.
- Earnings per diluted share is expected to be in the range of \$1.49 to \$1.55, narrowing the range from previous guidance of \$1.47-\$1.55.

28. On October 17, 2007, the Company issued a press release entitled “MoneyGram International Announces Third Quarter 2007 Results; Money Transfer Volume

Up 25 percent; Retains JP Morgan For Strategic Review of Payment Systems Business.”

The release stated in part:

MoneyGram International, Inc. today announced third quarter 2007 net income of \$34.3 million, or \$0.41 per diluted share, compared to \$30.0 million, or \$0.35 per diluted share in the third quarter of 2006.

Third quarter 2007 results reflect:

- Global Funds Transfer segment revenue growth of 21 percent compared to the third quarter of 2006. The growth was driven by money transfer transaction volume growth of 25 percent and money transfer revenue growth of 25 percent.
- Net investment margin of 2.33 percent, as shown in Table One.
- Fee and other revenue of \$242.7 million, up 21 percent from the third quarter of 2006, driven primarily by continued growth of money transfer transaction volume.
- Expenses increase of 13 percent, driven by increased headcount, depreciation and amortization, transaction and operations, and infrastructure costs supporting the growth in money transfer.

Philip Milne, president and chief executive officer said, “Our money transfer business continues to generate a robust growth rate and we continue to make investments to strengthen our global brand, presence and infrastructure. We believe these investments position us well to drive future transaction growth and continue to capitalize on the growth trends in the global money transfer market.”

MoneyGram International also announced that it has retained JP Morgan to complete a strategic review of its Payment Systems business. Any material developments related to this review will be reported in a future press release or SEC filing.

#### Segment Highlights

MoneyGram operates in two reportable business segments, Global Funds Transfer and Payment Systems.

\* \* \*

For the Global Funds Transfer segment, which consists of money transfer (including urgent bill payment) and retail money orders, revenue increased 21 percent to \$257.5 million. Revenue improved as a result of

growth in money transfer transaction volume. Operating income increased 19 percent to \$45.8 million in the third quarter of 2007 compared to the third quarter 2006. Operating margin decreased slightly to 17.8 percent in the third quarter of 2007 from 18.1 percent in the third quarter of 2006.

Money transfer transaction volume grew 25 percent and money transfer revenue (see Table Four) grew 25 percent to \$220.6 million compared to the third quarter of 2006. The money transfer agent network grew 33 percent to approximately 138,000 agent locations from the third quarter of 2006. As expected, money order transaction volume was down five percent.

\* \* \*

The Payment Systems segment includes PrimeLink/Official Check outsourcing services, financial money orders and controlled disbursement processing services. Payment Systems revenue increased slightly to \$83.8 million in the third quarter of 2007 from \$82.5 million in the third quarter of 2006. Operating income for the segment was \$6.6 million and operating margin 7.9 percent in the third quarter of 2007, compared to \$7.5 million and 9.1 percent in the third quarter of 2006.

#### Balance Sheet Items and Share Repurchase

At the end of the third quarter of 2007, MoneyGram International borrowed an additional \$197.0 million under its credit facilities. The proceeds were invested in cash equivalents to supplement the company's unrestricted assets, as well as to fund the acquisition of PropertyBridge. The company has unrestricted assets (see Table Five) of cash and cash equivalents, receivables and investments to the extent those assets exceed all payment service obligations. These amounts are generally available; however, management considers these amounts as providing additional assurance that regulatory and other requirements are met during fluctuations in the value of investments. Net unrealized investment portfolio losses during the third quarter increased by approximately \$230.0 million, a result of the illiquidity in the market for subprime asset backed securities and CDO's. The increase in net unrealized losses reduced unrestricted assets; however, this was partially offset by the additional borrowing. Unrestricted assets were \$285.7 million at the end of the third quarter.

In September, MoneyGram International announced it reached an agreement to acquire PropertyBridge, Inc., a leading provider of electronic payment processing services for the real estate management industry. MoneyGram International completed the acquisition on October 1.

MoneyGram International bought back 470,000 shares at an average price of \$26.56 per share in the third quarter. The Company has 5.2 million shares remaining under its current share buyback authorization.

## 2007 Outlook

The company expects the following financial results in the full year 2007 and specifically excludes any impact from the current strategic review of the Payment Systems business and the PropertyBridge acquisition:

– Net revenue (total revenue less total commissions) is expected to be in the range of \$670 million to \$685 million a slight change from previous guidance of \$665 million to \$690 million.

– Net investment margin is expected to be in the range of 220 to 230 basis points, up from previous guidance of 200 to 215 basis points. Average portfolio balances are expected to be in the range of \$6.2 - \$6.3 billion for the year, unchanged from previous guidance.

– Income from continuing operations before taxes is expected to be in the range of \$184 million to \$188 million from previous guidance of \$185 million to \$190 million.

– Earnings per diluted share is expected to be in the range of \$1.50 to \$1.54, narrowing the range from previous guidance of \$1.49 - \$1.55.

29. MoneyGram's stock declined from \$22 per share to \$19 per share on this disclosure but continued to trade at artificially inflated levels as defendants concealed the extent of impaired assets on MoneyGram's books.

30. Then, on January 14, 2008, the Company issued a press release entitled "MoneyGram Announces Portfolio Valuation as of November 30 and Exclusive Discussions with Thomas H. Lee Partners for \$800 Million Equity Investment; Company Obtains Amendments and Waivers Under Credit Agreements; Realignment Official Check Business."

The release stated in part:

MoneyGram International, Inc. announced that it has completed the valuation of its investment portfolio as of November 30, 2007, and has experienced additional net unrealized losses of \$571 million from September 30, 2007, bringing cumulative net unrealized losses to \$860 million. The Company has

commenced a process to realign the portfolio away from asset-backed securities and into highly liquid assets. In January, 2008, the Company sold \$1.3 billion of securities, resulting in a realized loss of approximately \$200 million, which was an incremental loss of approximately \$100 million from the unrealized losses reflected as of November 30 as to these securities.

MoneyGram also announced that it is engaged in exclusive negotiations with an investment group led by Thomas H. Lee Partners, L.P. (the Investors) concerning a comprehensive recapitalization of the Company. These negotiations currently contemplate a transaction pursuant to which the Company would receive a capital infusion of both equity and debt capital, comprised of approximately \$750-850 million of equity from the Investors and approximately \$550-750 million of new debt facilities from third parties. The Company also expects to have \$350 million outstanding or available under its existing credit agreement. The investment would be conditioned upon, among other things, liquidation by the Company of a significant portion of its existing investment portfolio. The Company would expect to recognize losses in connection with that liquidation, if it occurs, which, in light of losses recognized on the securities sold in January, 2008, are likely to be substantially higher than the losses reflected in the November 30, 2007 valuation. The securities that would be acquired by the Investors in the transaction under discussion would currently be expected to give the Investors an initial equity interest in the Company ranging from 60 to 65%, depending upon the amount of capital invested and the ultimate size of the losses realized upon the sale of certain assets within the Company's securities portfolio. Given the nature of the securities comprising the Company's current investment portfolio, the amount of capital required to be infused into the Company and the initial equity interest may fall outside the ranges noted above.

The transaction is designed to provide sufficient capital to support realignment of the Company's portfolio away from the risk associated with the asset-backed security market that it has faced in the recent past and to provide sufficient financial flexibility to support the long term needs of the business after the realignment. It is anticipated that the realigned portfolio will be comprised predominantly of government, government agency and municipal securities. As a result, the Company anticipates that its profit margin will be adversely affected on a going forward basis by the lower yields in its realigned portfolio. In particular, profitability in the Company's Official Check business is expected to be significantly reduced.

The Company also announced that it has obtained certain amendments and waivers until January 31, 2008, under its bank lending agreements and a primary clearing agreement. Furthermore, as a result of its strategic review of

the Payment Systems segment, MoneyGram has decided to modify its Official Check business model to target more profitable small to mid-sized customers.

### Investment Portfolio

As of November 30, 2007, the Company had experienced additional net unrealized losses of \$571 million from September 30, 2007, bringing total net unrealized losses to \$860 million. These additional losses largely result from deterioration in the value of the Company's holdings of asset-backed securities, which were negatively impacted by changes in the credit ratings of the securities or the underlying collateral supporting these securities. In January, 2008, the Company sold \$1.3 billion of securities, resulting in a realized loss of approximately \$200 million, which was an incremental \$100 million from the unrealized losses reflected as of November 30 as to these securities. The extent of the realized losses incurred in January 2008 was impacted by the prompt liquidation of the securities.

The Company is in the process of performing its year end pricing analysis and quarterly impairment review. It anticipates that significant additional losses will be recorded in December, and that a substantial charge for other-than-temporarily impaired securities will be taken against earnings in the fourth quarter. As previously announced, investors should not rely upon previously given guidance for 2007 results.

The losses in the portfolio do not immediately impact the Company's cash flow but rather create a need for long-term capital to off-set the anticipated significant realized and unrealized losses in the investment portfolio. The Company believes that the equity and debt associated with this proposed transaction will be sufficient in light of the anticipated sales of portfolio assets to provide for its long-term capital needs. The Company currently has sufficient daily liquidity which comes primarily from settlements with customers supplemented by liquid portfolio assets, including cash and cash equivalents of \$1.5 billion, and does not anticipate any issues related to daily liquidity provided its current customer relationships remain substantially in place.

### Investment Negotiations

The negotiations with the Investors currently contemplate that the Investors would invest approximately \$750-850 million in a convertible preferred stock of the Company and that third-party lenders would provide approximately \$550-750 million in debt financing, in addition to the Company's existing \$350 million credit agreement. Receipt by the Investors of the convertible preferred stock would be subject to shareholder approval no later than 6 months following the date of the agreement. It is contemplated that

upon the initial funding, the Investors would receive a combination of nonvoting preferred stock, common stock and contingent value rights designed to have, in the aggregate, substantially similar value to the Investors as that contemplated by the convertible preferred stock, all of which would be exchanged for the convertible preferred stock upon receipt of such shareholder approval.

The transaction would be conditioned upon receipt of debt financing, additional amendments of existing debt agreements, expiration of regulatory waiting periods, completion of confirmatory due diligence and confirmation from the New York Stock Exchange that the securities to be received in the transaction may be listed in accordance with its policies. The investment would also be conditioned upon liquidation by the Company of a significant portion of the Company's existing securities portfolio. The Company would expect to recognize losses in connection with that liquidation, if it occurs, which, in light of the losses recognized in the securities sold in January, 2008, are likely to be substantially higher than losses reflected in the November 30, 2007, valuation. The securities that would be acquired by the Investors in the transaction under discussion are currently expected to give the Investors an initial equity interest in the Company ranging from 60 to 65%, depending upon the amount of capital invested and the ultimate size of the losses realized upon the sale of certain assets within the Company's securities portfolio.

The Company anticipates that the negotiations will lead to execution of definitive documents in January, and to a funding in February. The Company expects that any transaction agreement with the Investors would permit the board of directors to seek alternative investors and to terminate the transaction prior to funding to accept an offer that is superior for the shareholders subject to a customary break-up fee. The Company's exclusive discussions with the Investors also do not preclude discussions between the Company and Euronet Worldwide, Inc. (Euronet) or discussions with third parties pursuant to superior written offers. The Company has executed a confidentiality agreement with Euronet and has provided confidential information to and engaged in discussions with representatives of Euronet.

Neither the Company nor any of the Investors has committed to the proposed transaction and no assurances can be given that the conditions necessary to reach a definitive agreement will be satisfied or that the Company will enter into or consummate a transaction with any of the Investors or any other party.

31. On this news, MoneyGram's stock price declined as low as \$5.66 per share before closing at \$6.15 per share on January 15, 2008, on volume of 19 million shares, a one-day decline of 50%.

32. Then on March 25, 2008, *Star Tribune* issued an article entitled "SEC to investigate MoneyGram," which stated in part:

For MoneyGram International Inc., the ailing money-transfer company that has lost about \$1.6 billion on investments tied to mortgages, the trouble may be just beginning.

The St. Louis-Park based company disclosed that it now is the target of an investigation into its financial statements and other disclosures by the Securities and Exchange Commission (SEC), the nation's chief market watchdog.

While the federal agency hasn't determined if any laws were broken, the cost to defend the SEC inquiry "could be substantial," according to a 10-K form the company filed Tuesday.

The disclosure came on the same day that MoneyGram, the nation's second-largest money-transfer firm, said it completed a transaction that would hand over a majority stake in the company to new investors.

MoneyGram said affiliates of Thomas H. Lee Partners and Goldman Sachs Group bought \$760 million in preferred shares that can convert into 79 percent of MoneyGram's common shares at \$2.50 a share, the company said in a statement.

MoneyGram shares Tuesday rose 55 cents, or 31 percent, to \$2.33. The stock has declined 92 percent in the past year, erasing more than \$2.2 billion in shareholder value.

MoneyGram had planned to exchange just 63 percent of its stock to its new investors at \$5 a share.

But it had to sweeten the offer after failing to meet some of the terms of the original deal.

"With the completion of this important transaction, MoneyGram now has the financial resources to support our customers and their growth plans," Philip Milne, president and CEO, said in the statement.

But the SEC investigation appears broad, and likely will revolve around whether the company has been candid with investors about its financial losses, analysts said. Some analysts and large shareholders are unsure how the company's investment-related losses grew from \$230 million in the third quarter ended Sept. 30 to a \$1.6 billion loss just six months later.

#### Possible ousters

MoneyGram said in a regulatory filing Tuesday that the SEC has opened an inquiry into "financial statements, reporting and disclosures related to our investment portfolio and offers and negotiations to sell the company or our assets."

The investigation could lead to the ouster of Milne and other senior management, said Robert Dodd, an equity analyst with Morgan Keegan & Co. "The SEC might be more willing to let the investigation drop if one or more of their top executives goes," Dodd said.

The SEC likely will take MoneyGram's recent ownership change into consideration as it pursues the investigation, said James Cox, a professor of securities law at Duke University. If violations are found, the agency might see little sense in punishing MoneyGram's new owners after they orchestrated a bailout of the company, Cox said.

"Corporations don't act. Officers act," said Cox. "The SEC is more inclined to go after the people at fault and less likely to go after the company if it has a new owner."

MoneyGram's top five executives earlier stood to receive \$37 million if they were terminated as a result of the Thomas H. Lee transaction. However, the board of directors determined that the executives no longer are eligible for those severance payments, according to the 10-K.

Executives already received a big payday earlier this month, when MoneyGram announced that it would reward its top four executives a total of \$1.26 million for their "extraordinary effort" in negotiating a deal with Thomas H. Lee. Milne was awarded a \$600,000 bonus.

MoneyGram on Tuesday reported a fourth-quarter loss of \$1.17 billion, or \$14.18 a share, largely because of bad investments. A year earlier, the company posted a fourth-quarter profit of \$26.4 million, or 31 cents a share.

33. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(c) The Company lacked requisite internal controls to ensure that the reserves for the Company's investments in asset-backed securities were adequate, and, as a result, the Company's projections and reported results issued during the Class Period were based upon defective assumptions and/or manipulated facts; and

(d) The Company concealed the extent of its potential losses due to its exposure to asset-backed securities containing uncollectible debt.

34. As a result of defendants' false statements, MoneyGram's stock price traded at inflated levels during the Class Period, allowing defendants to reap some \$7.8 million in incentive compensation while the stock traded at inflated prices. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 75% from a high of \$30.11 per share in July 2007.

#### **LOSS CAUSATION/ECONOMIC LOSS**

35. By misrepresenting its financial outlook, the defendants presented a misleading picture of MoneyGram's business and prospects. Thus, instead of truthfully disclosing during the Class Period that MoneyGram's business was not as healthy as represented, defendants falsely reported MoneyGram's financial outlook and its actual business prospects going forward.

36. These claims of profitability caused and maintained the artificial inflation in MoneyGram's stock price throughout the Class Period and until the truth was revealed to the market.

37. Defendants' false and misleading statements had the intended effect and caused MoneyGram stock to trade at artificially inflated levels throughout the Class Period, reaching a high of \$30 per share in July 2007.

38. The truth about MoneyGram's business operations, finances, business metrics, and future business and financial prospects began to enter the market with a series of partial disclosures and revelations beginning in late July 2007, which were accompanied by denials and continuing misrepresentations by defendants. As a result, the artificial inflation in MoneyGram's stock price did not come out of the stock all at once, rather the artificial price inflation came out over time, in bits, pieces, and spurts as the stock continued to trade at artificially inflated, albeit lower, prices through January 2008.

39. As a direct result of defendants' admissions and the public revelations regarding the truth about MoneyGram's overstatement of its financial outlook and its actual business prospects going forward, MoneyGram's stock price plummeted more than 50%, falling from \$12.17 per share on January 14, 2008 to \$6.15 per share on January 15, 2008 – a drop of \$6.02 per share. This drop removed the inflation from MoneyGram's stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

## **COUNT I**

### **For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants**

40. Plaintiff incorporates ¶¶1-39 by reference.

41. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order

to make the statements made, in light of the circumstances under which they were made, not misleading.

42. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they: employed devices, schemes and artifices to defraud; made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of MoneyGram common stock during the Class Period.

43. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for MoneyGram common stock. Plaintiff and the Class would not have purchased MoneyGram common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

## **COUNT II**

### **For Violation of §20(a) of the 1934 Act Against All Individual Defendants**

44. Plaintiff incorporates ¶¶1-43 by reference.

45. The Individual Defendants acted as controlling persons of MoneyGram within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their ownership of MoneyGram stock, the Individual Defendants had the power and authority to cause MoneyGram to engage in the wrongful conduct complained of herein.

MoneyGram controlled the Individual Defendants and all of its employees. By reason of such conduct, the Individual Defendants are liable pursuant to §20(a) of the 1934 Act.

### **CLASS ACTION ALLEGATIONS**

46. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired MoneyGram common stock during the Class Period (the “Class”). Excluded from the Class are defendants.

47. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. MoneyGram has over 82 million shares of stock outstanding, owned by hundreds if not thousands of persons.

48. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include: whether the 1934 Act was violated by defendants; whether defendants omitted and/or misrepresented material facts; whether defendants’ statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; whether defendants knew or deliberately disregarded that their statements were false and misleading; whether the price of MoneyGram’s common stock was artificially inflated; and the extent of damage sustained by Class members and the appropriate measure of damages.

49. Plaintiff’s claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants’ wrongful conduct.

50. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

51. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

### **PRAYER FOR RELIEF**

WHEREFORE, plaintiff prays for judgment as follows:

- A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
- B. Awarding plaintiff and the members of the Class damages, including interest;
- C. Awarding plaintiff reasonable costs and attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

### **JURY DEMAND**

Plaintiff demands a trial by jury.

DATED: March 28, 2008

**ZIMMERMAN REED, P.L.L.P.**

s/ Carolyn G. Anderson

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