

MONEYGRAM INTERNATIONAL INC
Form 10-Q
August 01, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 June 30, 2016

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

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

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

(Address of principal executive offices) (Zip Code)
(214) 999-7552

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

As of July 29, 2016, 53,445,844 shares of common stock, \$0.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS
 MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 UNAUDITED

(Amounts in millions, except share data)	June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$148.6	\$164.5
Settlement assets	3,320.5	3,505.6
Property and equipment, net	196.8	199.7
Goodwill	442.2	442.2
Other assets	182.7	193.2
Total assets	\$4,290.8	\$4,505.2
LIABILITIES		
Payment service obligations	\$3,320.5	\$3,505.6
Debt	939.0	942.6
Pension and other postretirement benefits	91.4	96.3
Accounts payable and other liabilities	161.1	183.5
Total liabilities	4,512.0	4,728.0
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' DEFICIT		
Participating convertible preferred stock - series D, \$0.01 par value, 200,000 shares authorized, 71,282 issued at June 30, 2016 and December 31, 2015	183.9	183.9
Common stock, \$0.01 par value, 162,500,000 shares authorized, 58,823,567 shares issued at June 30, 2016 and December 31, 2015	0.6	0.6
Additional paid-in capital	1,011.9	1,002.4
Retained loss	(1,260.0)	(1,226.8)
Accumulated other comprehensive loss	(48.4)	(48.7)
Treasury stock: 5,399,831 and 5,612,188 shares at June 30, 2016 and December 31, 2015, respectively	(109.2)	(134.2)
Total stockholders' deficit	(221.2)	(222.8)
Total liabilities and stockholders' deficit	\$4,290.8	\$4,505.2
See Notes to the Condensed Consolidated Financial Statements		

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MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 UNAUDITED

(Amounts in millions, except per share data)	Three Months		Six Months	
	Ended June 30, 2016	2015	Ended June 30, 2016	2015
REVENUE				
Fee and other revenue	\$379.3	\$356.0	\$734.0	\$683.7
Investment revenue	4.4	2.8	8.1	5.7
Total revenue	383.7	358.8	742.1	689.4
EXPENSES				
Fee and other commissions expense	172.9	163.2	335.2	316.6
Investment commissions expense	0.6	0.2	1.1	0.3
Total commissions expense	173.5	163.4	336.3	316.9
Compensation and benefits	74.4	87.8	146.1	162.5
Transaction and operations support	83.1	90.3	147.6	160.7
Occupancy, equipment and supplies	16.0	15.8	31.2	31.3
Depreciation and amortization	20.5	17.2	41.6	32.0
Total operating expenses	367.5	374.5	702.8	703.4
OPERATING INCOME (LOSS)	16.2	(15.7)	39.3	(14.0)
Other expense				
Interest expense	11.2	11.4	22.5	22.5
Total other expense	11.2	11.4	22.5	22.5
Income (loss) before income taxes	5.0	(27.1)	16.8	(36.5)
Income tax expense (benefit)	1.9	(14.7)	17.9	47.9
NET INCOME (LOSS)	\$3.1	\$(12.4)	\$(1.1)	\$(84.4)
INCOME (LOSS) PER COMMON SHARE				
Basic	\$0.05	\$(0.20)	\$(0.02)	\$(1.36)
Diluted	\$0.05	\$(0.20)	\$(0.02)	\$(1.36)
Weighted-average outstanding common shares and equivalents used in computing income (loss) per common share				
Basic	62.5	62.1	62.5	62.1
Diluted	66.0	62.1	62.5	62.1
See Notes to the Condensed Consolidated Financial Statements				

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MONEYGRAM INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in millions)	2016	2015	2016	2015
NET INCOME (LOSS)	\$3.1	\$(12.4)	\$(1.1)	\$(84.4)
OTHER COMPREHENSIVE (LOSS) INCOME				
Net change in unrealized holding gains on available-for-sale securities arising during the period, net of tax (benefit) expense of (\$0.1) and \$0.1 for the three and six months ended June 30, 2016 and 2015, respectively	(0.2)	(0.1)	(0.2)	—
Net change in pension liability due to amortization of prior service cost and net actuarial losses, net of tax benefit of \$0.5 and \$0.8 for the three months ended June 30, 2016 and 2015, respectively, and \$1.0 and \$1.6 for the six months ended June 30, 2016 and 2015, respectively	0.8	1.4	1.6	2.8
Valuation adjustment for pension and postretirement benefits, net of tax expense of \$0.0 and \$3.7 for the three and six months ended June 30, 2016 and 2015, respectively	—	6.3	—	6.3
Pension settlement charge, net of tax benefit of \$0.0 and \$5.0 for the three and six months ended June 30, 2016 and 2015, respectively	—	8.8	—	8.8
Unrealized foreign currency translation adjustments, net of tax (benefit) expense of (\$1.0) and \$2.5 for the three months ended June 30, 2016 and 2015, respectively, and \$1.8 and (\$4.5) for the six months ended June 30, 2016 and 2015, respectively	(2.3)	4.3	(1.1)	(7.8)
Other comprehensive (loss) income	(1.7)	20.7	0.3	10.1
COMPREHENSIVE INCOME (LOSS)	\$1.4	\$8.3	\$(0.8)	\$(74.3)
See Notes to the Condensed Consolidated Financial Statements				

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

	Six Months Ended June 30,	
(Amounts in millions)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1.1)	\$(84.4)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	41.6	32.0
Signing bonus amortization	27.7	29.1
Signing bonus payments	(14.6)	(63.8)
Amortization of debt issuance costs and debt discount	1.6	1.5
Non-cash compensation and pension expense	12.8	29.5
Change in other assets	(1.7)	29.0
Change in accounts payable and other liabilities	(34.3)	(30.0)
Other non-cash items, net	(0.3)	(0.2)
Net cash provided by (used in) operating activities	31.7	(57.3)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(38.1)	(59.7)
Net cash used in investing activities	(38.1)	(59.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(4.9)	(5.0)
Stock repurchase	(4.6)	—
Net cash used in financing activities	(9.5)	(5.0)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(15.9)	(122.0)
CASH AND CASH EQUIVALENTS—Beginning of period	164.5	250.6
CASH AND CASH EQUIVALENTS—End of period	\$148.6	\$128.6
Supplemental cash flow information:		
Cash payments for interest	\$20.9	\$21.0
Cash taxes, net	\$4.6	\$65.3
See Notes to the Condensed Consolidated Financial Statements		

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

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2016	\$ 183.9	\$ 0.6	\$ 1,002.4	\$(1,226.8)	\$ (48.7)	\$(134.2)	\$(222.8)
Net loss	—	—	—	(1.1)	—	—	(1.1)
Stock-based compensation activity	—	—	9.5	(32.1)	—	29.6	7.0
Stock repurchase	—	—	—	—	—	(4.6)	(4.6)
Other comprehensive income	—	—	—	—	0.3	—	0.3
June 30, 2016	\$ 183.9	\$ 0.6	\$ 1,011.9	\$(1,260.0)	\$ (48.4)	\$(109.2)	\$(221.2)

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2015	\$ 183.9	\$ 0.6	\$ 982.8	\$(1,144.6)	\$ (67.1)	\$(138.3)	\$(182.7)
Net loss	—	—	—	(84.4)	—	—	(84.4)
Stock-based compensation activity	—	—	9.0	(4.8)	—	4.1	8.3
Other comprehensive income	—	—	—	—	10.1	—	10.1
June 30, 2015	\$ 183.9	\$ 0.6	\$ 991.8	\$(1,233.8)	\$ (57.0)	\$(134.2)	\$(248.7)

See Notes to the Condensed Consolidated Financial Statements

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MONEYGRAM INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Description of the Business and Basis of Presentation

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

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

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements of MoneyGram are prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and six months ended June 30, 2016 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, 2015.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience, future expectations and other factors and assumptions the Company believes to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis and are revised when necessary. Changes in estimates are recorded in the period of change. Actual amounts may differ from these estimates.

Recent Accounting Pronouncements and Related Developments — In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance sets forth a five-step revenue recognition model which replaces the current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. To further assist with adoption and implementation of ASU 2014-09, the FASB issued the following ASUs:

- ▲ASU 2016-08 (Issued March 2016) — Principal versus Agent Consideration (Reporting Revenue Gross versus Net)
- ▲ASU 2016-10 (Issued April 2016) — Identifying Performance Obligations and Licensing
- ▲ASU 2016-12 (Issued May 2016) — Narrow-Scope Improvements and Practical Expedients

These ASUs are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires organizations to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The FASB retained the distinction between finance leases and operating leases, leaving the effect of leases in the statement of comprehensive income and the statement of cash flows largely unchanged from

previous GAAP. ASU 2016-02 mandates a modified retrospective transition method and is effective for fiscal years beginning after December 15, 2018. Early adoption of the amendment is permitted. The Company is currently evaluating the impact this standard will have on the consolidated financial statements.

In April 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. Further, the ASU requires that cash payments to tax authorities in connection with shares withheld to meet statutory tax withholding requirements be presented as a financing activity in the statement of cash flows. ASU 2016-09 is effective for

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fiscal years beginning after December 15, 2016 and early adoption of the amendment is permitted. The Company is currently evaluating the impact this standard will have on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new credit impairment standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking expected loss model that generally will result in the earlier recognition of allowances for credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and early adoption of the amendment is permitted. The adoption of ASU 2016-13 will not have a significant impact on our consolidated financial statements.

Note 2 — Reorganization and Restructuring Costs

In the first quarter of 2014, the Company announced the implementation of a global transformation program (the "2014 Global Transformation Program"), which includes certain reorganization and restructuring activities centered around facilities and headcount rationalization, system efficiencies and headcount right-shoring and outsourcing. The Company completed these reorganization and restructuring activities as of June 30, 2016. In the third quarter of 2015, the Company initiated other reorganization and restructuring activities to further improve operational efficiencies and concluded these activities as of June 30, 2016.

The following table is a roll-forward of the restructuring costs accrual as of June 30, 2016:

(Amounts in millions)	2014 Global Transformation Program Severance, Outplacement and Related Benefits	Other Restructuring Severance, Outplacement and Related Benefits ⁽¹⁾	Total	
Balance, December 31, 2015	\$ 3.8	\$ —	\$ 0.2	\$4.0
Expenses	0.2	0.1	—	0.3
Cash payments	(4.0)	(0.1)	—	(4.1)
Balance, June 30, 2016	\$ —	\$ —	\$ 0.2	\$0.2

⁽¹⁾ Other primarily relates to expenses for facilities relocation and professional fees. Such costs are expensed as incurred.

The following table is a summary of the cumulative restructuring costs incurred to date in operating expenses as of June 30, 2016:

(Amounts in millions)	2014 Global Transformation Program Severance, Outplacement and Related Benefits	Other Restructuring Severance, Outplacement and Related Benefits ⁽¹⁾	Total	
Restructuring costs				
Cumulative restructuring costs incurred to date in operating expenses	\$ 17.9	\$ 3.1	\$ 0.6	\$21.6

⁽¹⁾ Other primarily relates to expenses for facilities relocation and professional fees. Such costs are expensed as

incurred.

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The following table summarizes the reorganization and restructuring costs recorded:

(Amounts in millions)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	2015	2015
Restructuring costs in operating expenses:				
Compensation and benefits	\$-0.5	\$0.2	\$2.7	
Transaction and operations support	—0.4	0.1	0.6	
Total restructuring costs in operating expenses	—0.9	0.3	3.3	
Reorganization costs in operating expenses:				
Compensation and benefits	—1.9	—	5.9	
Transaction and operations support	—1.6	0.1	4.3	
Occupancy, equipment and supplies	—0.2	0.1	1.0	
Total reorganization costs in operating expenses	—3.7	0.2	11.2	
Total reorganization and restructuring costs	\$-4.6	\$0.5	\$14.5	

The following table is a summary of the total cumulative restructuring costs incurred to date in operating expenses by reportable segment as of June 30, 2016:

(Amounts in millions)	Global Funds Transfer	Financial Paper Products	Other	Total
2014 Global Transformation Program				
Balance, December 31, 2015	\$ 17.8	\$ 2.2	\$ 0.7	\$20.7
First quarter 2016	0.3	—	—	0.3
Total cumulative restructuring costs incurred to date in operating expenses	18.1	2.2	0.7	21.0
Other Restructuring				
Total cumulative restructuring costs incurred to date in operating expenses	0.6	—	—	0.6
Total restructuring costs incurred	\$ 18.7	\$ 2.2	\$ 0.7	\$21.6

Note 3 — Settlement Assets and Payment Service Obligations

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

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

(Amounts in millions)	June 30, 2016	December 31, 2015
Settlement assets:		
Settlement cash and cash equivalents	\$1,340.4	\$1,560.7
Receivables, net	758.7	861.4
Interest-bearing investments	1,202.0	1,062.4
Available-for-sale investments	19.4	21.1
	\$3,320.5	\$3,505.6
Payment service obligations	\$(3,320.5)	\$(3,505.6)

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Note 4 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants on the measurement date.

The following tables summarize the Company's financial assets and liabilities measured at fair value by hierarchy level on a recurring basis:

(Amounts in millions)	Level 2	Level 3	Total
June 30, 2016			
Financial assets:			
Available-for-sale investments:			
Residential mortgage-backed securities	\$8.4	\$—	\$8.4
Other asset-backed securities	—	11.0	11.0
Forward contracts	1.2	—	1.2
Total financial assets	\$9.6	\$11.0	\$20.6
Financial liabilities:			
Forward contracts	\$—	\$—	\$—

December 31, 2015

Financial assets:			
Available-for-sale investments:			
Residential mortgage-backed securities	\$9.5	\$—	\$9.5
Other asset-backed securities	—	11.6	11.6
Forward contracts	0.8	—	0.8
Total financial assets	\$10.3	\$11.6	\$21.9
Financial liabilities:			
Forward contracts	\$0.1	\$—	\$0.1

The following table is a summary of the unobservable inputs used in the valuation of other asset-backed securities classified as Level 3:

(Amounts in millions, except net average price)	Unobservable Input	Pricing Source	June 30, 2016		December 31, 2015	
			Market Value	Net Average Price ⁽¹⁾	Market Value	Net Average Price ⁽¹⁾
Alt-A	Price	Third-party pricing service	\$0.1	\$ 78.67	\$0.1	\$ 79.19
Home equity	Price	Third-party pricing service	0.1	27.67	0.1	29.40
Indirect exposure — high grade	Price	Third-party pricing service	8.4	21.76	8.3	21.65
Indirect exposure — mezzanine	Price	Third-party pricing service	0.7	0.68	0.8	0.75
Indirect exposure — mezzanine	Price	Broker	1.0	1.49	1.1	1.58
Other	Net asset value	Third-party pricing service	0.7	3.70	1.2	6.34
Total			\$11.0		\$11.6	

⁽¹⁾ Net average price is per \$100.00

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The following table provides a roll-forward of the other asset-backed securities classified as Level 3, which are measured at fair value on a recurring basis:

	Three Months		Six Months	
	Ended June		Ended June	
	30,	30,	30,	30,
(Amounts in millions)	2016	2015	2016	2015
Beginning balance	\$11.4	\$12.5	\$11.6	\$12.6
Principal paydowns	(0.6)	(0.1)	(0.8)	(0.2)
Change in unrealized gains	0.1	(0.2)	0.1	(0.2)
Net realized gains	0.1	—	0.1	—
Ending balance	\$11.0	\$12.2	\$11.0	\$12.2

Assets and liabilities that are disclosed at fair value — Debt and interest-bearing investments are carried at amortized cost; however, the Company estimates the fair value of debt for disclosure purposes. The fair value of debt is estimated using an observable market quotation (Level 2). The following table is a summary of the Company's fair value and carrying value of debt:

	Fair Value		Carrying Value	
(Amounts in millions)	June 30, December 31,		June 30, December 31,	
	2016	2015	2016	2015
Senior secured credit facility	\$892.5	\$ 858.9	\$949.4	\$ 954.3

The carrying amounts for the Company's cash and cash equivalents, settlement cash and cash equivalents and interest-bearing investments approximate fair value as of June 30, 2016 and December 31, 2015.

Note 5 — Investment Portfolio

The following table shows the components of the investment portfolio:

(Amounts in millions)	June	December
	30,	31, 2015
	2016	
Cash	\$	