MONEYGRAM INTERNATIONAL INC
Form 10-Q
October 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(mark one)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2013
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .
Commission File Number: 001-31950

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

Delaware	16-1690064
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2828 N. Harwood St., 15th Floor Dallas, Texas	75201
(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 x 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 x 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	x
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 x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of October 28, 2013, 57,962,493 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

(Amounts in millions, except share data)	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$—	$—
Cash and cash equivalents (substantially restricted)	2,222.4	2,683.2
Receivables, net (substantially restricted)	959.7	1,206.5
Interest-bearing investments (substantially restricted)	941.8	450.1
Available-for-sale investments (substantially restricted)	50.7	63.5
Property and equipment, net	125.9	127.9
Goodwill	431.8	428.7
Other assets	190.9	190.7
Total assets	$4,923.2	$5,150.6
LIABILITIES		
Payment service obligations	$3,864.9	$4,175.4
Debt	845.0	809.9
Pension and other postretirement benefits	119.8	126.8
Accounts payable and other liabilities	209.8	199.9
Total liabilities	5,039.5	5,312.0
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS' DEFICIT		
Participating Convertible Preferred Stock - Series D, $0.01 par value, 200,000 shares authorized, 109,239 issued at September 30, 2013 and December 31, 2012, respectively	281.9	281.9
Common Stock, $0.01 par value, 162,500,000 shares authorized, 62,263,963 shares issued at September 30, 2013 and December 31, 2012, respectively	0.6	0.6
Additional paid-in capital	1,008.4	1,001.0
Retained loss	(1,237.8)	(1,265.9)
Accumulated other comprehensive loss	(45.5)	(52.3)
Treasury stock: 4,302,724 and 4,407,038 shares at September 30, 2013 and December 31, 2012, respectively	(123.9)	(126.7)
Total stockholders' deficit	(116.3)	(161.4)
Total liabilities and stockholders' deficit	$4,923.2	$5,150.6

See Notes to Consolidated Financial Statements
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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in millions, except per share data)	2013	2012	2013	2012
REVENUE				
Fee and other revenue	$375.8	$335.7	$1,075.1	$977.3
Investment revenue	7.2	2.9	13.5	9.5
Total revenue	383.0	338.6	1,088.6	986.8
OPERATING EXPENSES				
Fee and other commissions expense	178.6	152.3	502.5	440.9
Investment commissions expense	0.1	0.1	0.3	0.3
Total commissions expense	178.7	152.4	502.8	441.2
Compensation and benefits	66.2	54.8	198.1	172.9
Transaction and operations support	65.4	135.6	179.3	291.8
Occupancy, equipment and supplies	12.1	12.2	37.0	36.6
Depreciation and amortization	12.5	10.9	36.5	32.6
Total operating expenses	334.9	365.9	953.7	975.1
OPERATING INCOME (LOSS)	48.1	(27.3)	134.9	11.7
OTHER EXPENSE				
Interest expense	10.0	17.7	37.3	53.2
Debt extinguishment costs	—	—	45.3	—
Other	—	0.1	—	0.4
Total other expense	10.0	17.8	82.6	53.6
Income (loss) before income taxes	38.1	(45.1)	52.3	(41.9)
Income tax expense	15.6	9.6	23.3	27.6
NET INCOME (LOSS)	$22.5	$(54.7)	$29.0	$(69.5)
EARNINGS (LOSS) PER COMMON SHARE				
Basic	$0.31	$(0.77)	$0.41	$(0.97)
Diluted	$0.31	$(0.77)	$0.40	$(0.97)
Weighted-average outstanding common shares and equivalents used in computing earnings (loss) per share				
Basic	71.6	71.5	71.6	71.5
Diluted	72.0	71.5	71.8	71.5

See Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in millions)	2013	2012	2013	2012
NET INCOME (LOSS)	$22.5	$(54.7)	$29.0	$(69.5)
OTHER COMPREHENSIVE INCOME				
Net unrealized gains on available-for-sale securities:				
Net holding gains arising during the period, net of tax expense of $0.5 and $0 for the three months ended September 30, 2013 and 2012, respectively, and $0.1 and $0.6 for the nine months ended September 30, 2013 and 2012, respectively	3.3	0.9	3.0	2.3
Pension and postretirement benefit plans:				
Amortization of prior service credit for pension and postretirement benefit plans recorded to net income (loss), net of tax expense of $0.1 for the three months ended September 30, 2013 and 2012 and $0.2 for the nine months ended September 30, 2013 and 2012	(0.1)	(0.1)	(0.3)	(0.3)
Amortization of net actuarial loss for pension and postretirement benefit plans recorded to net income (loss), net of tax benefit of $0.7 and $0.6 for the three months ended September 30, 2013 and 2012, respectively, and $2.3 and $1.8 for the nine months ended September 30, 2013 and 2012, respectively	1.2	1.0	3.8	2.9
Unrealized foreign currency translation gains, net of tax expense of $1.0 and $0.1 for the three months ended September 30, 2013 and 2012, respectively, and $0.2 for the nine months ended September 30, 2013 and 2012, respectively	1.6	0.1	0.3	0.3
Other comprehensive income	6.0	1.9	6.8	5.2
COMPREHENSIVE INCOME (LOSS)	$28.5	$(52.8)	$35.8	$(64.3)

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in millions)	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$22.5	$(54.7)	$29.0	$(69.5)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	12.5	10.9	36.5	32.6
Signing bonus amortization	12.0	8.3	30.8	24.7
Signing bonus payments	(8.8)	(16.3)	(19.0)	(22.6)
Loss on debt extinguishment	—	—	45.3	—
Amortization of debt discount and deferred financing costs	0.6	1.4	2.7	4.2
Provision for uncollectible receivables	3.9	1.8	8.9	4.8
Non-cash compensation and pension expense	5.0	4.5	14.7	13.8
Legal accruals	(2.1)	62.0	(38.8)	100.0
Changes in foreign currency translation adjustments	1.6	0.1	0.3	0.3
Change in other assets	(6.9)	(2.5)	(20.5)	(0.7)
Change in accounts payable and other liabilities	27.1	(4.1)	38.1	11.3
Other non-cash items, net	(0.3)	(1.0)	0.3	(0.9)
Total adjustments	44.6	65.1	99.3	167.5
Change in cash and cash equivalents (substantially restricted)	(20.0)	8.4	460.8	32.3
Change in receivables (substantially restricted)	214.9	(64.9)	237.9	(114.7)
Change in payment service obligations	(211.5)	52.2	(310.5)	2.7
Net cash provided by operating activities	50.5	6.1	516.5	18.3
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from maturities of investments classified as available-for-sale (substantially restricted)	3.0	6.2	14.6	25.5
Purchases of interest-bearing investments (substantially restricted)	(112.9)	(11.1)	(877.6)	(335.6)
Proceeds from maturities of interest-bearing investments (substantially restricted)	75.0	11.8	386.1	335.4
Purchases of property and equipment	(10.8)	(12.9)	(37.2)	(43.2)
Acquisitions	(3.2)	—	(3.2)	—
Proceeds from disposal of property and equipment	0.2	0.3	0.5	0.7
Net cash used in investing activities	(48.7)	(5.7)	(516.8)	(17.2)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of debt	—	—	850.0	—
Transaction costs for issuance and amendment of debt	—	—	(11.8)	—
Payments on debt	(2.2)	(0.4)	(817.4)	(1.1)
Prepayment penalty	—	—	(21.5)	—
Proceeds from exercise of stock options	0.4	—	1.0	—
Net cash (used in) provided by financing activities	(1.8)	(0.4)	0.3	(1.1)
NET CHANGE IN CASH AND CASH EQUIVALENTS	—	—	—	—
CASH AND CASH EQUIVALENTS—Beginning of period	—	—	—	—
CASH AND CASH EQUIVALENTS—End of period	$—	$—	$—	$—
Supplemental cash flow information:				

Cash payments for interest	$9.6	$16.5	$34.6	$48.9
Cash payments for income taxes	$—	$0.1	$0.2	$0.9
Accrued purchases of property and equipment	$0.6	$1.1	$(3.0)	$(5.9)

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MONEYGRAM INTERNATIONAL, INC.
CONSOLIDATED STATEMENT 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, 2013	$281.9	$0.6	$1,001.0	$(1,265.9)	$(52.3)	$(126.7)	$(161.4)
Net income	—	—	—	29.0	—	—	29.0
Stock-based compensation activity	—	—	7.1	(0.9)	—	2.8	9.0
Capital contribution from investors	—	—	0.3	—	—	—	0.3
Net unrealized gain on available-for-sale securities, net of tax	—	—	—	—	3.0	—	3.0
Amortization of prior service credit for pension and postretirement benefits, net of tax	—	—	—	—	(0.3)	—	(0.3)
Amortization of net actuarial loss for pension and postretirement benefits, net of tax	—	—	—	—	3.8	—	3.8
Unrealized foreign currency translation adjustment, net of tax	—	—	—	—	0.3	—	0.3
September 30, 2013	$281.9	$0.6	$1,008.4	$(1,237.8)	$(45.5)	$(123.9)	$(116.3)

(Amounts in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Loss	Accumulated Other Comprehensive Loss	Treasury Stock	Total
January 1, 2012	$281.9	$0.6	$989.2	$(1,216.5)	$(38.0)	$(127.3)	$(110.1)
Net loss	—	—	—	(69.5)	—	—	(69.5)
Stock-based compensation activity	—	—	7.0	—	—	0.6	7.6
Capital contribution from investors	—	—	3.3	—	—	—	3.3
Net unrealized gain on available-for-sale securities, net of tax	—	—	—	—	2.3	—	2.3
Amortization of prior service credit for pension and postretirement benefits, net of tax	—	—	—	—	(0.3)	—	(0.3)
Amortization of net actuarial loss for pension and	—	—	—	—	2.9	—	2.9

postretirement benefits, net of tax							
Unrealized foreign currency translation adjustment, net of tax	—	—	—	—	0.3	—	0.3
September 30, 2012	$ 281.9	$ 0.6	$ 999.5	$ (1,286.0)	$ (32.8)	$ (126.7)	$ (163.5)

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

Note 1 — Basis of Presentation

The accompanying unaudited consolidated financial statements of MoneyGram International, Inc. (“MoneyGram” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the U.S. 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 nine months ended September 30, 2013 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, 2012.

Note 2 — Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities, (“ASU 2011-11”) and in January 2013, a clarification ASU No. 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, (“ASU 2013-01”) was issued. ASU 2011-11 provides for additional disclosures of both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. ASU 2013-01 clarifies that ASU 2011-11 should apply only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset. The Company adopted ASU 2011-11 and ASU 2013-01 on January 1, 2013, which resulted in additional disclosures on offsetting derivative contract assets and liabilities. See Note 6 — Derivative Financial Instruments for added disclosure.
In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, (“ASU 2013-02”). ASU 2013-02 requires presentation (either on the face of the statement where net income is presented or in the notes) of the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The Company adopted ASU 2013-02 on January 1, 2013, which resulted in additional disclosures on movements in "Other comprehensive income." See Note 10 — Stockholders' Deficit for added disclosure.

Note 3 — Assets in Excess of Payment Service Obligations

The following table shows the amount of assets in excess of payment service obligations at September 30, 2013 and December 31, 2012:

(Amounts in millions)	September 30, 2013	December 31, 2012
Cash and cash equivalents (substantially restricted)	$2,222.4	$2,683.2
Receivables, net (substantially restricted)	959.7	1,206.5
Interest-bearing investments (substantially restricted)	941.8	450.1
Available-for-sale investments (substantially restricted)	50.7	63.5
	4,174.6	4,403.3
Payment service obligations	3,864.9	4,175.4
Assets in excess of payment service obligations	$309.7	$227.9

The Company was in compliance with its contractual and financial regulatory requirements as of September 30, 2013 and December 31, 2012. See Note 8 — Debt for details of the Company's compliance with its contractual and financial regulatory requirements.

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Note 4 — Fair Value Measurement

The following tables show the Company's financial assets and liabilities measured at fair value by hierarchy level on a recurring basis at September 30, 2013 and December 31, 2012:

	Fair Value at September 30, 2013			
(Amounts in millions)	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale investments (substantially restricted):				
U.S. government agencies	$—	$8.0	$—	$8.0
Residential mortgage-backed securities — agencies	—	21.7	—	21.7
Other asset-backed securities	—	—	21.0	21.0
Investment related to deferred compensation trust	9.4	—	—	9.4
Total financial assets	$9.4	$29.7	$21.0	$60.1
Financial liabilities:				
Forward contracts	$—	$(1.9)	$—	$(1.9)

	Fair Value at December 31, 2012			
(Amounts in millions)	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale investments (substantially restricted):				
U.S. government agencies	$—	$8.9	$—	$8.9
Residential mortgage-backed securities — agencies	—	36.6	—	36.6
Other asset-backed securities	—	—	18.0	18.0
Investment related to deferred compensation trust	8.6	—	—	8.6
Forward contracts	—	0.6	—	0.6
Total financial assets	$8.6	$46.1	$18.0	$72.7

For other asset–backed securities, investments in limited partnerships and trading investments, market quotes are generally not available. If available, the Company will utilize a fair value measurement from a pricing service. The pricing service utilizes a pricing model based on market observable data and indices, such as quotes for comparable securities, yield curves, default indices, interest rates and historical prepayment speeds. If a fair value measurement is not available from the pricing service, the Company will utilize a broker quote, if available. Because the inputs and assumptions that brokers use to develop prices are unknown, most valuations that are based on brokers' quotes are classified as Level 3. If no broker quote is available, or if such quote cannot be corroborated by market data or internal valuations, the Company may perform internal valuations utilizing externally developed cash flow models. These pricing models are based on market observable spreads and, when available, observable market indices. The pricing models also use inputs such as the rate of future prepayments and expected default rates on the principal, which are derived by the Company based on the characteristics of the underlying structure and historical prepayment speeds experienced at the interest rate levels projected for the underlying collateral. The pricing models for certain asset-backed securities also include significant non-observable inputs such as internally assessed credit ratings for non-rated securities combined with externally provided credit spreads. Observability of market inputs to the valuation models used for pricing certain of the Company's investments has deteriorated with the disruption to the credit markets as overall liquidity and trading activity in these sectors has been substantially reduced. Accordingly, securities valued using a pricing model are classified as Level 3 financial instruments.

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The following is a summary of the unobservable inputs used in other asset-backed securities classified as Level 3 at September 30, 2013 and December 31, 2012:

			September 30, 2013		December 31, 2012	
(Amounts in millions, except net average price)	Unobservable Input	Pricing Source	Market Value	Net Average Price [1]	Market Value	Net Average Price [1]
Alt-A	Price	Third party pricing service	$0.1	$15.84	$0.1	$12.50
Home Equity	Price	Third party pricing service	0.2	51.46	0.2	47.30
Indirect Exposure - High Grade[2]	Price	Third party pricing service	8.2	7.90	3.9	3.46
Indirect Exposure - Mezzanine[3]	Price	Third party pricing service	2.8	2.35	—	—
Indirect Exposure - Mezzanine	Price	Broker	5.1	5.78	7.9	3.71
Other	Discount margin	Manual	4.6	24.62	5.9	31.69
Total			$21.0	$5.35	$18.0	$4.39

[1] Net average price is per $100.00

[2] Converted to a third party pricing service as of September 30, 2013; utilized a manual pricing process as of December 31, 2012

[3] Converted to a third party pricing service as of September 30, 2013; utilized a broker pricing process as of December 31, 2012

The following table is a summary of the roll-forward of the other asset-backed securities, the only financial assets classified as Level 3, which are measured at fair value on a recurring basis, for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in millions)	2013	2012	2013	2012
Beginning balance	$17.6	$26.7	$18.0	$24.2
Principal paydowns	(3.2)	(0.1)	(3.3)	(0.2)
Unrealized gains	7.1	1.5	8.4	5.2
Unrealized losses	(0.5)	(0.3)	(2.1)	(1.4)
Ending balance	$21.0	$27.8	$21.0	$27.8

There were no other-than-temporary impairments for the three and nine months ended September 30, 2013 and 2012.

Assets and liabilities that are disclosed at fair value — Debt and interest-bearing investments (substantially restricted) 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 market quotations, where available, credit ratings, observable market indices and other market data (Level 2). At September 30, 2013 and December 31, 2012, the fair value and carrying value of the debt are:

	Fair Value		Carrying Value	
(Amounts in millions)	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Senior secured credit facility and incremental term loan	$844.7	$487.1	$845.0	$484.9
Second lien notes	—	337.6	—	325.0

The carrying amounts for the Company's cash and cash equivalents (substantially restricted) and the interest-bearing investments (substantially restricted) approximate fair value at September 30, 2013 and December 31, 2012.

Assets and liabilities measured at fair value on a non-recurring basis — Assets and liabilities that are measured at fair value on a non-recurring basis relate primarily to the Company's tangible fixed assets, goodwill and other intangible assets, which are re-measured only in the event of an impairment. No impairments of fixed assets, goodwill and other intangible assets were recorded during the three and nine months ended September 30, 2013 and 2012.

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Fair value re-measurements are normally based on significant unobservable inputs (Level 3). Tangible and intangible fixed asset fair values are normally derived using a discounted cash flow model based on expected future cash flows discounted using a weighted-average cost of capital rate. If it is determined an impairment loss has occurred, the carrying value of the asset is reduced to fair value with a corresponding charge to the Consolidated Statements of Operations.

The Company also records the investments in its defined benefit pension plan (the "Pension Plan") trust at fair value. The majority of the Pension Plan's investments are interest-bearing cash or common collective trusts issued and held by the Pension Plan's trustee. The fair values of the Pension Plan's investments are determined by the trustee based on the current market values of the underlying assets. In instances where market prices are not available, market values are determined by using bid quotations obtained from major market makers or security exchanges or bid quotations for identical or similar obligations. See Note 9 - Pension and Other Benefits in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for further description of investments held by the Pension Plan.

Note 5 — Investment Portfolio

The following table shows the components of the investment portfolio at September 30, 2013 and December 31, 2012:

(Amounts in millions)	September 30, 2013	December 31, 2012
Cash	$2,198.8	$2,112.1
Money-market securities	23.6	571.1
Cash and cash equivalents (substantially restricted)	2,222.4	2,683.2
Interest-bearing investments (substantially restricted)	941.8	450.1
Available-for-sale investments (substantially restricted)	50.7	63.5
Total investment portfolio	$3,214.9	$3,196.8

Cash and Cash Equivalents (substantially restricted) — Cash and cash equivalents consist of interest-bearing deposit accounts, non-interest bearing transaction accounts and money-market securities. The Company's money-market securities are invested in four funds, all of which are AAA rated and consist of U.S. Treasury bills, notes or other obligations issued or guaranteed by the U.S. government and its agencies, as well as repurchase agreements secured by such instruments.

Interest-bearing Investments (substantially restricted) — Interest-bearing investments consist of time deposits and certificates of deposit with original maturities of up to 24 months, and are issued from financial institutions rated A- or better as of September 30, 2013.

Available-for-sale Investments (substantially restricted) — Available-for-sale investments consist of mortgage-backed securities, other asset-backed securities and agency debenture securities. The amortized cost and fair value of available-for-sale investments were as follows at September 30, 2013:

(Amounts in millions, except net average price)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Net[(1)] Average Price
Residential mortgage-backed securities — agencies	$19.7	$2.0	$—	$21.7	$110.84
Other asset-backed securities	6.1	14.9	—	21.0	5.35
U.S. government agencies	7.6	0.4	—	8.0	99.74
Total	$33.4	$17.3	$—	$50.7	$12.06

(1) Net average price is per $100.00

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After other-than-temporary impairment charges, the amortized cost and fair value of available-for-sale investments were as follows at December 31, 2012:

(Amounts in millions, except net average price)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Net[1] Average Price
Residential mortgage-backed securities — agencies	$33.5	$3.1	$—	$36.6	$110.02
Other asset-backed securities	7.6	10.4	—	18.0	4.39
U.S. government agencies	8.2	0.7	—	8.9	99.39
Total	$49.3	$14.2	$—	$63.5	$14.06

(1) Net average price is per $100.00

At September 30, 2013 and December 31, 2012, 59 percent and 71 percent, respectively, of the available-for-sale portfolio were invested in debentures of U.S. government agencies or securities collateralized by U.S. government agency debentures. These securities have the implicit backing of the U.S. government and the Company expects to receive full par value upon maturity or pay-down, as well as all interest payments. Included in other asset-backed securities are collateralized debt obligations backed primarily by high-grade debt, mezzanine equity tranches of collateralized debt obligations and home equity loans, along with private equity investments, as summarized in Note 4 — Fair Value Measurement. The other asset-backed securities continue to have market exposure and this risk is factored into the fair value estimates of the Company, with the average price of an asset-backed security at $0.05 per dollar of par at September 30, 2013.

Gains and Losses and Other-than-temporary Impairments — At September 30, 2013 and December 31, 2012, net unrealized gains of $19.3 million and $16.3 million, respectively, were included in the Consolidated Balance Sheets in "Accumulated other comprehensive loss." The Company had $2.9 million reclassified from "Accumulated other comprehensive loss" for the three and nine months ended September 30, 2013. The Company had no amounts reclassified from "Accumulated other comprehensive loss" in connection with other-than-temporary impairments or realized gains and losses recognized for the three and nine months ended September 30, 2012.

Investment Ratings — In rating the securities in its investment portfolio, the Company uses ratings from Moody's Investor Service ("Moody's"), Standard & Poors ("S&P") and Fitch Ratings ("Fitch"). If the rating agencies have split ratings, the Company uses the highest two out of three ratings across the rating agencies for disclosure purposes. If none of the rating agencies have the same rating, the Company uses the lowest rating across the agencies for disclosure purposes. Securities issued or backed by U.S. government agencies are included in the AAA rating category. Investment grade is defined as a security having a Moody's equivalent rating of Aaa, Aa, A or Baa or an S&P or Fitch equivalent rating of AAA, AA, A or BBB. The Company's investments at September 30, 2013 and December 31, 2012 consisted of the following ratings:

	September 30, 2013			December 31, 2012		
(Dollars in millions)	Number of Securities	Fair Value	Percent of Investments	Number of Securities	Fair Value	Percent of Investments
Investment grade	15	$29.5	58 %	20	$45.3	71 %
Below investment grade	51	21.2	42 %	54	18.2	29 %
Total	66	$50.7	100 %	74	$63.5	