GREEN DOT CORP
Form 10-Q
May 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

o 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 001-34819

GREEN DOT CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	95-4766827
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
605 E. Huntington Drive, Suite 205 Monrovia, California 91016	(626) 775-3400
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

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 þ No o

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 þ No o

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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

There were 30,417,707 shares of Class A common stock, par value $.001 per share, (which number does not include 6,859,000 shares of Class A common stock issuable upon conversion of Series A Convertible Junior Participating Non-Cumulative Perpetual Preferred Stock) and 5,170,556 shares of Class B common stock, par value $.001 per share, outstanding as of April 30, 2012.

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PART I – FINANCIAL INFORMATION
ITEM 1. Financial Statements
GREEN DOT CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31, 2012	December 31, 2011
	(unaudited)	
	(In thousands, except par value)	
Assets		
Current assets:		
Unrestricted cash and cash equivalents	$117,644	$223,033
Federal funds sold	1,976	2,400
Investment securities available-for-sale, at fair value	69,744	20,647
Settlement assets	34,647	27,355
Accounts receivable, net	46,996	41,307
Prepaid expenses and other assets	15,648	12,248
Income tax receivable	1,612	3,371
Net deferred tax assets	6,671	6,664
Total current assets	294,938	337,025
Restricted cash	13,041	12,926
Investment securities available-for-sale, at fair value	68,316	10,563
Accounts receivable, net	4,135	4,147
Loans to bank customers	9,159	10,036
Prepaid expenses and other assets	1,523	460
Property and equipment, net	31,471	27,281
Deferred expenses	9,771	12,604
Goodwill	41,481	10,817
Total assets	$473,835	$425,859
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$29,930	$15,441
Deposits	39,472	38,957
Settlement obligations	34,647	27,355
Amounts due to card issuing banks for overdrawn accounts	42,947	42,153
Other accrued liabilities	19,573	16,248
Deferred revenue	16,054	21,500
Total current liabilities	182,623	161,654
Other accrued liabilities	7,595	6,239
Deferred revenue	13	19
Net deferred tax liabilities	4,778	4,751
Total liabilities	195,009	172,663
Stockholders' equity:		
Convertible Series A preferred stock, $0.001 par value: 10 shares authorized as of March 31, 2012 and December 31, 2011, respectively; 7 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	7	7
Class A common stock, $0.001 par value; 100,000 shares authorized as of March 31, 2012 and December 31, 2011, respectively; 30,418 and 30,162 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	30	30
	5	5

Class B convertible common stock, $0.001 par value, 100,000 shares authorized as of March 31, 2012 and December 31, 2011, respectively; 5,171 and 5,280 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		
Additional paid-in capital	139,918	131,383
Retained earnings	138,857	121,741
Accumulated other comprehensive income	9	30
Total stockholders' equity	278,826	253,196
Total liabilities and stockholders' equity	$473,835	$425,859

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2012	2011
	(In thousands, except per share data)	
Operating revenues:		
Card revenues and other fees	$62,373	$54,324
Cash transfer revenues	39,643	31,149
Interchange revenues	43,506	37,714
Stock-based retailer incentive compensation	(3,190)	(5,880)
Total operating revenues	142,332	117,307
Operating expenses:		
Sales and marketing expenses	52,572	42,539
Compensation and benefits expenses	26,153	21,137
Processing expenses	20,850	19,733
Other general and administrative expenses	15,904	13,393
Total operating expenses	115,479	96,802
Operating income	26,853	20,505
Interest income	1,199	103
Interest expense	(264)	(1)
Income before income taxes	27,788	20,607
Income tax expense	10,672	7,906
Net income	17,116	12,701
Income attributable to preferred stock	(2,772)	—
Net income allocated to common stockholders	$14,344	$12,701
Basic earnings per common share:		
Class A common stock	$0.40	$0.30
Class B common stock	$0.40	$0.30
Basic weighted-average common shares issued and outstanding:		
Class A common stock	28,839	17,525
Class B common stock	5,230	22,537
Diluted earnings per common share:		
Class A common stock	$0.39	$0.29
Class B common stock	$0.39	$0.29
Diluted weighted-average common shares issued and outstanding:		
Class A common stock	35,867	42,481
Class B common stock	7,012	24,945

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Net income	17,116	12,701
Other comprehensive loss, net of tax		
Unrealized holding losses arising during period, net of reclassification adjustments for amounts included in net income	(21)	(2)
Comprehensive income	17,095	12,699

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Operating activities		
Net income	$17,116	$12,701
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,651	2,531
Provision for uncollectible overdrawn accounts	13,235	13,398
Employee stock-based compensation	3,489	1,861
Stock-based retailer incentive compensation	3,190	5,880
Amortization of premium on available-for-sale investment securities	264	—
Net gain on investment securities	(8)	—
(Recovery) provision for uncollectible trade receivables	(429)	4
Impairment of capitalized software	43	232
Deferred income taxes	—	107
Excess tax benefits from exercise of options	(1,268)	(1,363)
Changes in operating assets and liabilities:		
Settlement assets	(7,292)	835
Accounts receivable, net	(17,677)	(10,764)
Prepaid expenses and other assets	(4,364)	108
Deferred expenses	2,833	1,528
Accounts payable and other accrued liabilities	18,802	6,303
Settlement obligations	7,292	(835)
Amounts due issuing bank for overdrawn accounts	794	3,170
Deferred revenue	(5,452)	(2,543)
Income tax receivable	3,044	7,723
Net cash provided by operating activities	37,263	40,876
Investing activities		
Purchases of available-for-sale investment securities	(122,077)	(7,985)
Proceeds from maturities of available-for-sale securities	8,053	—
Proceeds from sales of available-for-sale securities	7,700	—
Increase in restricted cash	(115)	(5,159)
Payments for acquisition of property and equipment	(7,833)	(5,393)
Net principal collections on loans	877	—
Acquisition of Loopt Inc., net of cash acquired	(32,052)	—
Net cash used in investing activities	(145,447)	(18,537)
Financing activities		
Proceeds from exercise of options	588	1,531
Excess tax benefits from exercise of options	1,268	1,363
Net increase in deposits	515	—
Net cash provided by financing activities	2,371	2,894
Net (decrease) increase in unrestricted cash and cash equivalents	(105,813)	25,233
Unrestricted cash, cash equivalents, and federal funds, beginning of year	225,433	167,503
Unrestricted cash, cash equivalents, and federal funds, end of period	$119,620	$192,736
Cash paid for interest	$28	$—

Cash paid for income taxes	$9,827	$76

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1—Organization

Green Dot Corporation ("we," "us" and "our" refer to Green Dot Corporation and its wholly-owned subsidiaries, Next Estate Communications, Inc.; Green Dot Bancorp; Green Dot Bank; and Loopt, Inc.) is a leading financial services company providing simple, low-cost and convenient money management solutions to a broad base of U.S. consumers. Our products include Green Dot MasterCard and Visa-branded prepaid debit cards and several co-branded reloadable prepaid card programs, collectively referred to as our GPR cards; Visa-branded gift cards; and our MoneyPak and swipe reload proprietary products, collectively referred to as our cash transfer products, which enable cash loading and transfer services through our Green Dot Network. The Green Dot Network enables consumers to use cash to reload our prepaid debit cards or to transfer cash to any of our Green Dot Network acceptance members, including competing prepaid card programs and other online accounts.

We market our cards and financial services to banked, underbanked and unbanked consumers in the United States using distribution channels other than traditional bank branches, such as third-party retailer locations nationwide and the Internet. Our prepaid debit cards are issued by Green Dot Bank and third-party issuing banks including GE Capital Retail Bank (formerly GE Money Bank) and Columbus Bank and Trust Company, a division of Synovus Bank. We also have multi-year distribution arrangements with many large and medium-sized retailers, such as Walmart, Walgreens, CVS, Rite Aid, 7-Eleven, Kroger, Kmart, Meijer and Radio Shack, and with various industry resellers, such as Blackhawk Network, Inc. and Incomm. We refer to participating retailers collectively as our "retail distributors."

Acquisitions

In November 2011, the Board of Governors of the Federal Reserve System and the Utah Department of Financial Institutions approved our applications to acquire Bonneville Bancorp, renamed Green Dot Bancorp, a Utah bank holding company, and its bank subsidiary, Bonneville Bank, renamed Green Dot Bank. We thereby became a bank holding company under the Bank Holding Company Act of 1956. In December 2011, we completed our acquisition of Green Dot Bancorp for approximately $15.7 million in cash. We contributed $14.3 million in cash to Green Dot Bank in December 2011 to provide an initial capital base for its expanded operations.

In March 2012, we acquired Loopt, Inc., or Loopt, for approximately $33.6 million in cash in exchange for all of its outstanding shares. We also have also committed to pay $9.8 million in retention-based incentives for employees we hired in connection with the acquisition of Loopt. The results of operations are included in our consolidated results of operations following the acquisition date. Pro-forma results of operations have not been presented because the effect of this acquisition was not material to our financial results.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying unaudited consolidated financial statements in accordance with generally accepted accounting principles in the United States of America, or GAAP. We consolidated our wholly-owned subsidiaries and eliminated all significant intercompany balances and transactions.

We have also prepared the accompanying unaudited consolidated financial statements in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X and, consequently, they do not include all of the annual disclosures required by GAAP. Reference is made to our Annual Report on Form 10-K for the year ended December 31, 2011, for additional disclosures, including a summary of our significant accounting policies. There have been no changes to our significant accounting policies during the three months ended March 31, 2012, except as noted below. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal and recurring items, except as otherwise noted, necessary for the fair presentation of our financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for the three months ended March 31, 2012 are not necessarily indicative of future results.

Change in Estimate

We defer and recognize new card fee revenues, a component of card revenues and other fees, on a straight-line basis over our average card lifetime. We determine the average card lifetime based on our recent historical data for comparable products. Based on recent trends in our historical data, we shortened the period we analyze GPR cards activated from forty-two months prior to each balance sheet date to thirty months and we adjusted our average card lifetime estimate from nine months to eight months during the three months ended March 31, 2012. The impact of this change was not material to our unaudited consolidated financial statements.

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(UNAUDITED)

Note 2—Summary of Significant Accounting Policies (continued)
Recent Accounting Pronouncements
In December 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, Comprehensive Income: Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU 2011-12 only defers those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. We adopted these ASUs in the first quarter of 2012. The adoptions of these standards did not have a significant impact on our consolidated financial statements.
In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment, which provides entities testing goodwill for impairment to now have an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. We adopted this ASU in the first quarter of 2012. The adoption of this standard did not have any impact on our consolidated financial statements.
In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which converges common fair value measurement and disclosure requirements in accordance with GAAP and International Financial Reporting Standards, or IFRS. We adopted this ASU in the first quarter of 2012. The adoption of this standard did not have a significant impact on our consolidated financial statements.
Note 3—Investment Securities
We classify our investment securities as available-for-sale and report them at fair value with the related unrealized gains and losses, net of tax, included in accumulated other comprehensive income, a component of stockholders' equity.
As of March 31, 2012 and December 31, 2011, our available-for-sale investment securities were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
March 31, 2012				
Corporate bonds	$33,133	$65	$(1)	$33,197
Commercial paper	15,252	3	—	15,255
Negotiable certificate of deposit	3,500	—	—	3,500
U.S. treasury notes	42,870	—	(25)	42,845
Agency securities	35,878	6	(44)	35,840
Municipal bonds	4,815	14	(3)	4,826
Asset-backed securities	2,597	—	—	2,597
Total fixed income securities	$138,045	$88	$(73)	$138,060
December 31, 2011				
Corporate bonds	$16,307	$27	$(1)	$16,333
Commercial paper	4,998	1	—	4,999

Negotiable certificate of deposit	3,500	—	—	3,500
Agency securities	3,979	12	(4)	3,987
Municipal bonds	2,379	13	(1)	2,391
Total fixed income securities	$31,163	$53	$(6)	$31,210

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(UNAUDITED)

Note 3—Investment Securities (continued)
As of March 31, 2012 and December 31, 2011, the gross unrealized losses and fair values of available-for-sale investment securities that were in unrealized loss positions were as follows:

	Less than 12 months		12 months or more			
	Fair value	Unrealized loss	Fair value	Unrealized loss	Total fair value	Total unrealized loss
	(In thousands)					
March 31, 2012						
Fixed income securities						
Corporate bonds	$5,597	$(1)	$—	$—	$5,597	$(1)
U.S. treasury notes	42,845	(25)	—	—	42,845	(25)
Agency securities	26,008	(44)	—	—	26,008	(44)
Municipal bonds	2,642	(3)	—	—	2,642	(3)
Total fixed income securities	$77,092	$(73)	$—	$—	$77,092	$(73)
December 31, 2011						
Fixed income securities						
Corporate bonds	$2,999	$(1)	$—	$—	$2,999	$(1)
Agency securities	1,663	(4)	—	—	1,663	(4)
Municipal bonds	324	(1)	—	—	324	(1)
Total fixed income securities	$4,986	$(6)	$—	$—	$4,986	$(6)

We did not record any other-than-temporary impairment losses during the three-month periods ended March 31, 2012 or 2011 on our available-for-sale investment securities. We do not intend to sell these investments or it is more likely than not that we will not be required to sell these investments before recovery of their amortized cost bases, which may be at maturity.
As of March 31, 2012, the contractual maturities of our available-for-sale investment securities were as follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$69,713	$69,744
Due after one year through five years	65,782	65,763
Due after five years through ten years	2,204	2,205
Due after ten years	346	348
Total fixed income securities	$138,045	$138,060

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(UNAUDITED)

Note 4—Accounts Receivable
Accounts receivable, net consisted of the following:

	March 31, 2012	December 31, 2011
	(In thousands)	
Overdrawn account balances due from cardholders	$21,540	$22,139
Reserve for uncollectible overdrawn accounts	(14,482)	(15,309)
Net overdrawn account balances due from cardholders	7,058	6,830
Trade receivables	10,380	5,574
Reserve for uncollectible trade receivables	(23)	(453)
Net trade receivables	10,357	5,121
Receivables due from card issuing banks	29,075	28,812
Other receivables	4,641	4,691
Accounts receivable, net	$51,131	$45,454

Activity in the reserve for uncollectible overdrawn accounts consisted of the following:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Balance, beginning of period	$15,309	$11,823
Provision for uncollectible overdrawn accounts:		
Fees	12,489	12,055
Purchase transactions	746	1,343
Charge-offs	(14,062)	(10,928)
Balance, end of period	$14,482	$14,293

Note 5—Loans
The following tables presents total outstanding loans and a summary of the related payment status:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current or Less Than 30 Days Past Due	Purchased Credit-Impaired Loans	Total Outstanding
	(In thousands)						
March 31, 2012							
Real estate	$569	$—	$—	$569	$4,024	$ 503	$5,096
Commercial	118	—	—	118	1,012	8	1,138
Installment	8	—	12	20	2,690	215	2,925
Total loans	$695	$—	$12	$707	$7,726	$ 726	$9,159
Percentage of outstanding	7.59 %	— %	0.13 %	7.72 %	84.35 %	7.93 %	100.00 %

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(UNAUDITED)

Note 5—Loans (continued)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current or Less Than 30 Days Past Due	Purchased Credit-Impaired Loans	Total Outstanding
	(In thousands)						
December 31, 2011							
Real estate	$—	$—	$—	$—	$4,983	$ 503	$5,486
Commercial	2	—	—	2	1,371	44	1,417
Installment	—	—	—	—	2,881	252	3,133
Total loans	$2	$—	$—	$2	$9,235	$ 799	$10,036
Percentage of outstanding	0.02 %	— %	— %	0.02 %	92.02 %	7.96 %	100.00 %

Nonperforming Loans
The loan balances past due 90 days or more in the table above are not accruing interest as they are classified as nonperforming. See Note 2–Summary of Significant Accounting Policies to the Consolidated Financial Statements of our 2011 Annual Report on Form 10-K for further information on the criteria for classification as nonperforming.
Credit Quality Indicators
We closely monitor and assess the credit quality and credit risk of our loan portfolio on an ongoing basis. We continuously review and update loan risk classifications. We evaluate our loans using non-classified or classified as the primary credit quality indicator. Classified loans are those loans that have demonstrated credit weakness where we believe there is a heightened risk of principal loss. Classified loans are internally classified as substandard, doubtful or loss consistent with regulatory guidelines.
The tables below present our primary credit quality indicators related to our loan portfolio:

	Non-Classified	Classified
	(In thousands)	
March 31, 2012		
Real estate	$4,735	$361
Commercial	1,130	8
Installment	2,784	141
Total loans	$8,649	$510
December 31, 2011		
Real estate	$5,125	$361
Commercial	1,407	10
Installment	2,982	151
Total loans	$9,515	$522

Purchased Credit-Impaired Loans
The table below presents the remaining unpaid principal balance and carrying amount for purchased credit-impaired loans:

	March 31, 2012	December 31, 2011
	(In thousands)	
Unpaid principal balance	$1,321	$1,506

Carrying value	726	799

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(UNAUDITED)

Note 5—Loans (continued)
The table below shows activity for the accretable yield on purchased credit-impaired loans:

	Three Months Ended March 31, 2012	
	(In thousands)	
Accretable yield at beginning of period	$99	
Accretion	(25	)
Accretable yield at end of period	$74	

Allowance for Loan Losses
As of March 31, 2012 and December 31, 2011, we did not establish an allowance for credit losses. We recorded our loan portfolio at fair value when acquired on December 8, 2011 in conjunction with our acquisition of Green Dot Bancorp and there have been no material changes in credit quality associated with the loan portfolio since the acquisition date.
Note 6—Fair Value Measurements
Under applicable accounting guidance, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.
We determine the fair values of our financial instruments based on the fair value hierarchy established under applicable accounting guidance which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs used to measure fair value. For more information regarding the fair value hierarchy and how we measure fair value, see Note 3–Investment Securities to the Consolidated Financial Statements of our 2011 Annual Report on Form 10-K.
As of March 31, 2012 and December 31, 2011, our assets carried at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
March 31, 2012				
Corporate bonds	$—	$33,197	$—	$33,197
Commercial paper	—	15,255	—	15,255
Negotiable certificate of deposit	—	3,500	—	3,500
U.S. treasury notes	—	42,845	—	42,845
Agency securities	—	35,840	—	35,840
Municipal bonds	—	4,826	—	