GREEN DOT CORP
Form 10-Q
November 09, 2015
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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 September 30, 2015

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 (State or other jurisdiction of incorporation or organization)	95-4766827 (IRS Employer Identification No.)
3465 E. Foothill Blvd. Pasadena, California 91107 (Address of principal executive offices, including zip code)	(626) 765-2000 (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 (Do not check if a smaller reporting company)	Smaller reporting company o

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 52,276,710 shares of Class A common stock, par value $.001 per share (which number does not include 1,518,512 shares of Class A common stock issuable upon conversion of Series A Convertible Junior Participating Non-Cumulative Perpetual Preferred Stock) as of October 31, 2015.

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

	September 30, 2015 (unaudited)	December 31, 2014
Assets	(In thousands, except par value)	
Current assets:		
Unrestricted cash and cash equivalents	$606,674	$724,158
Federal funds sold	481	480
Restricted cash	6,512	2,015
Investment securities available-for-sale, at fair value	80,386	46,650
Settlement assets	45,782	148,694
Accounts receivable, net	21,775	48,917
Prepaid expenses and other assets	36,954	23,992
Income tax receivable	—	16,290
Total current assets	798,564	1,011,196
Restricted cash	—	2,152
Investment securities, available-for-sale, at fair value	133,500	73,781
Loans to bank customers, net of allowance for loan losses of $413 and $444 as of September 30, 2015 and December 31, 2014, respectively	6,607	6,550
Prepaid expenses and other assets	11,756	11,883
Property and equipment, net	78,086	77,284
Deferred expenses	5,979	17,326
Net deferred tax assets	8,236	6,268
Goodwill and intangible assets	478,619	417,200
Total assets	$1,521,347	$1,623,640
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$15,563	$36,444
Deposits	500,022	565,401
Obligations to customers	84,762	98,052
Settlement obligations	3,674	4,484
Amounts due to card issuing banks for overdrawn accounts	980	1,224
Other accrued liabilities	63,100	79,137
Deferred revenue	10,200	24,418
Note payable	22,500	22,500
Income tax payable	171	—
Net deferred tax liabilities	4,252	3,995
Total current liabilities	705,224	835,655
Other accrued liabilities	41,226	31,495
Note payable	110,625	127,500
Total liabilities	857,075	994,650
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Convertible Series A preferred stock, $0.001 par value (as converted): 10 shares authorized as of September 30, 2015 and December 31, 2014; 2 shares	2	2

issued and outstanding as of September 30, 2015 and December 31, 2014, respectively		
Class A common stock, $0.001 par value: 100,000 shares authorized as of September 30, 2015 and December 31, 2014; 52,150 and 51,146 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	52	51
Treasury stock at cost, 1,856 shares as of September 30, 2015 and no shares outstanding as of December 31, 2014	(32,000)	—
Additional paid-in capital	406,052	383,296
Retained earnings	290,181	245,693
Accumulated other comprehensive loss	(15)	(52)
Total stockholders’ equity	664,272	628,990
Total liabilities and stockholders’ equity	$1,521,347	$1,623,640

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Operating revenues:				
Card revenues and other fees	$71,870	$58,948	$242,904	$188,007
Processing and settlement service revenues	28,470	44,085	155,007	135,852
Interchange revenues	46,020	43,757	148,381	133,626
Stock-based retailer incentive compensation	—	(2,131)	(2,520)	(6,541)
Total operating revenues	146,360	144,659	543,772	450,944
Operating expenses:				
Sales and marketing expenses	52,873	55,599	169,997	173,042
Compensation and benefits expenses	40,555	31,487	123,370	88,665
Processing expenses	20,496	19,529	78,216	58,893
Other general and administrative expenses	34,142	24,716	101,081	71,624
Total operating expenses	148,066	131,331	472,664	392,224
Operating (loss) income	(1,706)	13,328	71,108	58,720
Interest income	1,128	982	3,624	2,998
Interest expense	(1,465)	(17)	(4,510)	(62)
Other income	—	6,369	—	6,369
(Loss) income before income taxes	(2,043)	20,662	70,222	68,025
Income tax (benefit) expense	(2,222)	6,771	25,734	24,486
Net income	179	13,891	44,488	43,539
Income attributable to preferred stock	(5)	(1,636)	(1,269)	(5,587)
Net income available to common stockholders	$174	$12,255	$43,219	$37,952
Basic earnings per common share:	$—	$0.30	$0.84	$0.96
Diluted earnings per common share:	$—	$0.30	$0.83	$0.95
Basic weighted-average common shares issued and outstanding:	51,576	39,884	51,612	38,923
Diluted weighted-average common shares issued and outstanding:	52,361	40,461	52,161	39,709

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income	$179	$13,891	$44,488	$43,539
Other comprehensive income				
Unrealized holding gain (loss), net of tax	315	(65)	37	25
Comprehensive income	$494	$13,826	$44,525	$43,564

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Operating activities		
Net income	$44,488	$43,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	28,061	23,450
Amortization of intangible assets	17,124	730
Provision for uncollectible overdrawn accounts	46,480	26,234
Employee stock-based compensation	19,076	14,152
Stock-based retailer incentive compensation	2,520	6,541
Amortization of premium on available-for-sale investment securities	821	828
Change in fair value of contingent consideration	(7,516)	—
Impairment of capitalized software	5,739	—
Amortization of deferred financing costs	1,151	—
Deferred income tax expense	29	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(17,263)	(6,426)
Prepaid expenses and other assets	(11,317)	(7,670)
Deferred expenses	11,347	6,252
Accounts payable and other accrued liabilities	(29,030)	(10,471)
Amounts due to card issuing banks for overdrawn accounts	(244)	(49,084)
Deferred revenue	(14,293)	(11,607)
Income tax payable/receivable	16,670	10,385
Other, net	(94)	(30)
Net cash provided by operating activities	113,749	46,823
Investing activities		
Purchases of available-for-sale investment securities	(175,857)	(161,852)
Proceeds from maturities of available-for-sale securities	57,309	106,506
Proceeds from sales of available-for-sale securities	24,289	39,866
Increase in restricted cash	(918)	(596)
Payments for acquisition of property and equipment	(37,372)	(23,798)
Net (increase) decrease in loans	(57)	85
Acquisition, net of cash acquired	(65,209)	(14,860)
Net cash used in investing activities	(197,815)	(54,649)
Financing activities		
Repayments of borrowings from note payable	(16,875)	—
Borrowings on revolving line of credit	30,001	—
Repayments on revolving line of credit	(30,001)	—
Proceeds from exercise of options	2,077	6,690
Excess tax benefits from exercise of options	158	3,797
Taxes paid related to net share settlement of equity awards	(3,333)	(1,721)
Net (decrease) increase in deposits	(65,379)	222,280

Net increase (decrease) in obligations to customers	90,817	(13,713)
Contingent consideration payments	(882)	—
Repurchase of Class A common stock	(40,000)	—
Net cash (used in) provided by financing activities	(33,417)	217,333
Net (decrease) increase in unrestricted cash, cash equivalents, and federal funds sold	(117,483)	209,507
Unrestricted cash, cash equivalents, and federal funds sold, beginning of year	724,638	423,621
Unrestricted cash, cash equivalents, and federal funds sold, end of period	$607,155	$633,128
Cash paid for interest	$3,359	$62
Cash paid for income taxes	$9,324	$10,337

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) is a pro-consumer technology innovator with a mission to reinvent personal banking for the masses. Our products and services 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; checking account products, such as GoBank, an innovative checking account developed for use via mobile phones that is available at Walmart and online; our swipe reload proprietary products referred to as our cash transfer products, which enable cash loading and transfer services through our Green Dot Network; and tax refund processing services designed to facilitate the secure receipt of funds claimed by a taxpayer as a refund on a taxpayer's tax return.
Our products and services are available to consumers through a large-scale "branchless bank" distribution network of more than 100,000 U.S. locations, including retailers, neighborhood financial service center locations and tax preparation offices, as well as online, in the leading app stores and through leading online tax preparation providers. 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 are also the tax refund processing service provider for four out of the six leading consumer online and in-person tax preparation companies.
We market our products and services to consumers in the United States. Our products are issued by our wholly-owned subsidiary, Green Dot Bank and third-party issuing banks including The Bancorp Bank and Sunrise Banks, N.A. 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, and Dollar Tree, and with various industry resellers, such as Blackhawk Network and Incomm. We refer to participating retailers collectively as our “retail distributors.” Our tax refund processing services are integrated into the offerings of the nation’s leading tax software companies, which, together, enable us to serve approximately 25,000 independent online and in-person tax preparers and accountants nationwide.
In January 2015, we completed the acquisition of AccountNow, Inc. We issued approximately 514,000 shares of our Class A common stock on the date of close and the remainder of the consideration was paid in cash. AccountNow's results of operations are included in our consolidated statements of operations following the acquisition date. We have not presented pro-forma results of operations because the effect of this acquisition was not material to our financial results. Of the total consideration transferred, we made a preliminary allocation of $61.6 million and $16.1 million to goodwill and intangible assets, respectively. We may adjust this allocation after obtaining more information regarding, among other things, asset valuations, liabilities assumed, and revisions to preliminary estimates over the measurement period not to exceed 12 months from the date of acquisition.
Note 2—Summary of Significant Accounting Policies
Basis of Presentation
The accompanying unaudited consolidated financial statements are prepared 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, 2014 for additional disclosures, including a summary of our significant accounting policies. There have been no changes to our significant accounting policies during the nine months ended September 30, 2015.
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.
Recent Accounting Pronouncements

In September 2015, the FASB issued ASU No. 2015-16, Business Combination (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU 2015-16 requires adjustments to provisional amounts that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings from changes in depreciation, amortization, or other income effects as a result of changes to provisional amounts calculated as if the accounting had been completed at the acquisition date. In addition, the amendments in the ASU require an entity to disclose the nature and amount of

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Note 2—Summary of Significant Accounting Policies (continued)
measurement-period adjustments recognized in the current period that would have been recorded in previous reporting periods if the adjustments had been recognized as of the acquisition date. The amendments are effective for annual and interim periods beginning after December 15, 2015. We are currently in the process of evaluating the impact of adoption of the ASU on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"). This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for service contracts.

ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. We are currently evaluating the provisions of the ASU to determine the potential impact the new standard will have on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03") which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The ASU is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. The new guidance will be applied retrospectively to each prior period presented. We are currently in the process of evaluating the impact of adoption of the ASU on our consolidated balance sheets.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, which deferred the effective date of ASU 2014-09 by one year, making the standard effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early adoption is permitted for periods beginning after December 15, 2016. We are currently evaluating the impact of our pending adoption of ASU 2015-14 and ASU 2014-09 on our consolidated financial statements.

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

Note 3 — Investment Securities
Our available-for-sale investment securities were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
September 30, 2015				
Corporate bonds	$36,957	$22	$(31)	$36,948
Commercial paper	23,697	4	—	23,701
U.S. Treasury notes	29,734	15	—	29,749
Mortgage-backed securities	100,706	158	(258)	100,606
Municipal bonds	4,693	32	(3)	4,722
Asset-backed securities	18,164	3	(7)	18,160
Total investment securities	$213,951	$234	$(299)	$213,886
December 31, 2014				
Corporate bonds	$40,433	$4	$(48)	$40,389
Commercial paper	7,648	1	—	7,649
U.S. Treasury notes	14,782	5	(16)	14,771
Agency securities	2,950	—	—	2,950
Mortgage-backed securities	35,420	119	(177)	35,362
Municipal bonds	5,555	61	(21)	5,595
Asset-backed securities	13,727	—	(12)	13,715
Total investment securities	$120,515	$190	$(274)	$120,431

As of September 30, 2015 and December 31, 2014, 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		Total fair value	Total unrealized loss
	Fair value	Unrealized loss	Fair value	Unrealized loss		
	(In thousands)					
September 30, 2015						
Corporate bonds	$24,928	$(31)	$—	$—	$24,928	$(31)
Mortgage-backed securities	45,878	(179)	13,319	(79)	59,197	(258)
Municipal bonds	—	—	337	(3)	337	(3)
Asset-backed securities	10,020	(7)	—	—	10,020	(7)
Total investment securities	$80,826	$(217)	$13,656	$(82)	$94,482	$(299)
December 31, 2014						
Corporate bonds	$33,348	$(48)	$—	$—	$33,348	$(48)
U.S. Treasury notes	6,068	(16)	—	—	6,068	(16)
Mortgage-backed securities	21,495	(163)	1,143	(14)	22,638	(177)
Municipal bonds	—	—	419	(21)	419	(21)
Asset-backed securities	12,254	(12)	—	—	12,254	(12)
Total investment securities	$73,165	$(239)	$1,562	$(35)	$74,727	$(274)

We did not record any other-than-temporary impairment losses during the three and nine months ended September 30, 2015 or 2014 on our available-for-sale investment securities. We do not intend to sell these investments and we have determined that 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.

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

Note 3 — Investment Securities (continued)
As of September 30, 2015, 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	$80,370	$80,386
Due after one year through five years	11,053	11,056
Due after five years through ten years	329	336
Due after ten years	3,828	3,840
Mortgage and asset-backed securities	118,371	118,268
Total investment securities	$213,951	$213,886

The expected payments on mortgage-backed and asset-backed securities may not coincide with their contractual maturities because the issuers have the right to call or prepay certain obligations.
Note 4—Accounts Receivable
Accounts receivable, net consisted of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Overdrawn account balances due from cardholders	$12,775	$14,412
Reserve for uncollectible overdrawn accounts	(10,543)	(11,196)
Net overdrawn account balances due from cardholders	2,232	3,216
Trade receivables	2,773	8,265
Reserve for uncollectible trade receivables	(62)	(16)
Net trade receivables	2,711	8,249
Receivables due from card issuing banks	6,746	28,349
Fee advances	952	6,545
Other receivables	9,134	2,558
Accounts receivable, net	$21,775	$48,917

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance, beginning of period	$12,039	$8,555	$11,196	$10,363
Provision for uncollectible overdrawn accounts:				
Fees	13,012	8,613	40,393	23,016
Purchase transactions	1,902	1,562	6,087	3,218
Charge-offs	(16,410)	(8,832)	(47,133)	(26,699)
Balance, end of period	$10,543	$9,898	$10,543	$9,898

Note 5—Property and Equipment
During the three and nine months ended September 30, 2015 we recorded impairment charges of $0.7 million and $5.7 million, respectively, associated with capitalized internal-use software we determined were no longer viable and any remaining carrying value was written off. During the three and nine months ended September 30, 2014, we did not record any impairment charges. The impairment charge is included within other general and administrative

expenses in our consolidated statements of operations.

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

Note 6—Loans to Bank Customers

The following table presents total outstanding loans, gross of the related allowance for loan losses, 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	Total Outstanding
	(In thousands)					
September 30, 2015						
Residential	$—	$—	$40	$40	$3,666	$3,706
Commercial	—	—	—	—	337	337
Installment	2	—	22	24	2,953	2,977
Total loans	$2	$—	$62	$64	$6,956	$7,020
Percentage of outstanding	— %	— %	0.9 %	0.9 %	99.1 %	100.0 %
December 31, 2014						
Residential	$—	$—	$—	$—	$3,861	$3,861
Commercial	—	—	—	—	697	697
Installment	1	3	4	8	2,428	2,436
Total loans	$1	$3	$4	$8	$6,986	$6,994
Percentage of outstanding	— %	— %	0.1 %	0.1 %	99.9 %	100.0 %

Nonperforming Loans

The following table presents the carrying value, gross of the related allowance for loan losses, of our nonperforming loans. See Note 2–Summary of Significant Accounting Policies to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2014 for further information on the criteria for classification as nonperforming.

	September 30, 2015	December 31, 2014
	(In thousands)	
Residential	$285	$54
Commercial	16	31
Installment	157	104
Total loans	$458	$189

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, including all impaired loans. Classified loans are generally internally categorized as substandard, doubtful or loss, consistent with regulatory guidelines.

The table below presents the carrying value, gross of the related allowance for loan losses, of our loans within the primary credit quality indicators related to our loan portfolio:

	September 30, 2015	December 31, 2014

	Non-Classified	Classified	Non-Classified	Classified
	(In thousands)			
Residential	$3,225	$481	$3,604	$257
Commercial	305	32	635	62
Installment	2,853	124	2,306	130
Total loans	$6,383	$637	$6,545	$449

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

Note 6—Loans to Bank Customers (continued)

Impaired Loans and Troubled Debt Restructurings

When, for economic or legal reasons related to a borrower's financial difficulties, we grant a concession for other than an insignificant period of time to a borrower that we would not otherwise consider, the related loan is classified as a Troubled Debt Restructuring, or TDR. Our TDR modifications involve an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk. The following table presents our impaired loans and loans that we modified as TDRs as of September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
	(In thousands)			
Residential	$374	$285	$97	$54
Commercial	255	16	270	31
Installment	360	157	367	104

Allowance for Loan Losses

Activity in the allowance for loan losses consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance, beginning of period	$377	$414	$444	$464
Provision for loans	—	20	(38)	20
Loans charged off	—	(7)	(44)	(66)
Recoveries of loans previously charged off	36	8	51	17
Balance, end of period	$413	$435	$413	$435

Note 7—Employee Stock-Based Compensation

We currently grant restricted stock units and stock options to employees and directors under our 2010 Equity Incentive Plan. Additionally, through our 2010 Employee Stock Purchase Plan, employees are able to purchase shares of our Class A common stock at a discount through payroll deductions. We have reserved shares of our Class A common stock for issuance under these plans.

The following table summarizes restricted stock units granted under our 2010 Equity Incentive Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Restricted stock units granted	55	1,281	1,705	1,733
Weighted-average grant-date fair value	$18.85	$19.33	$16.18	$19.27

We issued no stock options during the three and nine months ended September 30, 2015, or for the three months ended September 30, 2014. We granted options to purchase 106,000 share of our Class A common stock for the nine months ended September 30, 2014.

Included in the number of restricted stock units granted during the nine months ended September 30, 2015, are 242,587 shares of our Class A common stock underlying performance-based restricted stock units that we granted to certain executive employees under our 2010 Equity Incentive Plan.

The total stock-based compensation expense recognized was $7.5 million and $19.1 million for the three and nine months ended September 30, 2015, respectively, and $5.5 million and $14.2 million for the three and nine months ended September 30, 2014, respectively. Total stock-based compensation expense includes amounts related to awards of stock options and restricted stock units and purchases under our 2010 Employee Stock Purchase Plan.

Note 8—Deposits

Deposits are categorized as non-interest or interest-bearing deposits as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Non-interest bearing deposit accounts		
GPR deposits	$460,632	$529,779
Other demand deposits	23,013	19,631
Total non-interest bearing deposit accounts	483,645	549,410
Interest-bearing deposit accounts		
Negotiable order of withdrawal (NOW)	918	905
Savings	8,107	7,985
Time deposits, denominations greater than or equal to $100	5,469	5,263
Time deposits, denominations less than $100	1,883	1,838
Total interest-bearing deposit accounts	16,377	15,991
Total deposits	$500,022	$565,401

The scheduled contractual maturities for total time deposits are presented in the table below:

	September 30, 2015
	(In thousands)
Due in 2015	$679
Due in 2016	2,895
Due in 2017	2,590
Due in 2018	279
Due in 2019	337
Thereafter	572
Total time deposits	$7,352

Note 9—Note Payable

As of September 30, 2015 and December 31, 2014, our outstanding debt consisted of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Term facility	$133,125	$150,000
Revolving facility	—	—
Total notes payable	$133,125	$150,000

In October 2014, we entered into a $225.0 million credit agreement with Bank of America, N.A., as an administrative agent, Wells Fargo Bank, National Association, and the other lenders party thereto. The credit agreement provides for 1) a $75.0 million five-year revolving facility (the "Revolving Facility") and 2) a five-year $150.0 million term loan facility ("Term Facility" and, together with the Revolving Facility, the “Senior Credit Facility"). The credit agreement also includes an accordion feature that, subject to securing additional commitments from existing lenders or new lending institutions, will allow us to increase the aggregate amount of these facilities by up to an additional $50.0 million.

Quarterly principal payments of $5.6 million are payable on the loans under the Term Facility. During the nine months ended September 30, 2015, we made scheduled quarterly principal payments totaling $16.9 million. The Senior Credit Facility matures on October 23, 2019 and any amounts then outstanding are due upon maturity.

Note 9—Note Payable (continued)

Interest

At our election, loans made under the credit agreement bear interest at 1) a LIBOR rate (the "LIBOR Rate") or 2) a base rate determined by reference to the highest of (a) the Bank of America prime rate, (b) the United States federal funds rate plus 0.50% and (c) a daily rate equal to one-month LIBOR rate plus 1.0% (the "Base Rate"), plus in either case an applicable margin. The applicable margin for borrowings depends on our total leverage ratio and varies from 2.50% to 3.00% for LIBOR Rate loans and 1.50% to 2.00% for Base Rate loans. The effective interest rate on borrowings outstanding as of September 30, 2015 was 2.94%. Interest expense, excluding the amortization of debt issuance costs, related to our Senior Credit Facility was $1.1 million and $3.3 million for the three and nine months ended September 30, 2015.

Covenants and restrictions

The Senior Credit Facility contains customary representations and warranties relating to us and our subsidiaries. The Senior Credit Facility also contains certain affirmative and negative covenants including negative covenants that limit or restrict, among other things, liens, indebtedness, investments and acquisitions, mergers and fundamental changes, asset sales, restricted payments, changes in the nature of the business, transactions with affiliates and other matters customarily restricted in such agreements. We must maintain a minimum fixed charge coverage ratio and a maximum consolidated leverage ratio at the end of each fiscal quarter, as set forth in the credit agreement. At September 30, 2015, we were in compliance with all such covenants.

Note 10—Income Taxes

Income tax expense for the nine months ended September 30, 2015 and 2014 differs from the amount computed by applying the statutory federal income tax rate to income before income taxes. The sources and tax effects of the differences are as follows:

	Nine Months Ended September 30,			
	2015		2014	
U.S. federal statutory tax rate	35.0	%	35.0	%
State income taxes, net of federal tax benefit	2.6		2.0	
General business credits	(1.3	)	(2.3	)
Employee stock-based compensation	1.0		0.9	
Transaction costs	(1.9	)	—	
Other	1.2		0.4	
Effective tax rate	36.6	%	36.0	%

The effective tax rate for the nine months ended September 30, 2015 and 2014 differs from the statutory federal income tax rate of 35% primarily due to state income taxes, net of federal tax benefit, general business credits, non-deductible employee stock based compensation and transaction costs. The increase in the effective tax rate for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 is primarily attributable to increased earnings in states that have higher statutory tax rates and decreased state business tax credits.

We establish a valuation allowance when we consider it more-likely-than-not that some portion or all of the deferred tax assets will not be realized. As of September 30, 2015 and 2014, we did not have a valuation allowance on any of our deferred tax assets as we believed it was more-likely-than-not that we would realize the benefits of our deferred tax assets.

We are subject to examination by the Internal Revenue Service, or IRS, and various state tax authorities. Our consolidated federal income tax returns for the five-months ended December 31, 2009 and the years ended December 31, 2010, 2011 and 2012 are currently under examination by the IRS. We remain subject to examination of our federal income tax return for the years ended December 31, 2013 and 2014. We generally remain subject to examination of our various state income tax returns for a period of four to five years from the respective dates the returns were filed.

Note 10—Income Taxes (continued)

As of September 30, 2015, we have net operating loss carryforwards of approximately $46.8 million and $40.3 million for federal and state tax purposes, respectively, which will be available to offset future income. If not used, these carryforwards will expire between 2025 and 2034. In addition, we have state business tax credits of approximately $4.1 million that will expire between 2028 and 2034 and other state business tax credits of approximately $1.4 million that will expire 2024.

As of September 30, 2015 and 2014, we had a liability of $7.3 million and $4.8 million, respectively, for unrecognized tax benefits related to various federal and state income tax matters excluding interest, penalties and related tax benefits. The reconciliation of the beginning unrecognized tax benefits balance to the ending balance is as follows:

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Beginning balance	$6,189	$3,724
Increases related to positions taken during prior years	423	—
Increases related to positions taken during the current year	688	1,074
Ending balance	$7,300	$4,798
The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	$7,300	$4,798

We recognized accrued interest and penalties related to unrecognized tax benefits as of September 30, 2015 and 2014, of approximately $0.7 million and $0.3 million, respectively.

Note 11—Stockholders' Equity

Stock Repurchase Program

In June 2015, our Board of Directors authorized, subject to regulatory approval, a repurchase of shares of our Class A Common Stock in an amount up to $150 million under a stock repurchase program with no expiration date. The stock repurchase program may be carried out at the direction of management, subject to the limitations set forth in Rule 10b-18 of the Securities and Exchange Commission and other legal requirements, and any further limitations that may be established by the Board of Directors. Repurchases may be made through open market purchases, block trades, and in negotiated private transactions. The stock may be repurchased on an ongoing basis and will be subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital and our financial performance.

In September 2015, we received regulatory approval for our $150 million stock repurchase program at which point we entered into an accelerated share repurchase agreement ("ASR") with a financial institution to repurchase shares of our common stock as part of our repurchase program. Under the ASR agreement, in exchange for an up-front payment of $40 million, we received an initial delivery of approximately 1.8 million shares on September 4, 2015 based on the then current market price of our stock. The ASR agreement was accounted for in two separate transactions: 1) a treasury stock repurchase for the initial shares received and 2) a forward stock purchase contract indexed to our own stock for the unsettled portion of the ASR. We recorded $32 million as treasury stock, which reflects the value of the initial shares received from the financial institution and an $8 million decrease to additional paid-in capital, which reflects the implied value of the forward contract for the shares withheld by the financial institution.

The final number of shares received upon settlement for the ASR will be determined based on the volume-weighted average price of our common stock over the term of the agreement less an agreed upon discount and subject to adjustments pursuant to the terms and conditions of the ASR. Upon settlement, we will either receive additional shares from the financial institution or we may be required to deliver additional shares or cash to the financial institution, at

our election. Final settlement is scheduled to occur during the first quarter of 2016.
The initial repurchase of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

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

Note 12—Earnings per Common Share
The calculation of basic and diluted EPS was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Basic earnings per Class A common share				
Net income	$179	$13,891	$44,488	$43,539
Income attributable to preferred stock	(5)	(1,636)	(1,269)	(5,587)
Income attributable to common stock subject to repurchase	—	(99)	(32)	(420)
Net income allocated to Class A common stockholders	$174	$12,156	$43,187	$37,532
Weighted-average Class A shares issued and outstanding	51,576	39,884	51,612	38,923
Basic earnings per Class A common share	$—	$0.30	$0.84	$0.96
Diluted earnings per Class A common share				
Net income allocated to Class A common stockholders	$174	$12,156	$43,187	$37,532
Re-allocated earnings	—	22	13	103
Diluted net income allocated to Class A common stockholders	174	12,178	43,200	37,635
Weighted-average Class A shares issued and outstanding	51,576	39,884	51,612	38,923
Dilutive potential common shares:				
Stock options	375	418	291	582
Restricted stock units	383	145	236	187
Employee stock purchase plan	27	14	22	17
Diluted weighted-average Class A shares issued and outstanding	52,361	40,461	52,161	39,709
Diluted earnings per Class A common share	$—	$0.30	$0.83	$0.95

For the periods presented, we excluded all shares of convertible preferred stock and certain restricted stock units and stock options outstanding, which could potentially dilute basic EPS in the future, from the computation of diluted EPS as their effect was anti-dilutive. The following table shows the weighted-average number of anti-dilutive shares excluded from the diluted EPS calculation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Class A common stock				
Options to purchase Class A common stock	492	676	681	622
Restricted stock units	11	4	33	21
Conversion of convertible preferred stock	1,519	5,369	1,517	5,795
Total options, restricted stock units and convertible preferred stock	2,022	6,049	2,231	6,438

Note 13—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 2–Summary of Significant Accounting Policies to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2014.

As of September 30, 2015 and December 31, 2014, our assets and liabilities carried at fair value on a recurring basis were as follows:

Note 13—Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2015	(In thousands)			
Assets				
Corporate bonds	$—	$36,948	$—	$36,948
Commercial paper	—	23,701	—	23,701
U.S. Treasury notes	—	29,749	—	29,749
Mortgage-backed securities	—	100,606	—	100,606
Municipal bonds	—	4,722	—	4,722
Asset-backed securities	—	18,160	—	18,160
Total assets	$—	$213,886	$—	$213,886
Liabilities				
Contingent consideration	$—	$—	$14,762	$14,762
December 31, 2014				
Assets				
Corporate bonds	$—	$40,389	$—	$40,389
Commercial paper	—	7,649	—	7,649
U.S. Treasury notes	—	14,771	—	14,771
Agency securities	—	2,950	—	2,950
Mortgage-backed securities	—	35,362	—	35,362
Municipal bonds	—	5,595	—	5,595
Asset-backed securities	—	13,715	—	13,715
Total assets	$—	$120,431	$—	$120,431
Liabilities				
Contingent consideration	$—	$—	$23,160	$23,160

The following table presents changes in our contingent consideration payable for the three and nine months ended September 30, 2015, which is categorized in Level 3 of the fair value hierarchy.

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
	(In thousands)	
Balance, beginning of period	$14,976	$23,160
Payments of contingent consideration	(214)	(882)
Change in fair value of contingent consideration	—	(7,516)
Balance, end of period	$14,762	$14,762

We based the fair value of our fixed income securities held as of September 30, 2015 and December 31, 2014 on quoted prices in active markets for similar assets. We had no transfers between Level 1, Level 2 or Level 3 assets during the three and nine months ended September 30, 2015 or 2014.

Note 14—Fair Value of Financial Instruments

The following describes the valuation technique for determining the fair value of financial instruments, whether or not such instruments are carried at fair value on our consolidated balance sheets.

Short-term Financial Instruments

Our short-term financial instruments consist principally of unrestricted and restricted cash and cash equivalents, federal funds sold, settlement assets and obligations, and obligations to customers. These financial instruments are short-term in nature, and, accordingly, we believe their carrying amounts approximate their fair values. Under the fair value hierarchy, these instruments are classified as Level 1.

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Note 14—Fair Value of Financial Instruments (continued)

Investment Securities

The fair values of investment securities have been derived using methodologies referenced in Note 2–Summary of Significant Accounting Policies to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2014. Under the fair value hierarchy, our investment securities are classified as Level 2.

Loans

We determined the fair values of loans by discounting both principal and interest cash flows expected to be collected using a discount rate commensurate with the risk that we believe a market participant would consider in determining fair value. Under the fair value hierarchy, our loans are classified as Level 3.

Deposits

The fair value of demand and interest checking deposits and savings deposits is the amount payable on demand at the reporting date. We determined the fair value of time deposits by discounting expected future cash flows using market-derived rates based on our market yields on certificates of deposit, by maturity, at the measurement date. Under the fair value hierarchy, our deposits are classified as Level 2.

Contingent Consideration

The fair value of contingent consideration obligations are estimated through valuation models designed to estimate the probability of such contingent payments based on various assumptions. Estimated payments are discounted using present value techniques to arrive at an estimated fair value. Our contingent consideration payable is classified as Level 3 because we use unobservable inputs to estimate fair value, including the probability of achieving certain earnings thresholds and appropriate discount rates. Changes in fair value of contingent consideration are recorded through operating expenses.

Note Payable

The fair value of our note payable is based on borrowing rates currently available to a market participant for loans with similar terms or maturity. The carrying amount of our note payable approximates fair value because the base interest rate charged varies with market conditions and the credit spread is commensurate with current market spreads for issuers of similar risk. The fair value of the note payable is classified as a Level 2 liability in the fair value hierarchy.

Fair Value of Financial Instruments

The carrying values and fair values of certain financial instruments that were not carried at fair value, excluding short-term financial instruments for which the carrying value approximates fair value, at September 30, 2015 and December 31, 2014 are presented in the table below.

	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial Assets				
Loans to bank customers, net of allowance	$6,607	$5,493	$6,550	$5,399
Financial Liabilities				
Deposits	$500,022	$499,945	$565,401	$565,345
Note payable	$133,125	$133,125	$150,000	$150,000

Note 15—Commitments and Contingencies

We monitor the laws of all 50 states to identify state laws or regulations that apply (or may apply) to our products and services. We have obtained money transmitter licenses (or similar such licenses) where applicable, based on advice of counsel or when we have been requested to do so. If we were found to be in violation of any laws and regulations governing banking, money transmitters, electronic fund transfers, or money laundering in the United States or abroad, we could be subject to penalties or could be forced to change our business practices.

In the ordinary course of business, we are a party to various legal proceedings. We review these actions on an ongoing basis to determine whether it is probable and estimable that a loss has occurred and use that information when making accrual and disclosure decisions. We have not established reserves or possible ranges of losses related

Note 15—Commitments and Contingencies (continued)

to these proceedings because, at this time in the proceedings, the matters do not relate to a probable loss and/or the amounts are not reasonably estimable.

From time to time we enter into contracts containing provisions that contingently require us to indemnify various parties against claims from third parties. These contracts primarily relate to: (i) contracts with our card issuing banks, under which we are responsible to them for any unrecovered overdrafts on cardholders' accounts; (ii) certain real estate leases, under which we may be required to indemnify property owners for environmental and other liabilities, and other claims arising from our use of the premises; (iii) certain agreements with our officers, directors, and employees, under which we may be required to indemnify these persons for liabilities arising out of their relationship with us; and (iv) contracts under which we may be required to indemnify our retail distributors, suppliers, vendors and other parties with whom we have contracts against claims arising from certain of our actions, omissions, violations of law and/or infringement of patents, trademarks, copyrights and/or other intellectual property rights.

Generally, a maximum obligation under these contracts is not explicitly stated. Because the obligated amounts associated with these types of agreements are not explicitly stated, the overall maximum amount of the obligation cannot be reasonably estimated. With the exception of overdrafts on cardholders' accounts, historically, we have not been required to make payments under these and similar contingent obligations, and no liabilities have been recorded for these obligations in our consolidated balance sheets.

For additional information regarding overdrafts on cardholders' accounts, refer to Note 4 — Accounts Receivable.

As of September 30, 2015 and December 31, 2014, we had $1.5 million outstanding in standby letters of credit related to our corporate facility lease.

Note 16—Significant Customer Concentration

A credit concentration may exist if customers are involved in similar industries, economic sectors, and geographic regions. Our retail distributors operate in similar economic sectors but diverse domestic geographic regions. The loss of a significant retail distributor could have a material adverse effect upon our card sales, profitability, and revenue growth.

Revenues derived from our products sold at retail distributors constituting greater than 10% of our total operating revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Walmart	50%	51%	44%	55%

Excluding stock-based retailer incentive compensation of $0 and $2.1 million for the three months ended September 30, 2015 and 2014, respectively, and $2.5 million and $6.5 million for the nine months ended September 30, 2015 and 2014, respectively, revenues derived from our products sold at retail distributors constituting greater than 10% of our total operating revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Walmart	50%	52%	45%	56%

The concentration of GPR cards activated (in units) and the concentration of sales of cash transfer products (in units) derived from our products sold at our four largest retail distributors, including Walmart, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014

Concentration of GPR cards activated (in units)	61%	70%	60%	72%
Concentration of sales of cash transfer products (in units)	81%	82%	82%	82%

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Note 16—Significant Customer Concentration (continued)

Settlement assets derived from our products sold at our four largest retail distributors comprised the following percentages of the settlement assets recorded on our consolidated balance sheets:

	September 30, 2015	December 31, 2014
Walmart	58%	22%
Three other largest retail distributors, as a group	9%	6%

Note 17—Segment Information

As of December 31, 2014, and prior, our operations were within one reportable segment. As a result of recent acquisitions occurring in late 2014 and early 2015, we have realigned our operations into two reportable segments: Account Services and Processing and Settlement Services. We identified our reportable segments based on factors such as how we manage our operations and how our chief operating decision maker views results. Our chief operating decision maker organizes and manages our business primarily on the basis of product and service offerings and uses operating income to assess profitability.

The Account Services segment consists of revenues and expenses derived from our branded and private label deposit account programs. These programs include our Green Dot-branded and affinity-branded GPR card accounts, private label GPR card accounts, checking accounts and open-loop gift cards. The Processing and Settlement Services segment consists of revenues and expenses derived from reload services through the Green Dot Network and our tax refund processing services. The Corporate and Other segment primarily consists of unallocated corporate expenses, depreciation and amortization, intercompany eliminations and other costs that are not considered when management evaluates segment performance. We do not evaluate performance or allocate resources based on segment asset data, and therefore such information is not presented.

The following table presents certain financial information for each of our reportable segments for the three and nine months ended September 30, 2015. We have determined that it is impracticable to restate segment information for the three and nine months ended September 30, 2014, as well as to provide disclosures under both the old basis and new basis of reporting for certain items. Therefore, no such disclosures are presented.

	Three Months Ended September 30, 2015			
	Account Services	Processing and Settlement Services	Corporate and Other	Total
	(In thousands)			
Operating revenues	$121,655			