GREEN DOT CORP
Form 10-Q
November 07, 2014
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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, 2014

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 46,507,491 shares of Class A common stock, par value $.001 per share (which number does not include 5,368,986 shares of Class A common stock issuable upon conversion of Series A Convertible Junior Participating Non-Cumulative Perpetual Preferred Stock) as of October 31, 2014.

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

	September 30, 2014 (unaudited)	December 31, 2013
Assets	(In thousands, except par value)	
Current assets:		
Unrestricted cash and cash equivalents	$632,640	$423,498
Federal funds sold	488	123
Restricted cash	3,866	—
Investment securities available-for-sale, at fair value	136,157	116,159
Settlement assets	55,684	37,004
Accounts receivable, net	33,179	46,384
Prepaid expenses and other assets	28,009	27,332
Income tax receivable	5,186	15,573
Total current assets	895,209	666,073
Restricted cash	2,257	2,970
Investment securities, available-for-sale, at fair value	77,319	82,585
Accounts receivable, net	71	5,913
Loans to bank customers, net of allowance for loan losses of $435 and $464 as of September 30, 2014 and December 31, 2013, respectively	6,817	6,902
Prepaid expenses and other assets	8,444	1,081
Property and equipment, net	62,804	60,473
Deferred expenses	9,187	15,439
Net deferred tax assets	3,334	3,362
Goodwill and intangible assets	50,763	30,676
Total assets	$1,116,205	$875,474
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$23,275	$34,940
Deposits	441,860	219,580
Obligations to customers	72,137	65,449
Settlement obligations	3,118	4,839
Amounts due to card issuing banks for overdrawn accounts	846	49,930
Other accrued liabilities	51,647	35,878
Deferred revenue	12,985	24,517
Net deferred tax liabilities	3,710	3,716
Total current liabilities	609,578	438,849
Other accrued liabilities	31,130	34,076
Deferred revenue	225	300
Total liabilities	640,933	473,225
Stockholders' equity:		
Convertible Series A preferred stock, $0.001 par value (as converted): 10 shares authorized as of September 30, 2014 and December 31, 2013; 5 and 7 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	5	7

Class A common stock, $0.001 par value: 100,000 shares authorized as of September 30, 2014 and December 31, 2013; 40,290 and 37,729 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	40	38
Additional paid-in capital	228,710	199,251
Retained earnings	246,539	203,000
Accumulated other comprehensive loss	(22)	(47)
Total stockholders' equity	475,272	402,249
Total liabilities and stockholders' equity	$1,116,205	$875,474

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,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Operating revenues:				
Card revenues and other fees	$58,948	$51,066	$188,007	$170,762
Cash transfer revenues	44,085	47,193	135,852	137,161
Interchange revenues	43,757	40,872	133,626	129,541
Stock-based retailer incentive compensation	(2,131)	(2,587)	(6,541)	(6,163)
Total operating revenues	144,659	136,544	450,944	431,301
Operating expenses:				
Sales and marketing expenses	55,599	52,042	173,042	159,899
Compensation and benefits expenses	31,487	32,343	88,665	95,297
Processing expenses	19,529	22,231	58,893	64,178
Other general and administrative expenses	24,716	21,954	71,624	63,259
Total operating expenses	131,331	128,570	392,224	382,633
Operating income	13,328	7,974	58,720	48,668
Interest income	982	800	2,998	2,474
Interest expense	(17)	(22)	(62)	(55)
Other income	6,369	—	6,369	—
Income before income taxes	20,662	8,752	68,025	51,087
Income tax expense	6,771	2,638	24,486	18,083
Net income	13,891	6,114	43,539	33,004
Income attributable to preferred stock	(1,636)	(958)	(5,587)	(5,232)
Net income allocated to common stockholders	$12,255	$5,156	$37,952	$27,772
Basic earnings per common share:	$0.30	$0.14	$0.96	$0.76
Diluted earnings per common share:	$0.30	$0.13	$0.95	$0.74
Basic weighted-average common shares issued and outstanding:	39,884	36,163	38,923	35,535
Diluted weighted-average common shares issued and outstanding:	40,461	37,771	39,709	36,844

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,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$13,891	$6,114	$43,539	$33,004
Other comprehensive income				
Unrealized holding (losses) gains, net of tax	(65)	44	25	(95)
Comprehensive income	$13,826	$6,158	$43,564	$32,909

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,	
	2014	2013
	(In thousands)	
Operating activities		
Net income	$43,539	$33,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,180	19,906
Provision for uncollectible overdrawn accounts	26,234	38,164
Employee stock-based compensation	14,152	10,674
Stock-based retailer incentive compensation	6,541	6,163
Amortization of premium on available-for-sale investment securities	828	456
Realized gains on investment securities	(31)	(8)
Provision (recovery) for uncollectible trade receivables	1	(12)
Impairment of capitalized software	—	1,856
Deferred income tax expense	—	271
Excess tax benefits from exercise of options	(3,797)	(3,749)
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,426)	(39,832)
Prepaid expenses and other assets	(7,670)	5,676
Deferred expenses	6,252	5,564
Accounts payable and other accrued liabilities	(10,471)	11,350
Amounts due to card issuing banks for overdrawn accounts	(49,084)	1,536
Deferred revenue	(11,607)	(5,569)
Income tax receivable	14,182	7,543
Net cash provided by operating activities	46,823	92,993
Investing activities		
Purchases of available-for-sale investment securities	(161,852)	(214,638)
Proceeds from maturities of available-for-sale securities	106,506	114,975
Proceeds from sales of available-for-sale securities	39,866	46,663
Increase in restricted cash	(596)	(33)
Payments for acquisition of property and equipment	(23,798)	(26,912)
Net principal collections on loans	85	1,030
Acquisition, net of cash acquired	(14,860)	—
Net cash used in investing activities	(54,649)	(78,915)
Financing activities		
Proceeds from exercise of options	4,969	9,564
Excess tax benefits from exercise of options	3,797	3,749
Net increase (decrease) in deposits	222,280	(9,190)
Net (decrease) increase in obligations to customers	(13,713)	15,009
Net cash provided by financing activities	217,333	19,132
Net increase in unrestricted cash, cash equivalents, and federal funds sold	209,507	33,210
Unrestricted cash, cash equivalents, and federal funds sold, beginning of year	423,621	296,591

Unrestricted cash, cash equivalents, and federal funds sold, end of period	$633,128	$329,801
Cash paid for interest	$62	$7
Cash paid for income taxes	$10,337	$10,266

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 bank holding company with a mission to reinvent personal banking for the masses. Our prepaid products and services are available in more than 100,000 retail stores nationwide and online at Greendot.com. 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; our swipe reload and MoneyPak proprietary products, collectively referred to as our cash transfer products, which enable cash loading and transfer services through our Green Dot Network; and GoBank, an innovative checking account developed for use via mobile phones that is available at Walmart. 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 products and 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 our wholly-owned subsidiary, Green Dot Bank and third-party issuing banks including The Bancorp Bank, Sunrise Banks, N.A., and prior to February 2014, GE Capital Retail 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, and Dollar Tree, and with various industry resellers, such as Blackhawk Network and Incomm. We refer to participating retailers collectively as our “retail distributors.”

We completed a business acquisition in May 2014 which was not material to our consolidated financial statements. The aggregate cash consideration paid, net of cash acquired, was $14.9 million. Of the total consideration transferred, our preliminary allocation to goodwill and acquired intangible assets is $3.4 million and $17.4 million, respectively. The intangible assets acquired will be amortized over their estimated useful lives of approximately 10 years.

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, 2013 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, 2014.

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 nine months ended September 30, 2014 are not necessarily indicative of future results.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors ("ASU 2014-04"), which intends to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. ASU 2014-04 is effective for annual periods, and interim periods within those annual periods beginning after December 15, 2014. We will adopt this standard effective January 1, 2015. Our adoption of ASU 2014-14 is not expected to have a material impact on our consolidated financial statements.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 2—Summary of Significant Accounting Policies (continued)
The standard is effective for annual periods beginning after December 15, 2016, 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). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.
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, 2014				
Corporate bonds	$51,287	$44	$(6)	$51,325
Commercial paper	68,720	12	(1)	68,731
U.S. Treasury notes	11,701	13	—	11,714
Agency securities	8,248	5	—	8,253
Mortgage-backed securities	31,834	28	(138)	31,724
Municipal bonds	13,648	36	(22)	13,662
Asset-backed securities	28,065	10	(8)	28,067
Total investment securities	$213,503	$148	$(175)	$213,476
December 31, 2013				
Corporate bonds	$70,965	$45	$(13)	$70,997
Commercial paper	49,307	15	(1)	49,321
Negotiable certificate of deposit	4,400	3	—	4,403
U.S. Treasury notes	14,265	14	(1)	14,278
Agency securities	14,946	13	—	14,959
Mortgage-backed securities	4,169	—	(168)	4,001
Municipal bonds	19,017	28	(14)	19,031
Asset-backed securities	21,750	9	(5)	21,754
Total investment securities	$198,819	$127	$(202)	$198,744

Note 3 — Investment Securities (continued)

As of September 30, 2014 and December 31, 2013, 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	Total
	Fair value	Unrealized loss	Fair value	Unrealized loss	fair value	unrealized loss
	(In thousands)					
September 30, 2014						
Corporate bonds	$11,652	$(6)	$—	$—	$11,652	$(6)
Commercial paper	8,590	(1)	—	—	8,590	(1)
Mortgage-backed securities	18,752	(72)	1,539	(66)	20,291	(138)
Municipal bonds	418	(22)	—	—	418	(22)
Asset-backed securities	12,571	(8)	—	—	$12,571	$(8)
Total investment securities	$51,983	$(109)	$1,539	$(66)	$53,522	$(175)
December 31, 2013						
Corporate bonds	$24,104	$(13)	$—	$—	$24,104	$(13)
Commercial paper	4,490	(1)	—	—	4,490	(1)
U.S. Treasury notes	5,212	(1)	—	—	5,212	(1)
Mortgage-backed securities	4,002	(168)	—	—	4,002	(168)
Municipal bonds	8,546	(14)	—	—	8,546	(14)
Asset-backed securities	11,797	(5)	—	—	11,797	(5)
Total investment securities	$58,151	$(202)	$—	$—	$58,151	$(202)

We did not record any other-than-temporary impairment losses during the three and nine months ended September 30, 2014 or 2013 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.

As of September 30, 2014, 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	$136,098	$136,157
Due after one year through five years	17,966	17,992
Due after five years through ten years	341	344
Due after ten years	1,315	1,309
Mortgage and asset-backed securities	57,783	57,674
Total investment securities	$213,503	$213,476

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.

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

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

	September 30, 2014	December 31, 2013
	(In thousands)	
Overdrawn account balances due from cardholders	$13,338	$14,749
Reserve for uncollectible overdrawn accounts	(9,898)	(10,363)
Net overdrawn account balances due from cardholders	3,440	4,386
Trade receivables	5,230	4,302
Reserve for uncollectible trade receivables	(43)	(42)
Net trade receivables	5,187	4,260
Receivables due from card issuing banks	21,039	42,137
Other receivables	3,584	1,514
Accounts receivable, net	$33,250	$52,297

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Balance, beginning of period	$8,555	$13,249	$10,363	$15,677
Provision for uncollectible overdrawn accounts:				
Fees	8,613	9,240	23,016	36,396
Purchase transactions	1,562	369	3,218	1,768
Charge-offs	(8,832)	(12,205)	(26,699)	(43,188)
Balance, end of period	$9,898	$10,653	$9,898	$10,653

Note 5—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, 2014						
Real estate	$—	$—	$—	$—	$4,099	$4,099
Commercial	—	—	—	—	783	783
Installment	5	—	—	5	2,365	2,370
Total loans	$5	$—	$—	$5	$7,247	$7,252
Percentage of outstanding	0.1 %	— %	— %	0.1 %	99.9 %	100.0 %
December 31, 2013						
Real estate	$—	$—	$11	$11	$3,372	$3,383
Commercial	—	—	—	—	1,474	1,474
Installment	—	—	3	3	2,506	2,509
Total loans	$—	$—	$14	$14	$7,352	$7,366

Percentage of outstanding	— %	— %	0.2 %	0.2 %	99.8 %	100.0 %

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

Note 5—Loans to Bank Customers (continued)
Nonperforming Loans
The following table presents the carrying value, gross of the related allowance for loan losses, of our nonperforming loans, other than purchased credit impaired, or PCI 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, 2013 for further information on the criteria for classification as nonperforming.

	September 30, 2014	December 31, 2013
	(In thousands)	
Real estate	$55	$117
Commercial	43	106
Installment	103	250
Total loans	$201	$473

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, 2014		December 31, 2013	
	Non-Classified	Classified	Non-Classified	Classified
	(In thousands)			
Real estate	$3,835	$264	$3,003	$380
Commercial	700	83	1,323	151
Installment	2,264	106	2,058	451
Total loans	$6,799	$453	$6,384	$982

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, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
	(In thousands)			
Real estate	$98	$55	$194	$117
Commercial	285	43	344	106
Installment	369	103	500	250

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

Note 5—Loans to Bank Customers (continued)
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,	
	2014	2013	2014	2013
	(In thousands)			
Balance, beginning of period	$414	$460	$464	$475
Provision for loans	20	—	20	—
Loans charged off	(7)	—	(66)	(25)
Recoveries of loans previously charged off	8	4	17	14
Balance, end of period	$435	$464	$435	$464

Note 6—Employee Stock-Based Compensation
We currently grant stock options and restricted stock units 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 stock options and restricted stock units granted under our 2010 Equity Incentive Plan:

	Nine Months Ended September 30,	
	2014	2013
	(In thousands, except per share data)	
Stock options granted	106	1,708
Weighted-average exercise price	$20.92	$16.89
Weighted-average grant-date fair value	$10.75	$5.97
Restricted stock units granted	1,733	503
Weighted-average grant-date fair value	$19.27	$16.57

We estimated the fair value of each stock option grant on the date of grant using the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2014	2013
Risk-free interest rate	1.8%	1.0%
Expected term (life) of options (in years)	5.79	5.68
Expected dividends	—	—
Expected volatility	54.0%	43.6%

The total stock-based compensation expense recognized was $5.5 million and $14.2 million for the three and nine months ended September 30, 2014, respectively, and $4.2 million and $10.7 million for the three and nine months ended September 30, 2013, 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 7—Deposits
In February 2014, we completed the transition of all outstanding customer deposits associated with our GPR card program with GE Capital Retail Bank to Green Dot Bank. The total funds transferred to Green Dot Bank were approximately $260 million and are now classified as deposits on our consolidated balance sheet and are included as "GPR deposits" within non-interest bearing deposit accounts below. In conjunction with this transition, we made a payment of approximately $50 million to GE Capital Retail Bank to settle our liability associated with overdrawn cardholder account balances, which, as of December 31, 2013, was included in our consolidated balance sheet as "amounts due to card issuing banks for overdrawn accounts."

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

Note 7—Deposits (continued)
Deposits were categorized as non-interest or interest-bearing deposits as follows:

	September 30, 2014	December 31, 2013
	(In thousands)	
Non-interest bearing deposit accounts		
GPR deposits	$410,083	$204,171
Other demand deposits	16,296	—
Total non-interest bearing deposit accounts	426,379	204,171
Interest-bearing deposit accounts		
Negotiable order of withdrawal (NOW)	1,343	1,401
Savings	6,669	6,410
Time deposits, denominations greater than or equal to $100	5,518	5,310
Time deposits, denominations less than $100	1,951	2,288
Total interest-bearing deposit accounts	15,481	15,409
Total deposits	$441,860	$219,580

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

	September 30, 2014
	(In thousands)
Due in 2014	$1,075
Due in 2015	4,040
Due in 2016	1,125
Due in 2017	771
Due in 2018	47
Thereafter	411
Total time deposits	$7,469

Note 8—Income Taxes
Income tax expense for the nine months ended September 30, 2014 and 2013 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, 2014		2013	
U.S. federal statutory tax rate	35.0	%	35.0	%
State income taxes, net of federal tax benefit	2.0		1.8	
General business credits	(2.3	)	(3.2	)
Employee stock-based compensation	0.9		1.6	
Other	0.4		0.2	
Effective tax rate	36.0	%	35.4	%

The effective tax rate for the nine months ended September 30, 2014 and 2013 differs from the statutory federal income tax rate of 35% primarily due to state income taxes, net of federal tax benefit, general business credits and non-deductible employee stock based compensation. The increase in the effective tax rates for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 is primarily attributable to the expiration of general business credits on December 31, 2013. Additionally, we recognized a discrete benefit in the nine months ended September 30, 2013 related to the reinstatement of 2012 general business 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, 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.

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Note 8—Income Taxes (continued)
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 and 2011 are currently under examination by the IRS. We remain subject to examination of our federal income tax return for the year ended December 31, 2012 and December 31, 2013. 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.
As of September 30, 2014, we have net operating loss carryforwards of approximately $29.7 million and $28.4 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 2031. In addition, we have state business tax credits of approximately $1.2 million that will expire between 2028 and 2033 and other state business tax credits of approximately $1.1 million that can be carried forward indefinitely. Certain limitations may be placed on net operating loss carryforwards as a result of changes in control as defined in Section 382 of the Internal Revenue Code. In the event a change in control occurs, it will have the effect of limiting the annual usage of the operating loss carryforwards.
As of September 30, 2014 and 2013, we had a liability of $4.8 million and $2.8 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,	
	2014	2013
	(In thousands)	
Beginning balance	$3,724	$1,481
Increases related to positions taken during prior years	—	500
Increases related to positions taken during the current year	1,074	866
Ending balance	$4,798	$2,847
The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	$4,798	$2,847

We recognized accrued interest and penalties related to unrecognized tax benefits as of September 30, 2014 of approximately $0.3 million. We did not have accrued interest or penalties related to unrecognized tax benefits as of September 30, 2013.
Note 9—Stockholders' Equity
Non-Employee Stock-Based Payments
On March 3, 2009, we entered into a sales and marketing agreement with a third party that contained a contingent warrant feature. The warrant provided the third party with an option to purchase 3,426,765 shares of our common stock at a per share price of $23.70 if certain sales volume or revenue targets were achieved. A further 856,691 shares could have become eligible for purchase under the warrant had either of these targets been achieved and additional specified marketing and promotional activities had taken place.
The warrant expired on March 3, 2014 as the third-party did not achieve the specified volume or revenue targets.
Convertible Preferred Stock
During the nine months ended September 30, 2014, 1,491 shares of Series A Convertible Junior Participating Non-Cumulative Perpetual Preferred Stock converted into 1,491,000 shares of Class A Common Stock.
Note 10—Earnings per Common Share
In August 2013, the issued and outstanding shares of our Class B Common Stock declined to less than 10% of the aggregate number of issued and outstanding shares of our Class A Common Stock and Class B Common Stock. Pursuant to the terms of Article V of our Certificate of Incorporation, the issued and outstanding shares of our Class B common stock automatically converted into shares of our Class A common stock. Following this automatic conversion, there is now only a single class of our common stock outstanding. For the three and nine months ended

September 30, 2013, we grouped the components of Class B common stock basic earnings per common share, or EPS, and diluted

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Note 10—Earnings per Common Share (continued)
EPS with Class A common stock, as if they were one class, to conform to the current period presentation. This regrouping did not impact EPS previously reported in this period.
The calculation of basic and diluted EPS was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Basic earnings per Class A common share				
Net income	$13,891	$6,114	$43,539	$33,004
Income attributable to preferred stock	(1,636)	(958)	(5,587)	(5,232)
Income attributable to common stock subject to repurchase	(99)	(107)	(420)	(669)
Net income allocated to Class A common stockholders	$12,156	$5,049	$37,532	$27,103
Weighted-average Class A shares issued and outstanding	39,884	36,163	38,923	35,535
Basic earnings per Class A common share	$0.30	$0.14	$0.96	$0.76
Diluted earnings per Class A common share				
Net income allocated to Class A common stockholders	$12,156	$5,049	$37,532	$27,103
Re-allocated earnings	22	50	103	137
Diluted net income allocated to Class A common stockholders	12,178	5,428	37,635	27,240
Weighted-average Class A shares issued and outstanding	39,884	36,163	38,923	35,535
Dilutive potential common shares:				
Stock options	418	1,333	582	1,104
Restricted stock units	145	254	187	195
Employee stock purchase plan	14	21	17	10
Diluted weighted-average Class A shares issued and outstanding	40,461	37,771	39,709	36,844
Diluted earnings per Class A common share	$0.30	$0.13	$0.95	$0.74

As of September 30, 2014, 257,622 shares of Class A common stock issued to Walmart were subject to our repurchase right. Basic and diluted EPS for these shares were the same as basic and diluted EPS for our Class A common stock for the three and nine months ended September 30, 2014 and September 30, 2013.
For the three and nine months ended September 30, 2013, we excluded from the computation of basic EPS all shares issuable under an unvested warrant to purchase 4,283,456 shares of our Class A common stock, as the related performance conditions had not been satisfied.
For the periods presented, we excluded all shares of convertible preferred stock and certain 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,	
	2014	2013	2014	2013
	(In thousands)			
Class A common stock				
Options to purchase Class A common stock	676	351	622	975
Restricted stock units	4	—	21	15

Conversion of convertible preferred stock	5,369	6,859	5,795	6,859
Total options, restricted stock units and convertible preferred stock	6,049	7,210	6,438	7,849

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Note 11—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, 2013.
As of September 30, 2014 and December 31, 2013, our assets carried at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2014	(In thousands)			
Corporate bonds		$51,325		$51,325
Commercial paper		68,731		68,731
U.S. Treasury notes		11,714		11,714
Agency securities		8,253		8,253
Mortgage-backed securities		31,724		31,724
Municipal bonds		13,662		13,662
Asset-backed securities		28,067		28,067
Total	$—	$213,476	$—	$213,476
December 31, 2013				
Corporate bonds	$—	$70,997	$—	$70,997
Commercial paper	—	49,321	—	49,321
Negotiable certificate of deposit	—	4,403	—	4,403
U.S. Treasury notes	—	14,278	—	14,278
Agency securities	—	14,959	—	14,959
Mortgage-backed securities	—	4,001	—	4,001
Municipal bonds	—	19,031	—	19,031
Asset-backed securities	—	21,754	—	21,754
Total	$—	$198,744	$—	$198,744

We based the fair value of our fixed income securities held as of September 30, 2014 and December 31, 2013 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, 2014 or 2013.
Note 12—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.
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, 2013. Under the fair value hierarchy, our investment securities are classified as Level 2.

Note 12—Fair Value of Financial Instruments (continued)

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.

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, 2014 and December 31, 2013 are presented in the table below.

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial Assets				
Loans to bank customers, net of allowance	$6,817	$5,400	$6,902	$5,926
Financial Liabilities				
Deposits	$441,860	$441,807	$219,580	$219,534

Note 13—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 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 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.

During the three months ended September 30, 2014, we received net cash proceeds of $6.4 million in connection with the settlement of a lawsuit. We recorded this settlement, net of legal costs incurred in connection with the litigation, as other income on our consolidated statement of operations.

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.

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Note 13—Commitments and Contingencies (continued)
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.
Note 14—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 our four largest retail distributors represented the following percentages of our total operating revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Walmart	51%	62%	55%	65%
Three other largest retail distributors, as a group	24%	22%	22%	22%

Excluding stock-based retailer incentive compensation of $2.1 million and $2.6 million for the three months ended September 30, 2014 and 2013, respectively, and $6.5 million and $6.2 million for the nine months ended September 30, 2014 and 2013, respectively, revenues derived from our products sold at our four largest retail distributors represented the following percentages of our total operating revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Walmart	52%	63%	56%	65%
Three other largest retail distributors, as a group	23%	22%	22%	21%

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 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Concentration of GPR cards activated (in units)	70%	83%	72%	84%
Concentration of sales of cash transfer products (in units)	82%	87%	82%	87%

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 sheet:

	September 30, 2014	December 31, 2013
Walmart	51%	34%
Three other largest retail distributors, as a group	28%	39%

Other concentrations
At December 31, 2013, the customer funds underlying the Walmart co-branded GPR cards were held by GE Capital Retail Bank. These funds were held in trust for the benefit of the customers, and we had no legal rights to the customer funds. Additionally, we had receivables due from GE Capital Retail Bank that were included in accounts receivable, net, on our consolidated balance sheets.

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Note 15—Subsequent Events

Credit Facility

In October 2014, we entered into a $225.0 million credit agreement ("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 ("Revolving Facility") and 2) a five-year $150.0 million term loan facility ("Term 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. We drew the entire Term Facility on October 23, 2014, and used the proceeds to finance our acquisition of Santa Barbara Tax Products Group ("TPG"), discussed below. We expect to use the proceeds of any borrowings under the Revolving Facility for working capital and other general corporate purposes, subject to the terms and conditions set forth in the Credit Agreement.

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.

We also pay a commitment fee, which varies from 0.30% to 0.40% per annum on the actual daily unused portions of the Revolving Facility. Letter of credit fees are payable in respect of outstanding letters of credit at a rate per annum equal to the applicable margin for LIBOR Rate loans.

The Credit Agreement requires us to comply with certain non-financial and financial covenants, including maintaining certain fixed charge and leverage ratios, as defined by the agreement.

The Revolving Facility matures, the commitments thereunder terminate, and all amounts then outstanding thereunder are payable on October 23, 2019. Quarterly principal payments of $5,625,000 are payable on the loans under the Term Facility. The loans made under the Term Facility mature and all amounts then outstanding thereunder are payable on October 23, 2019.

Consummation of Merger

On October 23, 2014, we completed our acquisition of TPG, a provider of integrated tax refund processing and settlement services. Additionally, TPG's services are integrated into the offerings of the nation's leading tax software companies, which enables TPG to serve nearly 25,000 independent tax preparers and accountants nationwide. This transaction, which was accounted for as a business combination, will allow us to expand into TPG's core customer segment by adding tax refund processing services for millions of tax filers through distribution partnerships with many of America’s largest and best known tax preparation companies and thousands of independent tax preparers.

In connection with the acquisition, we paid approximately $339.1 million in cash and stock. We financed the transaction with $205.0 million in cash, including $150.0 million of our Term Facility and approximately 6.1 million shares of our Class A common stock at a closing price of $21.86. Additionally, the transaction terms include a potential $80.0 million cash earn-out payable to the former owners of TPG based on TPG meeting certain pre-determined performance targets over the next three years.

Given the timing of the close of this acquisition, we are currently in the process of valuing the assets acquired and liabilities assumed. As a result, we are not yet able to provide the amounts to be recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed and other related disclosures. We will include this and other related information in our 2014 Annual Report on Form 10-K.

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ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q, including this Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934 (the “Exchange Act”). All statements other than statements of historical facts are statements that could be deemed to be forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “continues,” “endeavors,” “st “assumes,” variations of such words and similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under “Part II, Item 1A. Risk Factors,” and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

In this Quarterly Report, unless otherwise specified or the context otherwise requires, “Green Dot,” “we,” “us,” and “our” refe to Green Dot Corporation and its consolidated subsidiaries.

Overview

Green Dot Corporation is a technology-centric, pro-consumer bank holding company with a mission to reinvent personal banking for the masses. We believe that we are the largest provider of prepaid debit card products and prepaid card reloading services in the United States, as well as a leader in mobile banking with our GoBank mobile bank account offering, an innovative checking account developed for use via smartphones and other mobile devices. Our products are available to consumers at more than 100,000 retailers nationwide and the Internet. Our products and services include Green Dot-branded and co-branded GPR cards, Visa-branded gift cards, reload services through our Green Dot Network, through retailers’ specially-enabled POS devices or using our MoneyPak product, and GoBank.

Financial Results and Trends

Total operating revenues for the three and nine months ended September 30, 2014 were $144.7 million and $450.9 million, respectively, compared to $136.5 million and $431.3 million for the three and nine months ended September 30, 2013, respectively. During the three and nine months ended September 30, 2014, total operating revenues were favorably impacted by increases in card revenues and other fees and interchange revenues. Card revenues and other fees increased primarily due to higher volume of monthly maintenance fees and new card fee revenues. Interchange revenues increased primarily due to period-over-period growth in purchase volume, as described below. During the three and nine months ended September 30, 2014, total operating revenues were offset by a decrease in cash transfer revenues primarily due to period-over-period growth in the number of fee-free cash transfers, a shift in volume to lower priced cash transfer products and our continued transition away from our MoneyPak PIN product method of cash reloads, as discussed further below.

Total operating expenses for the three and nine months ended September 30, 2014 were $131.3 million and $392.2 million, respectively, compared to $128.6 million and $382.6 million for the three and nine months ended September 30, 2013, respectively. Total operating expenses were adversely impacted by increases in sales and marketing expenses and other general and administrative expenses and partially offset by reductions in compensation and benefits expenses and processing expenses. Sales and marketing expenses increased primarily due to increased sales commissions and costs associated with manufacturing and distributing card packages, partially offset by declines in advertising costs. Other general and administrative expenses increased primarily due to increases in transaction losses, depreciation and amortization of property and equipment and professional services. Compensation and benefits expenses decreased primarily due to an increase to our overall capitalization rate associated with internally-developed software, a decline in retention-based incentives associated with our acquisition of Loopt, and a decrease in third-party contractor expenses. Processing expense decreased primarily due to a reduction in fees paid to third-party issuing banks.

During the three months ended September 30, 2014, we received net cash proceeds of $6.4 million in connection with the settlement of a lawsuit. We recorded this settlement, net of the reimbursement of legal and other costs incurred in connection with the litigation, as other income on our consolidated statements of operations.
Income tax expense for the three and nine months ended September 30, 2014 was $6.8 million and $24.5 million, respectively, compared to $2.6 million and $18.1 million for the three and nine months ended September 30, 2013,

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respectively. Income tax expense increased primarily as a result of generating higher taxable income and a higher effective tax rate.

We expect to continue to incur additional sales and marketing expenses during the fourth quarter of 2014 related to manufacturing and distribution costs associated with new products, including the continued roll-out of our GoBank product at Walmart and the seasonal impact of sales of our gift card products. We recognize the cost of manufacturing and distributing new card packages over the related sales period, the cost of merchandising those new card packages as incurred, and the cost of personalized GPR cards, when activated, over the average card lifetime, as defined within our Annual Report on Form 10-K for the year ended December 31, 2013 under "Critical Accounting Policies and Estimates." We have introduced a number of new products and partnerships over the last several quarters, and expect we will continue to do so during the fourth quarter of 2014, such as the roll-out of GoBank at Walmart. It follows that we expect our sales and marketing expenses to increase on a year-over-year basis in absolute dollars and as a percentage of revenues during the fourth quarter of 2014.

We also expect to incur general and administrative expenses during the fourth quarter of 2014 related to our acquisition of Santa Barbara Tax Products Group ("TPG"), as discussed in Note 15 — Subsequent Events to the Consolidated Financial Statements included herein. These additional costs relate primarily to transaction costs of approximately $4.0 million and the absorption of approximately $6.0 million in operating expenses associated with TPG's business.

Key Metrics

We review a number of metrics to help us monitor the performance of, and identify trends affecting, our business. We believe the following measures are the primary indicators of our quarterly and annual revenues.

Number of Cash Transfers — represents the total number of POS swipe reload transactions and MoneyPaks that we sell through our retail distributors in a specified period. We sold 11.64 million and 11.43 million POS swipe reload transactions and MoneyPaks in the three months ended September 30, 2014 and 2013, respectively, and 34.97 million and 34.00 million POS swipe reload transactions and MoneyPaks in the nine months ended September 30, 2014 and 2013, respectively.

Number of Active Cards — represents the total number of GPR cards in our portfolio that had a purchase, reload or ATM withdrawal transaction during the previous 90-day period. We had 4.62 million and 4.41 million active cards outstanding as of September 30, 2014 and 2013, respectively.

Gross Dollar Volume — represents the total dollar volume of funds loaded to our GPR card and reload products. Our gross dollar volume was $4.6 billion and $4.4 billion for the three months ended September 30, 2014 and 2013, respectively, and $14.5 billion and $13.9 billion for the nine months ended September 30, 2014 and 2013, respectively. We review this metric in conjunction with purchase volume and give greater weight to our purchase volume when assessing our operating performance because we believe it is a better indicator of interchange revenue performance.

Purchase Volume — represents the total dollar volume of purchase transactions made by customers using our GPR and gift card products. This metric excludes the dollar volume of ATM withdrawals. Our purchase volume was $3.3 billion for both the three months ended September 30, 2014 and 2013, and $10.6 billion and $10.1 billion for the nine months ended September 30, 2014 and 2013, respectively.

Key components of our results of operations

Operating Revenues

We classify our operating revenues into the following four categories:

Card Revenues and Other Fees — Card revenues consist of monthly maintenance fees, ATM fees, new card fees and other revenues. We charge maintenance fees on GPR and GoBank cards to cardholders on a monthly basis pursuant to the terms and conditions in our cardholder agreements. We charge ATM fees to cardholders when they withdraw money at certain ATMs in accordance with the terms and conditions in our cardholder agreements. We charge new card fees when a consumer purchases a GPR, gift, or GoBank card in a retail store. Other revenues consist primarily of fees associated with optional products or services, which we generally offer to consumers during the card activation process. Optional products and services include providing a second card for an account and expediting delivery of the personalized GPR card that replaces the temporary card obtained at the retail store.

Our aggregate monthly maintenance fee revenues vary primarily based upon the number of active cards in our portfolio and the average fee assessed per account. Our average monthly maintenance fee per active account depends upon the mix of Green Dot-branded, co-branded and GoBank cards in our portfolio and upon the extent to which fees are waived based on significant usage. Our aggregate ATM fee revenues vary based upon the number of cardholder

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ATM transactions and the average fee per ATM transaction. The average fee per ATM transaction depends upon the mix of Green Dot-branded, co-branded and GoBank active cards in our portfolio and the extent to which cardholders enroll in our VIP program, which has no ATM fees, or conduct ATM transactions on our fee-free ATM network. Our aggregate new card fee revenues vary based upon the number of GPR and GoBank cards activated and the average new card fee. The average new card fee depends primarily upon the mix of products that we sell since there are variations in new card fees between Green Dot-branded and co-branded products and between GPR cards, gift cards and GoBank cards.

Cash Transfer Revenues — We earn cash transfer revenues when consumers fund their cards through a POS swipe reload transaction in a retail store or purchase and use a MoneyPak. Our aggregate cash transfer revenues vary based upon the total number of POS swipe reload transactions and MoneyPaks sold and the average price per POS swipe reload transaction or MoneyPak. The average price per POS swipe reload transaction or MoneyPak depends upon the relative numbers of cash transfer sales at our different retail distributors and on the mix of POS swipe reload transactions and MoneyPaks at certain retailers that have different fees for the two types of reload transactions.

Interchange Revenues — We earn interchange revenues from fees remitted by the merchant’s bank, which are based on rates established by the payment networks, when customers make purchase transactions using our products. Our aggregate interchange revenues vary based primarily on the number of active cards in our portfolio, the average transactional volume of the active cards in our portfolio and on the mix of cardholder purchases between those using signature identification technologies and those using personal identification numbers and the corresponding rates.

Stock-based retailer incentive compensation — In May 2010, we issued to Walmart 2,208,552 shares of our Class A common stock, subject to our right to repurchase them at $0.01 per share upon a qualifying termination of our prepaid card program agreement with Walmart. We recognize each month the fair value of the 36,810 shares issued to Walmart for which our right to repurchase has lapsed using the then-current fair market value of our Class A common stock. We would be required to recognize the fair value of all shares still subject to repurchase if there were an early expiration of our right to repurchase, which could occur if we experienced certain changes in our control or under certain other limited circumstances, such as a termination of our commercial agreement with Walmart. We record the fair value recognized as stock-based retailer incentive compensation, a contra-revenue component of our total operating revenues.

Operating Expenses

We classify our operating expenses into the following four categories:

Sales and Marketing Expenses — Sales and marketing expenses consist primarily of the sales commissions we pay to our retail distributors and brokers, advertising and marketing expenses, and the costs of manufacturing and distributing card packages, placards and promotional materials to our retail distributors and personalized GPR and GoBank cards to consumers who have activated their cards. We generally establish sales commission percentages in long-term distribution agreements with our retail distributors, and aggregate sales commissions are determined by the number of prepaid cards, GoBank accounts and cash transfers sold at their respective retail stores and, in certain cases, by the revenue generated from the ongoing use of those cards. We incur advertising and marketing expenses for television, online and in-store promotions. Advertising and marketing expenses are recognized as incurred and typically deliver a benefit over an extended period of time. For this reason, these expenses do not always track changes in our operating revenues. Our manufacturing and distribution costs vary primarily based on the number of GPR and GoBank cards activated.

Compensation and Benefits Expenses — Compensation and benefits expenses represent the compensation and benefits that we provide to our employees and the payments we make to third-party contractors. While we have an in-house customer service function, we employ third-party contractors to conduct call center operations, handle routine customer service inquiries and provide consulting support in the area of IT operations and elsewhere. Compensation and benefits expenses associated with our customer service and loss management functions generally vary in line with the size of our active card portfolio, while the expenses associated with other functions do not.

Processing Expenses — Processing expenses consist primarily of the fees charged to us by the payment networks, which process transactions for us, the third-party card processor that maintains the records of our customers' accounts and processes transaction authorizations and postings for us, and the third-party banks that issue our prepaid cards. These costs generally vary based on the total number of active cards in our portfolio and gross dollar volume.

Other General and Administrative Expenses — Other general and administrative expenses consist primarily of professional service fees, telephone and communication costs, depreciation and amortization of our property and equipment and intangible assets, transaction losses (losses from customer disputed transactions, unrecovered customer purchase transaction overdrafts and fraud), rent and utilities, and insurance. We incur telephone and

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communication costs primarily from customers contacting us through our toll-free telephone numbers. These costs vary with the total number of active cards in our portfolio, as do losses from customer disputed transactions, unrecovered customer purchase transaction overdrafts and fraud. Costs associated with professional services, depreciation and amortization of our property and equipment and intangible assets, and rent and utilities vary based upon our investment in infrastructure, business development, risk management and internal controls and are generally not correlated with our operating revenues or other transaction metrics.

Income Tax Expense

Our income tax expense consists of the federal and state corporate income taxes accrued on income resulting from the sale of our products and services.

Critical Accounting Policies and Estimates

Reference is made to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no changes to our critical accounting policies and estimates during the nine months ended September 30, 2014.

Recent Accounting Pronouncements

Reference is made to the recent accounting pronouncements disclosed in Note 2 — Summary of Significant Accounting Policies to the Consolidated Financial Statements included herein.

Comparison of Three-Month Periods Ended September 30, 2014 and 2013

Operating Revenues

The following table presents a breakdown of our operating revenues among card revenues and other fees, cash transfer revenues and interchange revenues as well as contra-revenue items:

	Three Months Ended September 30,			
	2014		2013	
	Amount	% of Total Operating Revenues	Amount	% of Total Operating Revenues
	(In thousands, except percentages)			
Operating revenues:				
Card revenues and othe				