

GREEN DOT CORP
Form 10-Q
May 10, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 001-34819

GREEN DOT CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	95-4766827
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3465 E. Foothill Blvd.	(626) 765-2000
Pasadena, California 91107	(Registrant's telephone number, including area code)
(Address of principal executive offices, including zip 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 ☒ No ☐
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)			

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

There were 48,053,368 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 April 30, 2016.

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PART I

ITEM 1. Financial Statements

GREEN DOT CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (unaudited)	December 31, 2015 (unaudited)
(In thousands, except par value)		
Assets		
Current assets:		
Unrestricted cash and cash equivalents	\$739,751	\$ 772,128
Federal funds sold	1	1
Restricted cash	6,374	5,793
Investment securities available-for-sale, at fair value	56,092	49,106
Settlement assets	108,694	69,165
Accounts receivable, net	27,652	42,153
Prepaid expenses and other assets	37,012	30,511
Income tax receivable	—	6,434
Total current assets	975,576	975,291
Investment securities, available-for-sale, at fair value	138,368	132,433
Loans to bank customers, net of allowance for loan losses of \$278 and \$426 as of March 31, 2016 and December 31, 2015, respectively	6,274	6,279
Prepaid expenses and other assets	4,102	6,416
Property and equipment, net	79,128	78,877
Deferred expenses	9,396	14,509
Net deferred tax assets	3,580	3,864
Goodwill and intangible assets	468,286	473,779
Total assets	\$1,684,710	\$ 1,691,448
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$21,823	\$ 37,186
Deposits	636,934	652,145
Obligations to customers	51,056	61,300
Settlement obligations	4,771	5,074
Amounts due to card issuing banks for overdrawn accounts	1,469	1,067
Other accrued liabilities	95,910	87,635
Deferred revenue	15,468	22,901
Note payable	20,966	20,966
Income tax payable	12,212	—
Total current liabilities	860,609	888,274
Other accrued liabilities	31,233	37,894
Note payable	95,445	100,686
Net deferred tax liabilities	1,505	1,272
Total liabilities	988,792	1,028,126
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Convertible Series A preferred stock, \$0.001 par value (as converted): 10 shares authorized 2 as of March 31, 2016 and December 31, 2015; 2 shares issued and outstanding as of March		2

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31, 2016 and December 31, 2015

Class A common stock, \$0.001 par value: 100,000 shares authorized as of March 31, 2016

and December 31, 2015; 49,866 and 50,502 shares issued and outstanding as of March 31, 50 51

2016 and December 31, 2015, respectively

Additional paid-in capital	378,722	379,376
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Retained earnings	316,986	284,108
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Accumulated other comprehensive income (loss)	158	(215)
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Total stockholders' equity	695,918	663,322
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Total liabilities and stockholders' equity	\$1,684,710	\$1,691,448
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See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31, 2016 2015 (In thousands, except per share data)	
Operating revenues:		
Card revenues and other fees	\$91,886	\$87,224
Processing and settlement service revenues	81,016	87,121
Interchange revenues	55,122	54,726
Stock-based retailer incentive compensation	—	(1,906)
Total operating revenues	228,024	227,165
Operating expenses:		
Sales and marketing expenses	63,864	61,279
Compensation and benefits expenses	43,087	41,354
Processing expenses	28,513	30,600
Other general and administrative expenses	38,074	28,036
Total operating expenses	173,538	161,269
Operating income	54,486	65,896
Interest income	2,301	1,378
Interest expense	(4,781)	(1,496)
Income before income taxes	52,006	65,778
Income tax expense	19,124	24,965
Net income	32,882	40,813
Income attributable to preferred stock	(972)	(1,165)
Net income available to common stockholders	\$31,910	\$39,648
Basic earnings per common share:	\$0.64	\$0.77
Diluted earnings per common share:	\$0.63	\$0.76
Basic weighted-average common shares issued and outstanding:	49,863	51,448
Diluted weighted-average common shares issued and outstanding:	50,867	51,938
See notes to unaudited consolidated financial statements		

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months	
	Ended March 31,	
	2016	2015
	(In thousands)	
Net income	\$32,882	\$40,813
Other comprehensive income		
Unrealized holding gains, net of tax	373	85
Comprehensive income	\$33,255	\$40,898
See notes to unaudited consolidated financial statements		

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Operating activities		
Net income	\$32,882	\$40,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	11,404	9,375
Amortization of intangible assets	5,774	5,325
Provision for uncollectible overdrawn accounts	16,766	15,192
Employee stock-based compensation	5,645	5,213
Stock-based retailer incentive compensation	—	1,906
Amortization of premium on available-for-sale investment securities	269	235
Change in fair value of contingent consideration	—	(7,616)
Amortization of deferred financing costs	384	384
Impairment of capitalized software	105	—
Deferred income tax expense	—	(21)
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,428)	(2,313)
Prepaid expenses and other assets	(4,187)	(31)
Deferred expenses	5,113	5,800
Accounts payable and other accrued liabilities	(12,448)	(9,410)
Amounts due to card issuing banks for overdrawn accounts	402	1,169
Deferred revenue	(7,458)	(5,618)
Income tax receivable	18,591	24,091
Other, net	145	2
Net cash provided by operating activities	70,959	84,496
Investing activities		
Purchases of available-for-sale investment securities	(38,492)	(34,631)
Proceeds from maturities of available-for-sale securities	25,945	21,972
Proceeds from sales of available-for-sale securities	21	12,733
Increase in restricted cash	(581)	(1,429)
Payments for acquisition of property and equipment	(12,182)	(14,144)
Decrease (increase) in loans	5	(265)
Acquisition, net of cash acquired	—	(65,209)
Net cash used in investing activities	(25,284)	(80,973)
Financing activities		
Repayments of borrowings from note payable	(5,625)	(5,625)
Borrowings on revolving line of credit	15,000	30,001
Repayments on revolving line of credit	(15,000)	(30,001)
Proceeds from exercise of options	2,884	269
Excess tax benefits from exercise of options	338	24
Taxes paid related to net share settlement of equity awards	(1,174)	(152)
Net (decrease) increase in deposits	(15,211)	78,872

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Net (decrease) increase in obligations to customers	(50,062)	77,344
Contingent consideration payments	(189)	(169)
Repurchase of Class A common stock	(9,013)	—
Net cash (used in) provided by financing activities	(78,052)	150,563
Net (decrease) increase in unrestricted cash, cash equivalents, and federal funds sold	(32,377)	154,086
Unrestricted cash, cash equivalents, and federal funds sold, beginning of year	772,129	724,638
Unrestricted cash, cash equivalents, and federal funds sold, end of year	\$739,752	\$878,724
Cash paid for interest	\$4,397	\$1,112
Cash paid for income taxes	\$140	\$779
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 proprietary swipe reload 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 a customer's income tax refund.

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 several leading consumer 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, including Walmart, Walgreens, CVS, Rite Aid, 7-Eleven, Kroger, Kmart, and Dollar Tree, and with various industry resellers, including 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 partnering tax software companies, which enables us to serve approximately 25,000 independent online and in-person tax preparers and accountants nationwide.

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, 2015 for additional disclosures, including a summary of our significant accounting policies. There have been no changes to our significant accounting policies during the three months ended March 31, 2016. 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 March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") that will simplify how companies account for certain aspects of share-based payments to employees, including the accounting for income taxes upon vesting or exercise of share-based payments, classification of awards as either equity or liabilities with respect to statutory tax withholding thresholds, accounting for forfeitures, as well as certain classifications on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. We are currently evaluating the impact of ASU 2016-09 on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). ASU 2016-08 clarifies the

implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The effective date and transition requirements for the ASU is the same as the effective date and transition requirements of ASU 2014-09. We are currently in the process of evaluating the impact of adoption of the ASU on our consolidated financial statements.

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GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 2—Summary of Significant Accounting Policies (continued)

In March 2016, the FASB issued ASU No. 2016-04, Liabilities – Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products ("ASU 2016-04"). ASU 2016-04 aligns recognition of the financial liabilities related to prepaid stored-value products (for example, gift cards) with Topic 606, Revenues from Contracts with Customers, for non-financial liabilities. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. ASU 2016-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. We are currently assessing the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02") in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for leases with a term greater than 12 months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. We are currently in the process of evaluating the impact of adoption of the ASU on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. ASU 2016-01 requires the change in fair value of many equity investments to be recognized in net income. The standard is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The adoption of the ASU may result in a cumulative adjustment to retained earnings as of the beginning of the year of adoption. We are currently evaluating the impact of the provisions of ASU 2016-01, however, we do not expect the adoption of the ASU 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 (Topic 606) ("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. ASU 2014-09, as amended by ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted for annual reporting periods beginning after December 15, 2016. We are evaluating the effect of ASU 2014-09, as well as other clarifications and technical guidance issued by the FASB related to this new revenue standard, 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)				
March 31, 2016				
Corporate bonds	\$34,798	\$ 10	\$ (17)	\$34,791
Commercial paper	8,213	3	—	8,216
U.S. Treasury notes	21,046	9	—	21,055
Agency securities	4,026	—	(7)	4,019
Mortgage-backed securities	107,999	397	(242)	108,154
Municipal bonds	1,928	7	(30)	1,905
Asset-backed securities	16,337	1	(18)	16,320
Total investment securities	\$194,347	\$ 427	\$ (314)	\$194,460

December 31, 2015

Corporate bonds	\$33,201	\$ —	\$ (47)	\$33,154
Commercial paper	6,504	3	(2)	6,505
U.S. Treasury notes	17,541	—	(16)	17,525
Agency securities	4,034	—	(19)	4,015
Mortgage-backed securities	100,131	195	(554)	99,772
Municipal bonds	1,954	11	(65)	1,900
Asset-backed securities	18,725	—	(57)	18,668
Total investment securities	\$182,090	\$ 209	\$ (760)	\$181,539

As of March 31, 2016 and December 31, 2015, 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	Total
	Fair	Unrealized	Fair	Unrealized	value	unrealized
	value	loss	value	loss		loss
(In thousands)						
March 31, 2016						
Corporate bonds	\$9,801	\$ (2)	\$10,488	\$ (15)	\$20,289	\$ (17)
Agency securities	4,019	(7)	—	—	4,019	(7)
Mortgage-backed securities	22,878	(125)	24,269	(117)	47,147	(242)
Municipal bonds	—	—	1,070	(30)	1,070	(30)
Asset-backed securities	12,654	(18)	—	—	12,654	(18)
Total investment securities	\$49,352	\$ (152)	\$35,827	\$ (162)	\$85,179	\$ (314)

December 31, 2015

Corporate bonds	\$20,416	\$ (22)	\$10,679	\$ (25)	\$31,095	\$ (47)
Commercial paper	4,322	(2)	—	—	4,322	(2)
U.S. Treasury notes	17,525	(16)	—	—	17,525	(16)
Agency securities	4,015	(19)	—	—	4,015	(19)

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Mortgage-backed securities	53,634	(410)	21,518	(144)	75,152	(554)
Municipal bonds	—	—		1,035	(65)	1,035	(65)
Asset-backed securities	18,668	(57)	—	—		18,668	(57)
Total investment securities	\$118,580	\$ (526)	\$33,232	\$ (234)	\$151,812	\$ (760)

We did not record any other-than-temporary impairment losses during the three months ended March 31, 2016 or 2015 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 March 31, 2016, 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	\$56,110	\$56,092
Due after one year through five years	15,114	15,131
Due after five years through ten years	318	320
Due after ten years	1,100	1,070
Mortgage and asset-backed securities	121,705	121,847
Total investment securities	\$194,347	\$194,460

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:

	March 31, 2016	December 31, 2015
	(In thousands)	
Overdrawn account balances due from cardholders	\$13,407	\$10,198
Reserve for uncollectible overdrawn accounts	(11,088)	(7,999)
Net overdrawn account balances due from cardholders	2,319	2,199
Trade receivables	1,263	10,644
Reserve for uncollectible trade receivables	(207)	(58)
Net trade receivables	1,056	10,586
Receivables due from card issuing banks	11,735	8,852
Fee advances	2,440	11,621
Other receivables	10,102	8,895
Accounts receivable, net	\$27,652	\$42,153

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

	Three Months Ended March 31, 2016	2015
	(In thousands)	
Balance, beginning of period	\$7,999	\$11,196
Provision for uncollectible overdrawn accounts:		
Fees	14,851	13,644
Purchase transactions	1,915	1,548
Charge-offs	(13,677)	(13,808)
Balance, end of period	\$11,088	\$12,580

Note 5—Property and Equipment

During the three months ended March 31, 2016 we recorded impairment charges of \$0.1 million, associated with capitalized internal-use software we determined were no longer viable and any remaining carrying value was written

off. During the three months ended March 31, 2015, 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)						
March 31, 2016						
Residential	\$—	\$ —	\$—	\$—	\$3,893	\$ 3,893
Commercial	—	—	—	—	380	380
Installment	1	—	—	1	2,278	2,279
Total loans	\$1	\$ —	\$—	\$1	\$6,551	\$ 6,552

Percentage of outstanding — % — % — % — % 100.0 % 100.0 %

December 31, 2015

Residential	\$—	\$ —	\$—	\$—	\$3,863	\$ 3,863
Commercial	—	—	19	19	294	313
Installment	2	—	—	2	2,527	2,529
Total loans	\$2	\$ —	\$19	\$21	\$6,684	\$ 6,705

Percentage of outstanding — % — % 0.3 % 0.3 % 99.7 % 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, 2015 for further information on the criteria for classification as nonperforming.

	March 31, 2016	December 31, 2015
(In thousands)		
Residential	\$423	\$ 366
Commercial	—	19
Installment	271	279
Total loans	\$694	\$ 664

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.

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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:

	March 31, 2016		December 31, 2015	
	Non-Classified		Non-Classified	
	Classified		Classified	
	(In thousands)			
Residential	\$3,377	\$ 516	\$3,404	\$ 459
Commercial	380	—	294	19
Installment	1,896	383	2,173	356
Total loans	\$5,653	\$ 899	\$5,871	\$ 834

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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 March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
	Unpaid Principal Balance	Unpaid Principal Balance
	Carrying Value	Carrying Value
	(In thousands)	
Residential	\$22 \$ 18	\$ 24 \$ 19
Commercial	— —	257 19
Installment	267 129	241 128

Allowance for Loan Losses

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

	Three Months Ended March 31, 2016	2015
(In thousands)		
Balance, beginning of period	\$426	\$444
Provision for loans	(151)	(73)
Loans charged off	—	(35)
Recoveries of loans previously charged off	3	4
Balance, end of period	\$278	\$340

Note 7—Employee Stock-Based Compensation

We currently grant restricted equity awards 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 March 31, 2016	2015
(In thousands, except per share data)		
Restricted stock units granted	418	337

Weighted-average grant-date fair value \$21.79 \$19.48

We issued no stock options during the three months ended March 31, 2016 and 2015.

Included in the number of restricted stock units granted during the three months ended March 31, 2016 and 2015 are performance-based restricted stock units of our Class A common stock of 236,973 and 242,587, respectively, that we granted to certain executive employees under our 2010 Equity Incentive Plan.

The total stock-based compensation expense recognized was \$5.6 million and \$5.2 million for the three months ended March 31, 2016 and 2015, 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.

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GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 8—Deposits

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

	March 31, December 31,	
	2016	2015
	(In thousands)	
Non-interest bearing deposit accounts		
GPR deposits	\$566,353	\$ 610,652
Other demand deposits	49,305	23,644
Total non-interest bearing deposit accounts	615,658	634,296
Interest-bearing deposit accounts		
Negotiable order of withdrawal (NOW)	1,005	851
Savings	12,108	8,848
Time deposits, denominations greater than or equal to \$100	6,274	6,268
Time deposits, denominations less than \$100	1,889	1,882
Total interest-bearing deposit accounts	21,276	17,849
Total deposits	\$636,934	\$ 652,145

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

	March 31,
	2016
	(In
	thousands)
Due in 2016	\$ 3,184
Due in 2017	2,840
Due in 2018	464
Due in 2019	342
Due in 2020	1,316
Thereafter	17
Total time deposits	\$ 8,163

Note 9—Note Payable

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 years revolving facility (the "Revolving Facility") and 2) a five years \$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.

As of March 31, 2016 and December 31, 2015, our outstanding debt, net of deferred financing costs of \$5.5 million and \$5.8 million, respectively, consisted of the following:

	March 31, December 31,	
	2016	2015
	(In thousands)	
Term facility	\$116,411	\$ 121,652
Revolving facility	—	—
Total notes payable	\$116,411	\$ 121,652

Quarterly principal payments of \$5.6 million are payable on the loans under the Term Facility. During each of the three months ended March 31, 2016 and 2015, we made scheduled quarterly principal payments totaling \$5.6 million. The Senior Credit Facility matures on October 23, 2019 and any amounts then outstanding are due upon maturity.

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GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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 March 31, 2016 was 3.18%. Interest expense, excluding the amortization of debt issuance costs, related to our Senior Credit Facility was \$1.1 million and \$1.2 million for the three months ended March 31, 2016 and 2015, respectively.

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 March 31, 2016, we were in compliance with all such covenants.

Note 10—Income Taxes

Income tax expense for the three months ended March 31, 2016 and 2015 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:

	Three Months Ended March 31,	
	2016	2015
U.S. federal statutory tax rate	35.0 %	35.0 %
State income taxes, net of federal tax benefit	2.9	2.0
General business credits	(2.6)	(0.7)
Employee stock-based compensation	0.5	0.7
Other	1.0	1.0
Effective tax rate	36.8 %	38.0 %

The effective tax rate for the three months ended March 31, 2016 and 2015 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 decrease in the effective tax rate for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015 is primarily due to a benefit that we recognized in the first quarter of 2016 related to the permanent reinstatement of 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 March 31, 2016 and 2015, 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.

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GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 10—Income Taxes (continued)

As of March 31, 2016, we have net operating loss carryforwards of approximately \$46.2 million and \$31.9 million for federal and state tax purposes, respectively, which will be available to offset future income. If not used, these carryforwards will expire between 2017 and 2035. In addition, we have state business tax credits of approximately \$5.8 million that can be carried forward indefinitely and other state business tax credits of approximately \$0.9 million that will expire 2025.

As of March 31, 2016 and 2015, we had a liability of \$8.3 million and \$6.9 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:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Beginning balance	\$7,371	\$6,190
Increases related to positions taken during prior years	—	—
Increases related to positions taken during the current year	889	676
Ending balance	\$8,260	\$6,866

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate \$8,260 \$6,866
We recognized accrued interest and penalties related to unrecognized tax benefits as of March 31, 2016 and 2015, of approximately \$0.9 million and \$0.7 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. As of March 31, 2016, we have repurchased \$50 million of Class A Common Stock under the repurchase program. As further discussed below, subsequent to March 31, 2016, our accelerated share repurchase agreement with a financial institution became effective, bringing our total repurchases under our stock repurchase plan since inception to \$100 million.

Accelerated Share Repurchases

We have entered, and in the future may enter, into accelerated share repurchase arrangements (“ASRs”) with financial institutions. In exchange for an up-front payment, the financial institution delivers shares of our Class A Common Stock during the purchase periods of each 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. 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. The shares received are retired in the periods they are delivered, but remain authorized for registration and issuance in the future.

The up-front payments are accounted for as a reduction to shareholders' equity on our consolidated balance sheets in the periods the payments are made. The ASRs are 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. The par value of the shares received are recorded as a reduction to common stock with the remainder recorded as a reduction to additional paid-in capital and retained earnings. The ASRs meet all of the applicable criteria for equity classification, and therefore are not accounted for as derivative instruments. 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 11—Stockholders' Equity (continued)

The following table shows our ASR activity since inception of the stock repurchase program:

Purchase Period	End Date	Number of Shares (In thousands)	Average repurchase price per share	ASR Amount (In thousands)
April 2016 ASR ⁽²⁾	October 2016	1,867	⁽¹⁾ (1)	\$ 50,000
September 2015 ASR	January 2016	2,342	\$ 17.08	\$ 40,000

"Number of Shares" represents those shares delivered in the beginning of the purchase period and does not represent the final number of shares to be delivered under the ASR. The total number of shares ultimately (1) delivered, and therefore the average repurchase price paid per share, will be determined at the end of the applicable purchase period based on the volume-weighted average price of our common stock during that period. The April 2016 ASR purchase period will end in or before October 2016.

In February 2016, we entered into an ASR agreement with a financial institution. The agreement was not deemed (2) effective until April 2016, at which point we made an up-front payment of \$50 million in exchange for approximately 1.9 million shares. The initial shares received are treated as reduction to our total common shares outstanding beginning in April 2016. Final settlement is scheduled to occur during the fourth quarter of 2016.

Other

In connection with the Repurchase Program, we entered into a repurchase plan in December 2015 under Rule 10b5-1 of the Exchange Act for \$10 million. The timing, nature and amount of purchases depend on a variety of factors, including market conditions and the volume limit defined by Rule 10b-18. During the three months ended March 31, 2016, we repurchased a total of 0.5 million shares at an average price of \$16.11 under this plan. As of March 31, 2016, we completed all repurchases under this plan and total repurchases amounted to approximately 0.6 million shares at an average price of \$16.15.

Note 12—Earnings per Common Share

The calculation of basic and diluted EPS was as follows:

	Three Months Ended March 31, 2016 2015 (In thousands, except per share data)	
Basic earnings per Class A common share		
Net income	\$32,882	\$40,813
Income attributable to preferred stock	(972)	(1,165)
Income attributable to common stock subject to repurchase	—	(81)
Net income allocated to Class A common stockholders	\$31,910	\$39,567
Weighted-average Class A shares issued and outstanding	49,863	51,448
Basic earnings per Class A common share	\$0.64	\$0.77
Diluted earnings per Class A common share		
Net income allocated to Class A common stockholders	\$31,910	\$39,567
Re-allocated earnings	19	11
Diluted net income allocated to Class A common stockholders	31,929	39,578

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Weighted-average Class A shares issued and outstanding	49,863	51,448
Dilutive potential common shares:		
Stock options	343	281
Restricted stock units	630	193
Employee stock purchase plan	31	16
Diluted weighted-average Class A shares issued and outstanding	50,867	51,938
Diluted earnings per Class A common share	\$0.63	\$0.76

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:

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GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 12—Earnings per Common Share (continued)

	Three Months Ended March 31, 2016 2015 (In thousands)	
Class A common stock		
Options to purchase Class A common stock	326	795
Restricted stock units	8	122
Conversion of convertible preferred stock	1,519	1,515
Total options, restricted stock units and convertible preferred stock	1,853	2,432

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, 2015.

As of March 31, 2016 and December 31, 2015, our assets and liabilities carried at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
March 31, 2016	(In thousands)			
Assets				
Corporate bonds	\$—	\$34,791	\$—	\$34,791
Commercial paper	—	8,216	—	8,216
U.S. Treasury notes	—	21,055	—	21,055
Agency securities	—	4,019	—	4,019
Mortgage-backed securities	—	108,154	—	108,154
Municipal bonds	—	1,905	—	1,905
Asset-backed securities	—	16,320	—	16,320
Total assets	\$—	\$194,460	\$—	\$194,460
Liabilities				
Contingent consideration	\$—		\$13,700	\$13,700

December 31, 2015

Assets

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Corporate bonds	\$ 33,154	\$ —	\$33,154
Commercial paper	— 6,505	—	6,505
U.S. Treasury notes	— 17,525	—	17,525
Agency securities	— 4,015	—	4,015
Mortgage-backed securities	— 99,772	—	99,772
Municipal bonds	— 1,900	—	1,900
Asset-backed securities	— 18,668	—	18,668
Total assets	\$ 181,539	\$ —	\$181,539

Liabilities

Contingent consideration	\$ —	\$13,889	\$13,889
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GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 13—Fair Value Measurements (continued)

We based the fair value of our fixed income securities held as of March 31, 2016 and December 31, 2015 on quoted prices in active markets for similar assets. We had no transfers between Level 1, Level 2 or Level 3 assets or liabilities during the three months ended March 31, 2016 or 2015.

The following table presents changes in our contingent consideration payable for the three months ended March 31, 2016 and 2015, which is categorized in Level 3 of the fair value hierarchy:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Balance, beginning of period	\$13,889	\$23,160
Payments of contingent consideration	(189)	(169)
Change in fair value of contingent consideration	—	(7,616)
Balance, end of period	\$13,700	\$15,375

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.

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, 2015. 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.

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GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 14—Fair Value of Financial Instruments (continued)

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 March 31, 2016 and December 31, 2015 are presented in the table below.

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			

Financial Assets

Loans to bank customers, net of allowance	\$6,274	\$5,578		
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