GREEN DOT CORP
Form 10-Q
May 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

(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. 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth 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
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 51,925,496 shares of Class A common stock outstanding, par value $.001 per share as of April 30, 2018.

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

	March 31, 2018 (unaudited)	December 31, 2017
Assets	(In thousands, except par value)	
Current assets:		
Unrestricted cash and cash equivalents	$1,268,137	$919,243
Restricted cash	86,608	90,852
Investment securities available-for-sale, at fair value	15,875	11,889
Settlement assets	179,520	209,399
Accounts receivable, net	29,337	35,277
Prepaid expenses and other assets	53,219	47,086
Income tax receivable	—	7,459
Total current assets	1,632,696	1,321,205
Investment securities available-for-sale, at fair value	132,673	141,620
Loans to bank customers, net of allowance for loan losses of $451 and $291 as of March 31, 2018 and December 31, 2017, respectively	19,713	18,570
Prepaid expenses and other assets	8,157	8,179
Property and equipment, net	100,358	97,282
Deferred expenses	14,608	21,791
Net deferred tax assets	6,639	6,507
Goodwill and intangible assets	574,141	582,377
Total assets	$2,488,985	$2,197,531
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$32,398	$34,863
Deposits	1,293,272	1,022,180
Obligations to customers	69,874	95,354
Settlement obligations	11,672	6,956
Amounts due to card issuing banks for overdrawn accounts	1,239	1,371
Other accrued liabilities	105,640	123,397
Deferred revenue	22,999	30,875
Note payable	20,906	20,906
Income tax payable	2,818	74
Total current liabilities	1,560,818	1,335,976
Other accrued liabilities	31,612	30,520
Note payable	53,478	58,705
Net deferred tax liabilities	7,786	7,780
Total liabilities	1,653,694	1,432,981
Commitments and contingencies (Note 16)		
Stockholders’ equity:		
Class A common stock, $0.001 par value; 100,000 shares authorized as of March 31, 2018 and December 31, 2017; 51,841 and 51,136 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	52	51
Additional paid-in capital	356,052	354,789

Retained earnings	480,471	410,440
Accumulated other comprehensive loss	(1,284)	(730)
Total stockholders' equity	835,291	764,550
Total liabilities and stockholders' equity	$2,488,985	$2,197,531

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share data)	
Operating revenues:		
Card revenues and other fees	$130,060	$100,969
Processing and settlement service revenues	100,240	90,675
Interchange revenues	84,698	61,357
Total operating revenues	314,998	253,001
Operating expenses:		
Sales and marketing expenses	91,968	71,685
Compensation and benefits expenses	54,507	41,218
Processing expenses	48,425	40,942
Other general and administrative expenses	43,718	37,780
Total operating expenses	238,618	191,625
Operating income	76,380	61,376
Interest income	5,600	2,854
Interest expense	(1,516)	(1,665)
Income before income taxes	80,464	62,565
Income tax expense	10,433	21,811
Net income	$70,031	$40,754
Basic earnings per common share:	$1.36	$0.81
Diluted earnings per common share:	$1.29	$0.78
Basic weighted-average common shares issued and outstanding:	51,439	50,458
Diluted weighted-average common shares issued and outstanding:	54,234	52,497

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,	
	2018	2017
	(In thousands)	
Net income	$70,031	$40,754
Other comprehensive (loss) income		
Unrealized holding (losses) gains, net of tax	(554)	13
Comprehensive income	$69,477	$40,767

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,	
	2018	2017
	(In thousands)	
Operating activities		
Net income	$70,031	$40,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	8,922	8,749
Amortization of intangible assets	8,236	6,557
Provision for uncollectible overdrawn accounts	18,385	18,246
Employee stock-based compensation	9,360	6,534
Amortization of premium on available-for-sale investment securities	320	322
Amortization of deferred financing costs	398	394
Impairment of capitalized software	—	156
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,626)	5,451
Prepaid expenses and other assets	(6,111)	968
Deferred expenses	7,183	5,565
Accounts payable and other accrued liabilities	(18,936)	(13,267)
Deferred revenue	(6,480)	(8,128)
Income tax receivable/payable	10,136	21,629
Other, net	51	929
Net cash provided by operating activities	88,869	94,859
Investing activities		
Purchases of available-for-sale investment securities	(13,774)	(19,961)
Proceeds from maturities of available-for-sale securities	17,676	28,989
Proceeds from sales of available-for-sale securities	124	15,318
Payments for acquisition of property and equipment	(13,386)	(11,844)
Net increase in loans	(1,143)	(1,199)
Acquisition, net of cash acquired	—	(139,256)
Net cash used in investing activities	(10,503)	(127,953)
Financing activities		
Borrowings from notes payable	—	20,000
Repayments of borrowings from notes payable	(5,625)	(25,625)
Borrowings on revolving line of credit	—	205,000
Repayments on revolving line of credit	—	(155,000)
Proceeds from exercise of options	7,802	5,155
Taxes paid related to net share settlement of equity awards	(15,898)	(2,162)
Net increase in deposits	271,092	88,947
Net increase in obligations to customers	9,115	8,269
Contingent consideration payments	(202)	(192)
Repurchase of Class A common stock	—	(50,000)
Deferred financing costs	—	(164)
Net cash provided by financing activities	266,284	94,228

Net increase in unrestricted cash, cash equivalents and restricted cash	344,650	61,134
Unrestricted cash, cash equivalents and restricted cash, beginning of period	1,010,095	744,761
Unrestricted cash, cash equivalents and restricted cash, end of period	$1,354,745	$805,895
Cash paid for interest	$1,118	$1,271
Cash paid for income taxes	$80	$122
Reconciliation of unrestricted cash, cash equivalents and restricted cash at end of period:		
Unrestricted cash and cash equivalents	$1,268,137	$785,838
Restricted cash	86,608	20,057
Total unrestricted cash, cash equivalents and restricted cash, end of period	$1,354,745	$805,895

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,” “our,” or “us” refer to Green Dot Corporation and its consolidated subsidiaries) is a pro-consumer bank holding company and financial technology innovator with a mission to reinvent personal banking for the masses. We employ a unique “products and platform” operating model whereby we use our banking and technology assets to design, build and distribute our branded financial services products directly to consumers through a large-scale omni-channel national distribution platform, while also allowing qualified third party partners to access those same banking and technology assets to design, build and distribute their own bespoke financial services directly to their consumers through their own distribution platforms. Through our six revenue divisions and our subsidiary bank, Green Dot Bank, we are a leading provider of prepaid cards, debit cards, checking accounts, secured credit cards, payroll debit cards, consumer cash processing services, wage disbursements and tax refund processing services. With approximately 100,000 major name U.S. retail stores selling our products, several leading direct-to-consumer websites, thousands of tax preparation offices, several apps available in the two leading app stores and distribution through several enterprise-scale “Banking as a Service,” or "BaaS," partnerships, we are one of the most broadly distributed banking franchises in the United States. We are headquartered in Pasadena, California, with additional facilities throughout the United States and in Shanghai, China.
As the regulated entity and issuing bank for substantially all products and services we provide, whether our own or on behalf of a BaaS platform partner, we are directly accountable for all aspects of each program’s integrity, inclusive of ensuring the program’s compliance with all applicable banking regulations, applicable state and federal law and our various internal governance policies and procedures related to all areas of risk and compliance, in addition to deploying enterprise-class risk management practices and procedures to ensure each program’s initial and ongoing safety and soundness.
Our products and services:
We offer consumers a broad collection of financial products and services managed through several diverse business lines which are then made available to consumers through a widely-available “branchless" distribution network in the United States. Many of the products and services we internally create and distribute are marketed under the Green Dot brand name, which we believe is both a well-known and highly trusted brand name for millions of consumers. Our branchless network consists of:

- distribution arrangements with approximately 100,000 mostly major chain retail locations, which we refer to as “retail distributors” and thousands of neighborhood Financial Service Center locations;
- several differently branded, Green Dot-owned and operated direct-to-consumer online and direct mail customer acquisition platforms;
- corporate distribution partnerships with businesses that provide payroll cards to their employees to receive wage disbursements;
- more than 25,000 small and large tax preparation companies and individual tax preparers, which are sometimes referred to as electronic return originators, or “EROs”, who are able to offer our products and services to their customers through the use of various tax preparation industry software packages with which our products are integrated;
- apps compatible with the iOS and Android operating systems downloaded through the corresponding app store; and
- platform partners’ distribution channels that those partners use to acquire customers for their bespoke products and services that are powered by our BaaS Platform.

Our products and services include several deposit account programs, such as network-branded reloadable prepaid debit cards marketed under several leading consumer brand names, which we collectively refer to as "GPR cards," consumer checking accounts, small business checking accounts, network-branded gift cards (known as open-loop), secured credit cards and other financial services.
We also offer several products and services that specialize in facilitating the movement cash on behalf of consumers and businesses. These products and services include: our proprietary swipe reload system for crediting cash onto an enabled payment card by swiping the payment card at the point of sale at any Green Dot Network participating

retailer; MoneyPak, a product that allows a consumer to add funds to accounts we issue or accounts issued by other United States chartered and regulated third party banks; and e-cash remittance services, a service that allows a consumer

Note 1—Organization (continued)
to transfer money to a smartphone for fulfillment at a Green Dot participating retailer. We refer to these services collectively as our cash transfer products. We also provide disbursement services through our Simply Paid platform that enables a payment solution for companies to pay their workforce and customers in the time and manner they desire and provide tax refund transfers that provide the processing technology to facilitate receipt of a taxpayers' refund proceeds.

Our BaaS Platform:

Through our BaaS Platform, we currently power the following types of products and services on behalf of several of America’s largest retail, consumer, technology and financial services companies:

- Mobile banking;
- Loan disbursement accounts;
- Spend-based Mobile P2P services, such as Apple Pay Cash;
- Money transfer services;
- GPR cards;
- Network branded "open loop" gift cards;
- Instant payment and wage disbursements;
- Small business checking accounts and debit cards; and
- Consumer checking accounts.

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, 2017 for additional disclosures, including a summary of our significant accounting policies. There have been no material changes to our significant accounting policies during the three months ended March 31, 2018, other than the adoption of the accounting pronouncements discussed below. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal and recurring items, except as otherwise noted, necessary for the fair presentation of our financial position, results of operations and cash flows for the interim periods presented.

Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other ("ASU 2017-04"): Simplifying the Test for Goodwill Impairment, which simplifies the existing two-step guidance for goodwill impairment testing by eliminating the second step resulting in a write-down to goodwill equal to the initial amount of impairment determined in step one. The ASU is to be applied prospectively for reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We are currently evaluating the impact of the provisions of ASU 2017-04 on our consolidated financial statements, however, we do not anticipate it will have a material impact upon adoption.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") that requires financial assets measured at amortized cost be presented at the net amount expected to be collected. Credit losses on available-for-sale debt securities should be recorded through an allowance for credit losses limited by the amount that the fair value is less than amortized cost. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements.

Note 2—Summary of Significant Accounting Policies (continued)

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 ASU 2016-02 on our consolidated financial statements.

Recently adopted accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), and has since been modified through additional technical corrections since its original issuance (collectively ASC 606). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under current 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. The standard 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 previous GAAP. The standard allows companies to apply either a full retrospective approach, which requires applying the standard to each prior year reporting period presented, or a modified retrospective approach with a cumulative effect adjustment recognized upon adoption. We adopted the provisions of the standard on January 1, 2018 using the modified retrospective approach, which did not result in any cumulative adjustment to opening retained earnings nor did it have a material impact on our consolidated financial statements. The adoption of ASU 2014-09, however, requires expanded disclosures under the new guidance. See Note 3 - Revenues for further information and additional discussion around changes identified to our policies under the new accounting pronouncement.

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. We adopted the provisions of ASU 2016-01 on January 1, 2018, the result of which did not have any impact upon our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash ("ASU 2016-18"), to require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. The amendments should be applied retrospectively to each period presented. We adopted the provisions of ASU 2016-18 on January 1, 2018, the effect of which resulted in an immaterial reclassification in presentation on our statement of cash flows, but had no affect on our consolidated financial results.

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act. The amendments in this ASU also require certain disclosures about stranded tax effects. We adopted the provisions of ASU 2018-02 as of December 31, 2017, the result of which did not have a material impact upon our consolidated financial statements.

Note 3—Revenues

Adoption of ASC 606

On January 1, 2018, we adopted ASC 606 using the modified retrospective method applied to contracts which were not completed upon adoption, the impact of which did not result in any cumulative adjustment to our retained earnings. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting policies.

The impact of our adoption of ASC 606 was limited to a change in presentation of certain incentive agreements. Prior to the adoption of ASC 606, incentive payments with our retail distributors and other partners had generally been recorded as a reduction to revenues over the related period of benefit the incentive payment related. Upon the adoption of ASC 606, such payments are classified as sales and marketing expenses since these contractual arrangements have been determined to be outside the scope of contracts with our customers under the new accounting standard. The total amount of incentive payments recognized was $1.8 million and $1.1 million for the three months ended March 31, 2018 and 2017.

Accounting Policy Update

Our operating revenues consist of card revenues and other fees, processing and settlement service revenues and interchange revenues. The core principle of the new revenue standard is that these revenues will be recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services, as determined under a five-step process.

A description of our principal revenue generating activities is as follows:

Card Revenues and Other Fees

Card revenues and other fees consist of monthly maintenance fees, new card fees, ATM fees, and other card revenues. We earn these fees based upon the underlying terms and conditions with each of our cardholders that obligate us to stand ready to provide account services to each of our cardholders over the contract term. Agreements with our cardholders are considered daily service contracts as they are not fixed in duration.

We charge maintenance fees on a monthly basis pursuant to the terms and conditions in the applicable cardholder agreements. We recognize monthly maintenance fees ratably over each day in the monthly bill cycle in which the fee is assessed, which represents the period our cardholders receive the benefits of our services and our performance obligation is satisfied.

We charge new card fees when a consumer purchases a new card in a retail store. The new card fee provides our cardholders a material right and accordingly, we defer and recognize new card fee revenues on a straight-line basis over our average card lifetime, which is currently five months for our GPR cards and six months for our gift cards. We determine the average card lifetime based on our recent historical data for comparable products. We measure card lifetime for our GPR cards as the time, inclusive of reload activity, between sale (or activation) of the card and the date of the last positive balance. We measure the card lifetime for our gift cards as the redemption period during which cardholders initiate the substantial majority of their transactions. We reassess average card lifetime quarterly. We report the unearned portion of new card fees as a component of deferred revenue in our consolidated balance sheets. See Contract Balances below for further information.

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 recognize ATM fees when the withdrawal is made by the cardholder, which is the point in time our performance obligation is satisfied and service is transferred. Since our cardholder agreements are considered daily service contracts, our performance obligations for these types of transactional based fees are satisfied on a daily basis, or as each transaction occurs.

Other revenues consist primarily of revenue associated with our gift card program, transaction-based fees and fees associated with optional products or services, which we offer our cardholders at their election. Since our performance obligations are settled daily, we recognize most of these fees at the point in time the transactions occur which is when the underlying control of the services are transferred. In the case of our gift card program, we record the related revenues using the redemption method.

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Note 3—Revenues (continued)

Substantially all our fees are collected from our cardholders at the time the fees are assessed and debited from their account balance.

Processing and Settlement Service Revenues

Our processing and settlement services consist of cash transfer revenues, Simply Paid disbursement revenues, and tax refund processing service revenues.

We generate cash transfer revenues when consumers purchase our cash transfer products (reload services) in a retail store. Our reload services are subject to the same terms and conditions in each of the applicable cardholder agreements as discussed above. We recognize these revenues at the point in time the reload services are completed. Similarly, we earn Simply Paid disbursement fees from our business partners as payment disbursements are made.

We earn tax refund processing service revenues when a customer of a third-party tax preparation company chooses to pay their tax preparation fee through the use of our tax refund processing services. Revenues we earn from these services are generated from our contractual relationships with the tax software transmitters. These contracts may be multi-year agreements and vary in length, however, our underlying promise obligates us only to process each refund transfer on a transaction by transaction basis as elected by the taxpayer. Accordingly, we recognize tax refund processing service revenues at the point in time we remit each taxpayer's proceeds from his or her tax return.

Interchange

We earn interchange revenues from fees remitted by the merchant's bank, which are based on rates established by the payment networks, such as Visa and MasterCard, when account holders make purchase transactions using our card products and services. We recognize interchange revenues at the point in time the transactions occur, as our performance obligation is satisfied.

Principal vs Agent

For all our significant revenue-generating arrangements, we record revenues on a gross basis except for our tax refund processing service revenues which are recorded on a net basis.

Disaggregation of Revenues

Our products and services are offered only to customers within the United States. We determine our operating segments based on how our chief operating decision maker manages our operations, makes operating decisions and evaluates operating performance. Within our segments, we believe that the nature, amount, timing and uncertainty of our revenue and cash flows and how they are affected by economic factors can be further illustrated based on the timing in which revenue for each of our products and services is recognized.

The following table disaggregates our revenues by the timing in which the revenue is recognized:

	Three Months Ended March 31, 2018	
	Account Services	Processing and Settlement Services
Timing of revenue recognition	(In thousands)	
Transferred at a point in time	$136,526	$ 100,235
Transferred over time	77,346	891
Operating revenues	$213,872	$ 101,126

Within our Account Services segment, revenues recognized at a point in time are comprised of ATM fees, interchange, and other similar transaction-based fees. Revenues recognized over time consists of new card fees, monthly maintenance fees and revenue earned from gift cards. Substantially all of our processing and settlement services are recognized at a point in time.

Refer to Note 18- Segment Information for our revenues disaggregated by our products and services and the components to our total operating revenues on our Consolidated Statements of Operations for additional information.

Note 3—Revenues (continued)

Significant Judgments and Estimates

Transaction prices related to our account services are based on stand-alone fees stated within the terms and conditions, however, may also include certain elements of variable consideration depending upon the product's features, such as cardholder incentives, monthly fee concessions and reserves on accounts that may become overdrawn. We estimate such amounts using historical data or customer behavior patterns to determine these estimates which are allocated accordingly as a reduction to the corresponding fee revenue. Additionally, while the number of transactions that a cardholder may perform is unknown, any uncertainty is resolved at the end of each daily service contract.

Contract Balances

As disclosed on our Consolidated Balance Sheets, we record deferred revenue for any upfront payments received in advance of our performance obligations being satisfied. These contract liabilities consist principally of unearned new card fees and monthly maintenance fees, of which we recognized approximately $18.9 million for the three months ended March 31, 2018 that were included in deferred revenue at the beginning of the period. We did not recognize any revenue during the three months ended March 31, 2018 from performance obligations satisfied in previous periods. Changes in the deferred revenue balance are driven primarily by the amount of new card fees recognized during the period, offset by the amount of new cards sold.

Costs to Obtain or Fulfill a Contract

Our incremental direct costs of obtaining a contract are derived primarily from revenue share payments we make to our retail partners associated with new card sales. These commissions are generally capitalized upon payment and expensed over the period the corresponding revenue is recognized. These deferred commissions are not material and are included in deferred expenses on our Consolidated Balance Sheets.

Practical Expedients and Exemptions

Any unsatisfied performance obligations at the end of the period relate to contracts with customers that either have an original expected length of one year or less or are contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. Therefore, no additional disclosure is provided for these performance obligations.

Note 4—Business Combination

On February 28, 2017, we completed our acquisition of all the membership interests of UniRush, LLC ("UniRush"), an online direct-to-consumer GPR card and corporate payroll card provider. The fair value of the total consideration in connection with the acquisition was approximately $163.7 million, which included cash and contingent consideration in the form of an earn-out. We financed the transaction with $142.2 million in cash, of which $95 million was raised from a combination of our Revolving Facility, as discussed in Note 10 — Note Payable, and subordinated notes payable of $20 million to the selling shareholders of UniRush. The subordinated notes were repaid during the three months ended March 31, 2017. The transaction terms include an earn-out equal to the greater of (i) a specified percentage of the revenue generated by the online direct-to-consumer GPR card portfolio for the five-year period following the closing or (ii) $20 million, payable quarterly over the five years.

The following table summarizes the fair value of consideration transferred:

	Consideration (In thousands)
Cash, including proceeds from notes payable	$ 142,154
Fair value of contingent consideration	21,500
Total consideration	$ 163,654

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

Note 4—Business Combination (continued)
The allocation of the purchase price was as follows:

	February 28, 2017
	(In thousands)
Assets:	
Cash and cash equivalents	$ 656
Accounts receivable, net	5,745
Prepaid expenses and other assets	5,146
Property and equipment, net	4,233
Intangible assets	69,000
Goodwill	93,435
Total assets:	178,215
Liabilities:	
Accounts payable	10,861
Other liabilities	3,700
Total liabilities:	14,561
Net assets acquired	$ 163,654

Goodwill of approximately $93.4 million represents the excess of the purchase price over the estimated fair value of the underlying identifiable tangible and intangible assets acquired and liabilities assumed. The goodwill arises from the opportunity for synergies and economies of scale from the combined companies, and expanding our reach into the online direct-to-consumer and corporate payroll distribution channels. Although the goodwill will not be amortized for financial reporting purposes, it is anticipated that substantially all of the goodwill will be deductible for federal tax purposes over the statutory period of 15 years.

Intangible assets consist primarily of customer relationships and trade name of approximately $58.5 million and $5.5 million, respectively. The customer relationships will be amortized over its estimated useful life of 5-10 years and the trade name will be amortized over a period of 15 years.

Our acquisition of UniRush was accounted for under the acquisition method of accounting, with the operating results of UniRush included in our consolidated statements of operations beginning March 1, 2017. Transaction costs incurred in connection with the acquisition were not material.

Unaudited pro forma financial information

The following unaudited pro forma summary financial results present the consolidated results of operations as if the acquisition of UniRush had occurred as of January 1, 2017, after the effect of certain adjustments, including interest expense on the debt used to fund the purchase, amortization of certain identifiable intangible assets, income and expense items not attributable to ongoing operations and related tax effects. The unaudited pro forma condensed consolidated statements of operations does not include any adjustments for any restructuring activities, operating efficiencies or cost savings. The pro forma results have been presented for comparative purposes only and are not indicative of what would have occurred had the UniRush acquisition been made as of January 1, 2017, or of any potential results which may occur in the future.

	Three Months Ended March 31,	
	2018	2017

	(In thousands, except per share data)	
Net revenues	$314,998	$272,286
Net income attributable to common stock	$70,031	$34,150
Basic earnings per common share	$1.36	$0.68
Diluted earnings per common share	$1.29	$0.65
Basic weighted-average common shares issued and outstanding	51,439	50,458
Diluted weighted-average common shares issued and outstanding	54,234	52,497

Note 5—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, 2018				
Negotiable certificate of deposit	$5,000	$ —	$ —	$5,000
U.S. Treasury notes	10,912	—	(37)	10,875
Agency securities	4,941	—	(1)	4,940
Agency mortgage-backed securities	117,531	25	(1,623)	115,933
Municipal bonds	604	—	(15)	589
Asset-backed securities	11,316	—	(105)	11,211
Total investment securities	$150,304	$ 25	$ (1,781)	$148,548
December 31, 2017				
Corporate bonds	$1,000	$ —	$ —	$1,000
U.S. Treasury notes	10,921	—	(46)	10,875
Agency mortgage-backed securities	121,037	52	(1,055)	120,034
Municipal bonds	742	4	(7)	739
Asset-backed securities	20,952	—	(91)	20,861
Total investment securities	$154,652	$ 56	$ (1,199)	$153,509

As of March 31, 2018 and December 31, 2017, the gross unrealized losses and fair values of available-for-sale investment securities that were in unrealized loss positions were as follows:

	Less than 12 months		12 months or more		Total fair value	Total unrealized loss
	Fair value	Unrealized loss	Fair value	Unrealized loss		
	(In thousands)					
March 31, 2018						
U.S. Treasury notes	$2,290	$ (11)	$8,585	$ (26)	$10,875	$ (37)
Agency securities	4,940	(1)	—	—	4,940	(1)
Agency mortgage-backed securities	52,155	(541)	48,870	(1,082)	101,025	(1,623)
Municipal bonds	429	(10)	160	(5)	589	(15)
Asset-backed securities	—	—	11,211	(105)	11,211	(105)
Total investment securities	$59,814	$ (563)	$68,826	$ (1,218)	$128,640	$ (1,781)
December 31, 2017						
U.S. Treasury notes	$4,588	$ (21)	$6,288	$ (25)	$10,876	$ (46)
Agency mortgage-backed securities	62,683	(453)	44,159	(602)	106,842	(1,055)
Municipal bonds	—	—	193	(7)	193	(7)
Asset-backed securities	2,134	(2)	18,727	(89)	20,861	(91)
Total investment securities	$69,405	$ (476)	$69,367	$ (723)	$138,772	$ (1,199)

We did not record any other-than-temporary impairment losses during the three months ended March 31, 2018 or 2017 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.

Note 5—Investment Securities (continued)

As of March 31, 2018, 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	$15,912	$15,875
Due after one year through five years	4,941	4,940
Due after five years through ten years	—	—
Due after ten years	604	589
Mortgage and asset-backed securities	128,847	127,144
Total investment securities	$150,304	$148,548

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 6—Accounts Receivable

Accounts receivable, net consisted of the following:

	March 31, 2018	December 31, 2017
	(In thousands)	
Overdrawn account balances due from cardholders	$19,651	$ 17,856
Reserve for uncollectible overdrawn accounts	(15,796)	(14,471)
Net overdrawn account balances due from cardholders	3,855	3,385
Trade receivables	7,479	4,231
Reserve for uncollectible trade receivables	(69)	(3)
Net trade receivables	7,410	4,228
Receivables due from card issuing banks	7,790	6,309
Fee advances	2,646	16,194
Other receivables	7,636	5,161
Accounts receivable, net	$29,337	$ 35,277

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

	Three Months Ended March 31, 2018	2017
	(In thousands)	
Balance, beginning of period	$14,471	$11,932
Provision for uncollectible overdrawn accounts:		
Fees	15,779	16,959
Purchase transactions	2,606	1,287
Charge-offs	(17,060)	(17,945)
Balance, end of period	$15,796	$12,233

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Note 7—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, 2018						
Residential	$2	$—	$—	$2	$4,122	$ 4,124
Commercial	—	—	—	—	278	278
Installment	—	—	—	—	1,084	1,084
Secured credit card	1,007	968	308	2,283	12,395	14,678
Total loans	$1,009	$968	$308	$2,285	$17,879	$ 20,164
Percentage of outstanding	5.0 %	4.8 %	1.5 %	11.3 %	88.7 %	100.0 %
December 31, 2017						
Residential	$—	$—	$—	$—	$3,554	$ 3,554
Commercial	—	—	—	—	315	315
Installment	1	—	—	1	1,378	1,379
Secured credit card	1,223	593	424	2,240	11,373	13,613
Total loans	$1,224	$593	$424	$2,241	$16,620	$ 18,861
Percentage of outstanding	6.5 %	3.1 %	2.3 %	11.9 %	88.1 %	100.0 %

Secured Credit Card Loans
On August 31, 2017, we completed an asset acquisition of a secured credit card portfolio for approximately $8.1 million. In exchange for the payment, we received approximately $8.2 million of secured credit card receivables. All of our credit card receivables are collateralized by the cardholders' security deposits, which also acts as the cardholders' credit limit.
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, 2017 for further information on the criteria for classification as nonperforming.

	March 31, 2018	December 31, 2017
	(In thousands)	
Residential	$485	$ 502
Installment	187	191
Total loans	$672	$ 693

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.

Note 7—Loans to Bank Customers (continued)

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, 2018		December 31, 2017	
	Non-Classified	Classified	Non-Classified	Classified
	(In thousands)			
Residential	$3,634	$ 490	$3,038	$ 516
Commercial	249	29	315	—
Installment	678	406	1,059	320
Secured credit card	14,678	—	13,613	—
Total loans	$19,239	$ 925	$18,025	$ 836

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, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
	(In thousands)			
Residential	$490	$ 361	$516	$ 452
Commercial	29	28	—	—
Installment	223	101	262	120

Allowance for Loan Losses

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

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Balance, beginning of period	$291	$277
Provision for loans	268	—
Loans charged off	(756)	(5)
Recoveries of loans previously charged off	648	9
Balance, end of period	$451	$281

Note 8—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.

Restricted Stock Units

The following table summarizes restricted stock units with only service conditions granted under our 2010 Equity Incentive Plan:

	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share data)	
Restricted stock units granted	63	115
Weighted-average grant-date fair value	$61.26	$27.44

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

Note 8—Employee Stock-Based Compensation (continued)

Performance Based Restricted Stock Units

We grant performance-based restricted stock units to certain employees which are subject to the attainment of minimum pre-established annual performance targets. The majority of these awards are tied to the achievement of an annual non-GAAP earnings per share target for the grant year. The actual number of shares subject to the award is determined at the end of the annual performance period and may range from zero to 150% percent of the target shares granted. These awards contain an additional service component after each annual performance period is concluded and the unvested balance of the shares determined at the end of the annual performance period will vest over the remaining requisite service period. Compensation expense related to these awards is recognized using the accelerated attribution method over the four-year vesting period based on the fair value of the closing market price of our Class A common stock on the date of the grant and the estimated performance that is expected to be achieved. In the case of our Chief Executive Officer, vesting of the award is based on the achievement of a total shareholder return ("TSR") relative to the S&P 600 index over the three-year performance period. Compensation expense related to these awards is recognized over the performance period based on the grant date fair value through the use of a Monte Carlo simulation and are not subsequently re-measured.

The following table summarizes the performance-based restricted stock units granted under our 2010 Equity Incentive Plan:

	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share data)	
Performance based restricted stock units granted [1]	444	287
Weighted-average grant-date fair value	$39.50	$33.29

(1) Performance awards granted also reflects the impact of any incremental shares awarded during the periods ended for performance periods completed. The grant date fair value for these awards are based on the grant price at the time of the initial award.

The total stock-based compensation expense recognized was $9.4 million and $6.5 million for the three months ended March 31, 2018 and 2017, respectively. Total stock-based compensation expense includes amounts related to awards of stock options, restricted stock units (including performance-based restricted stock units) and purchases under our 2010 Employee Stock Purchase Plan.

Note 9—Deposits

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

	March 31, 2018	December 31, 2017
	(In thousands)	
Non-interest bearing deposit accounts		
GPR deposits	$1,046,496	$ 803,549
Other demand deposits	109,381	61,264
Total non-interest bearing deposit accounts	1,155,877	864,813
Interest-bearing deposit accounts		
Checking accounts	117,527	140,555
Savings	10,148	10,523

GPR deposits	3,942	—
Time deposits, denominations greater than or equal to $100	4,435	4,752
Time deposits, denominations less than $100	1,343	1,537
Total interest-bearing deposit accounts	137,395	157,367
Total deposits	$ 1,293,272	$ 1,022,180

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 9—Deposits (continued)
The scheduled contractual maturities for total time deposits are presented in the table below:

	March 31, 2018
	(In thousands)
Due in 2018	$ 1,965
Due in 2019	1,030
Due in 2020	1,166
Due in 2021	820
Due in 2022	797
Thereafter	—
Total time deposits	$ 5,778

Note 10—Note Payable
In October 2014, we entered into a $225.0 million secured credit agreement with Bank of America, N.A., as an administrative agent, Wells Fargo Bank, National Association, and the other lenders party thereto. The credit agreement provides for 1) a $75.0 million five year revolving facility (the "Revolving Facility") and 2) a five year $150.0 million term loan facility ("Term Facility" and, together with the Revolving Facility, the “Senior Credit Facility"). The credit agreement also includes an accordion feature that, subject to securing additional commitments from existing lenders or new lending institutions, will allow us to increase the aggregate amount of these facilities by up to an additional $50.0 million.
As of March 31, 2018 and December 31, 2017, our outstanding debt, net of deferred financing costs of $2.5 million and $2.9 million, respectively, consisted of the following:

	March 31, 2018	December 31, 2017
	(In thousands)	
Term facility	$74,384	$ 79,611
Revolving facility	—	—
Total notes payable	$74,384	$ 79,611

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, 2018 and 2017, 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.
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, 2018 was 4.38%. Interest expense, excluding the amortization of debt issuance costs, related to our Senior Credit Facility was $0.9 million and $1.2 million for the three months ended March 31, 2018 and 2017, respectively.
Covenants and restrictions
The Senior Credit Facility contains customary representations and warranties relating to us and our subsidiaries. Obligations under the Senior Credit Facility are secured by first priority liens on, and security interests in, substantially all of our company assets and each Guarantor, as defined in the agreement. 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, 2018, we were in compliance with all such covenants.

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Note 11—Income Taxes

Income tax expense for the three months ended March 31, 2018 and 2017 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,	
	2018	2017
U.S. federal statutory tax rate	21.0 %	35.0 %
State income taxes, net of federal tax benefit	0.9	1.4
General business credits	(0.6)	(1.0)
Employee stock-based compensation	(10.0)	(1.0)
Other	1.6	0.5
Effective tax rate	12.9 %	34.9 %

On December 22, 2017, H.R. 1, known as the Tax Cuts and Jobs Act (the "Tax Act") was signed into law and makes significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduced the US federal corporate tax rate from 35% to 21%, created new taxes on certain foreign-sourced earnings and certain related-party payments, eliminated certain deductions and enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of December 31, 2017. We remeasured deferred tax assets and liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate from 35% to 21% and recorded a provisional tax benefit of $6.3 million. We also analyzed the transition tax on accumulated foreign subsidiary earnings and made a provisional determination that we have no additional tax obligation. As we collect and prepare necessary data, and interpret the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts including estimates for certain employment compensation. Those adjustments may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made. The SEC has provided up to a one-year measurement period for companies to finalize the accounting for the impacts of this new legislation and we anticipate finalizing our accounting over the coming quarters.

The effective tax rate for the three months ended March 31, 2018 and 2017 differs from the statutory federal income tax rate of 21% and 35%, respectively, primarily due to state income taxes, net of federal tax benefits, general business credits and employee stock-based compensation. The decrease in the effective tax rate for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 is primarily due to the decrease in the statutory federal tax rate noted above and higher excess tax benefits related to stock compensation as a result of an increase in the value of our stock price.

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, 2018 and 2017, 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. We remain subject to examination of our federal income tax return for the years ended December 31, 2014 through 2016. 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 March 31, 2018, we have net operating loss carryforwards of approximately $37.7 million and $33.7 million for federal and state tax purposes, respectively, which will be available to offset future income. If not used, these carryforwards will expire between 2020 and 2035. In addition, we have state business tax credits of approximately $9.8 million that can be carried forward indefinitely and other state business tax credits of approximately $1.2 million that will expire between 2023 and 2027.

As of March 31, 2018 and December 31, 2017, we had a liability of $6.7 million and $5.6 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:

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 11—Income Taxes (continued)

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Beginning balance	$5,560	$7,314
Increases related to positions taken during prior years	—	—
Increases related to positions taken during the current year	1,099	1,038
Decreases related to positions settled with tax authorities	—	—
Decreases as a result of a lapse of applicable statute of limitations	—	—
Ending balance	$6,659	$8,352
The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	$6,659	$8,352

As of March 31, 2018 and 2017, we recognized accrued interest and penalties related to unrecognized tax benefits of approximately $1.3 million and $1.2 million, respectively.

Note 12—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. As of November 2017, we have repurchased all $150 million of Class A common stock under the repurchase program.

Accelerated Share Repurchases

We have entered into accelerated share repurchase arrangements (“ASRs”) with a financial institution from time to time under our stock repurchase program. The following table summarizes our ASR activity for the prior year comparative period:

	Purchase Period End Date	Number of Shares (In thousands)	Average Repurchase Price Per Share	ASR Amount (In thousands)	
March 2017 ASR	November 2017	1,326	$ 38.64	$ 50,000	(1)

(1) We elected to cash settle approximately $2.0 million worth of shares owed back to the counterparty under our March 2017 accelerated share repurchase agreement.

In exchange for an up-front payment in March 2017, the financial institution delivered 1.3 million shares of our Class A common stock.

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 result in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share. The final number of shares received upon settlement for the ASR is 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.

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Note 13—Earnings per Common Share

The calculation of basic and diluted EPS was as follows:

	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share data)	
Basic earnings per Class A common share		
Numerator:		
Net income	$70,031	$40,754
Denominator:		
Weighted-average Class A shares issued and outstanding	51,439	50,458
Basic earnings per Class A common share	$1.36	$0.81
Diluted earnings per Class A common share		
Numerator:		
Net income	$70,031	$40,754
Denominator:		
Weighted-average Class A shares issued and outstanding	51,439	50,458
Dilutive potential common shares:		
Stock options	535	603
Restricted stock units	1,337	1,186
Performance based restricted stock units	915	231
Employee stock purchase plan	8	19
Diluted weighted-average Class A shares issued and outstanding	54,234	52,497
Diluted earnings per Class A common share	$1.29	$0.78

For the periods presented, we excluded certain restricted stock units and stock options outstanding (as applicable) which could potentially dilute basic EPS in the future, from the computation of diluted EPS as their effect was anti-dilutive. Additionally, we have excluded any performance based restricted stock units for which the performance contingency has not been met as of the end of the period. The following table shows the weighted-average number of shares excluded from the diluted EPS calculation:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Class A common stock		
Options to purchase Class A common stock	—	55
Performance based restricted stock units	22	—
Total options and restricted stock units	22	55

Note 14—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, 2017.

Note 14—Fair Value Measurements (continued)

As of March 31, 2018 and December 31, 2017, 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, 2018	(In thousands)			
Assets				
Negotiable certificate of deposit	$—	$5,000	$—	$5,000
U.S. Treasury notes	—	10,875	—	10,875
Agency securities	—	4,940	—	4,940
Agency mortgage-backed securities	—	115,933	—	115,933
Municipal bonds	—	589	—	589
Asset-backed securities	—	11,211	—	11,211
Total assets	$—	$148,548	$—	$148,548
Liabilities				
Contingent consideration	$—	$—	$17,156	$17,156
December 31, 2017				
Assets				
Corporate bonds	$—	$1,000	$—	$1,000
U.S. Treasury notes	—	10,875	—	10,875
Agency mortgage-backed securities	—	120,034	—	120,034
Municipal bonds	—	739	—	739
Asset-backed securities	—	20,861	—	20,861
Total assets	$—	$153,509	$—	$153,509
Liabilities				
Contingent consideration	$—	$—	$17,358	$17,358

We based the fair value of our fixed income securities held as of March 31, 2018 and December 31, 2017 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, 2018 or 2017.

The following table presents changes in our contingent consideration payable for the three months ended March 31, 2018 and 2017, which is categorized in Level 3 of the fair value hierarchy:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Balance, beginning of period	$17,358	$8,634
Issuance	—	18,000
Payments of contingent consideration	(202)	(192)
Balance, end of period	$17,156	$26,442

Note 15—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, 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, 2017. 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, such as the earn-outs associated with our acquisitions of TPG and UniRush, are estimated through valuation models designed to estimate the probability of such contingent payments based on various assumptions. Estimated payments are discounted using present value techniques to arrive at an estimated fair value. Our contingent consideration payable is classified as Level 3 because we use unobservable inputs to estimate fair value, including the probability of achieving certain earnings thresholds and appropriate discount rates. Changes in fair value of contingent consideration are recorded through operating expenses.

Note Payable

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

Fair Value of Financial Instruments

The carrying values and fair values of certain financial instruments that were not carried at fair value, excluding short-term financial instruments for which the carrying value approximates fair value, at March 31, 2018 and December 31, 2017 are presented in the table below.

	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial Assets				
Loans to bank customers, net of allowance	$19,713	$19,074	$18,570	$18,102

Financial Liabilities				
Deposits	$1,293,272	$1,293,215	$1,022,180	$1,022,102
Note payable	$74,384	$74,384	$79,611	$79,611

Note 16—Commitments and Contingencies

Litigation and Claims

In the ordinary course of business, we are a party to various legal proceedings, including, from time to time, actions which are asserted to be maintainable as class action suits. We review these actions on an ongoing basis to determine whether it is probable and estimable that a loss has occurred and use that information when making accrual and disclosure decisions. We have provided reserves where necessary for all claims and, based on current knowledge and in part upon the advice of legal counsel, all matters are believed to be adequately covered by insurance, or, if not covered, we do not expect the outcome in any legal proceedings, individually or collectively, to have a material adverse impact on our financial condition or results of operations.

The third and final performance period under an earn-out provision for the acquisition of our tax refund processing business ended on June 30, 2017. We believe that our tax refund processing business did not achieve its earn-out performance target for the fiscal year performance period based on the provisions of the contract and therefore, the total potential payout of $26 million has not been accrued on our balance sheet as of March 31, 2018. We are currently in the process of resolving the final earn-out calculation with the selling shareholders with the assistance of a neutral third party who will make a determination of the final outcome. To the extent there is an unfavorable resolution for the earn-out payment, we may be required to make payment of up to $26 million.

During the quarter ended June 30, 2016, we continued our planned conversion of customer files from our legacy third-party card processor to our current third-party card processor. As part of the conversion process, a small percentage of our active account holders experienced limited disruptions in service. As a result of this limited disruption in service, two putative class action complaints were filed during the second quarter of 2016. Any settlement amount paid to resolve the consolidated class actions will be borne equally between us and our third-party card processor. We have recorded an estimated accrual of approximately $2.3 million, which represents our portion of the estimated total settlement amount, all of which our insurance carrier has agreed to reimburse us. This amount is recorded in other accrued liabilities and accounts receivable on our consolidated balance sheet as of March 31, 2018.

Other Matters

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.

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

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

For additional information regarding overdrafts on cardholders' accounts, refer to Note 6 — Accounts Receivable.

As of March 31, 2018 and December 31, 2017, we had restricted cash balances of $86.6 million and $90.9 million, which consist principally of funds required to collateralize a prefunding obligation with a business partner.

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

Note 17—Significant Retailer Concentration
A credit concentration may exist if customers are involved in similar industries, economic sectors, and geographic regions. Our retail distributors operate in similar economic sectors but diverse domestic geographic regions. The loss of a significant retail distributor could have a material adverse effect upon our card sales, profitability, and revenue growth.
Revenues derived from our products sold at retail distributors constituting greater than 10% of our total operating revenues were as follows:

	Three Months Ended March 31,	
	2018	2017
Walmart	33%	37%

Settlement assets derived from our products sold at retail distributors constituting greater than 10% of the settlement assets outstanding on our consolidated balance sheets were as follows:

	March 31, 2018	December 31, 2017
Walmart	32%	33%

Note 18—Segment Information
Our operations are comprised of two reportable segments: 1) Account Services and 2) Processing and Settlement Services. We identified our reportable segments based on factors such as how we manage our operations and how our chief operating decision maker views results. Our chief operating decision maker organizes and manages our business primarily on the basis of product and service offerings and uses operating income to assess profitability.
The Account Services segment consists of revenues and expenses derived from the Company's deposit account programs, such as prepaid cards, debit cards, consumer and small business checking accounts, secured credit cards, payroll debit cards and gift cards. These deposit account programs are marketed under several of the Company's leading consumer brand names and under the brand names of the Company's Banking as a Service, or "BaaS," partners. The Processing and Settlement Services segment consists of revenues and expenses derived from the Company's products and services that specialize in facilitating the movement of cash on behalf of consumers and businesses, such as consumer cash processing services, wage disbursements and tax refund processing services. The Corporate and Other segment primarily consists of eliminations of intersegment revenues and expenses, unallocated corporate expenses, depreciation and amortization, and other costs that are not considered when management evaluates segment performance. We do not evaluate performance or allocate resources based on segment asset data, and therefore such information is not presented.
The following tables present certain financial information for each of our reportable segments for the periods then ended:

	Three Months Ended March 31, 2018			
	Account Services	Processing and Settlement Services	Corporate and Other	Total
	(In thousands)			
Operating revenues	$222,434	$ 101,858	$(9,294)	$314,998
Operating expenses	169,488	50,673	18,457	238,618
Operating income	$52,946	$ 51,185	$(27,751)	$76,380

Three Months Ended March 31, 2017

	Account Services	Processing and Settlement Services	Corporate and Other	Total
	(In thousands)			
Operating revenues	$167,693	$ 93,710	$(8,402)	$253,001
Operating expenses	126,677	45,103	19,845	191,625
Operating income	$41,016	$ 48,607	$(28,247)	$61,376

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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” refer to Green Dot Corporation and its consolidated subsidiaries.

Overview

Green Dot Corporation is a pro-consumer bank holding company and financial technology innovator with a mission to reinvent personal banking for the masses. We employ a unique “products and platform” operating model whereby we use our banking and technology assets to design, build and distribute our branded financial services products directly to consumers through a large-scale, omni-channel national distribution platform; while also allowing qualified third party partners to access those same banking and technology assets to design, build and distribute their own bespoke financial services directly to their consumers through their own distribution platforms. Through our six revenue divisions and our subsidiary bank, Green Dot Bank, we are a leading provider of prepaid cards, debit cards, checking accounts, secured credit cards, payroll debit cards, consumer cash processing services, wage disbursements and tax refund processing services. With approximately 100,000 major name U.S. retail stores selling our products, several leading direct-to-consumer websites, thousands of tax preparation offices, several apps available in the two leading app stores and distribution through several enterprise-scale “Banking as a Service,”or "BaaS," partnerships, we are one of the most broadly distributed banking franchises in the United States. We are headquartered in Pasadena, California, with additional facilities throughout the United States and in Shanghai, China.

As the regulated entity and issuing bank for substantially all products and services we provide, whether our own or on behalf of a BaaS platform partner, we are directly accountable for all aspects of each program’s integrity, inclusive of ensuring the program’s compliance with all applicable banking regulations, applicable state and federal law and our various internal governance policies and procedures related to all areas of risk and compliance, in addition to deploying enterprise-class risk management practices and procedures to ensure each program’s initial and ongoing safety and soundness.

Our products and services

We offer consumers a broad collection of financial products and services managed through several diverse business lines which are then made available to consumers through a widely-available “branchless" distribution network in the United States. Many of the products and services we internally create and distribute are marketed under the Green Dot brand name, which we believe is both a well-known and highly trusted brand name for millions of consumers. Our branchless network consists of:

- distribution arrangements with approximately 100,000 mostly major chain retail locations, which we refer to as “retail distributors” and thousands of neighborhood Financial Service Center locations;
- several differently branded, Green Dot-owned and operated direct-to-consumer online and direct mail customer acquisition platforms;
- corporate distribution partnerships with businesses that provide payroll cards to their employees to receive wage disbursements;

- more than 25,000 small and large tax preparation companies and individual tax preparers, which are sometimes referred to as electronic return originators, or “EROs”, who are able to offer our products and services to their

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customers through the use of various tax preparation industry software packages with which our products are integrated;

- apps compatible with the iOS and Android operating systems downloaded through the corresponding app store; and
- platform partners' distribution channels that those partners use to acquire customers for their bespoke products and services that are powered by our BaaS Platform.

Our products and services include several deposit account programs, such as network-branded reloadable prepaid debit cards marketed under several leading consumer brand names, which we collectively refer to as "GPR cards," consumer checking accounts, small business checking accounts, network-branded gift cards (known as open-loop), secured credit cards and other financial services.

We also offer several products and services that specialize in facilitating the movement of cash on behalf of consumers and businesses. These products and services include: our proprietary swipe reload system for crediting cash onto an enabled payment card by swiping the payment card at the point-of-sale at any Green Dot Network participating retailer; MoneyPak, a product that allows a consumer to add funds to accounts we issue or accounts issued by other United States chartered and regulated third party banks; and e-cash remittance services, a service that allows a consumer to transfer funds to a smartphone for fulfillment at a Green Dot participating retailer. We refer to these services collectively as our cash transfer products. We also provide disbursement services through our Simply Paid platform that enables a payment solution for companies to pay their workforce and customers in the time and manner they desire and provide tax refund transfers that provide the processing technology to facilitate receipt of a taxpayers' refund proceeds.

Our BaaS Platform

Through our BaaS Platform, we currently power the following types of products and services on behalf of several of America's largest retail, consumer, technology and financial services companies:

- Mobile banking;
- Loan disbursement accounts;
- Spend-based Mobile P2P services, such as Apple Pay Cash;
- Money transfer services;
- GPR cards;
- Network branded "open loop" gift cards;
- Instant payment and wage disbursements;
- Small business checking accounts and debit cards; and
- Consumer checking accounts.

Our Segments and Distribution Channels

Our products and services and BaaS Platform are divided among our two reportable segments: Account Services and Processing and Settlement Services. Each segment is comprised of multiple "revenue divisions" that each focus on a distinct set of products or distribution channels, as follows:

Account Services

Consumer Accounts

We offer several deposit account programs that can be acquired through our omni-channel distribution platform. These products include:

- Network-branded reloadable prepaid debit cards marketed under several leading consumer brand names, collectively referred to as GPR cards;
- Innovative consumer and small business checking account products, such as our GoBank product, that allow customers to acquire and manage their checking account entirely through a mobile application available on smartphone devices; and
- Network-branded gift cards (known as open-loop) that are sold at participating retail stores.

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Green Dot Direct

We also offer GPR cards, checking accounts products and secured credit cards directly to consumers through several different online direct-to-consumer websites. Our direct-to-consumer websites include: greendot.com; walmartmoneycard.com; rushcard.com; accountnow.com; achievecard.com; gobank.com; and ReadyDebit.com.

Consumer Credit Card

We offer a secured credit card nationwide on a direct-to-consumer basis via both greendot.com/platinum and securedcardchoice.com. Our secured credit cards are designed to help people establish or rehabilitate their national credit bureau score. The credit line offered to the customer is backed by the customer's own security deposit held on deposit at Green Dot Bank or other banks in accounts held under our control. As such, we have no risk of material loss resulting from the customer's non-payment of their obligation. As the customer successfully uses their credit card and repays their obligations in accordance with the card’s terms and conditions, that successful repayment history is reported to the national credit bureaus which, in turn, can help improve the customer’s overall credit score. Customers have the option of funding their security deposits with cash and making monthly payments at Green Dot Network retail locations.

PayCard and Corporate Disbursement

We offer payroll cards and other wage disbursement services to over 2,500 corporate customers, such as Einstein Bagels, Nordstrom and Rite Aid. Our solutions address both the W-2 and 1099 work force.

Green Dot Bank

Through our subsidiary bank, Green Dot Bank, we offer issuing, settlement and capital management services principally to support those applicable products across all six revenue divisions in both reporting segments. Our banking services include:

- Issuing services as the payment network member bank and settlement bank for our GPR card, spend-based P2P programs, gift card and checking account products;
- Credit card issuing and capital lending services for our Green Dot Platinum Visa Secured Credit Card; and
- Settlement bank for our reload and tax refund services within our Processing and Settlement Services segment.

Green Dot Bank also generates interest income through management of its capital and the increasing deposits it receives in respect of our products and services as well as the products and services we enable for BaaS platform partners.

Products within our Account Services segment are generally issued by Green Dot Bank. As a result of acquisitions over the past few years, we also manage programs issued by third-party issuing banks.

Processing and Settlement Services

Money Processing

We offer several products and services that all specialize in facilitating the movement of funds on behalf of consumers and businesses. These products and services include:

- Our “Reload@TheRegister” swipe reload service allows consumers to add funds to accounts we issue or manage and accounts issued by any third party bank or program manager, which we refer to as network acceptance members, that has enabled its cards to accept funds through our processing system.
- Our MoneyPak PIN product provides consumers the ability to add funds to accounts we issue or manage and accounts issued by any third party bank or program manager that has enabled its cards to accept funds through our processing system.
- Our e-cash remittance service enables consumers to add funds to accounts we issue or manage and accounts issued by any third party bank or program manager that has enabled its accounts to accept funds through our processing system. Consumers can also cash-out money sent to them by a business through the use of our e-cash remittance service when Green Dot sends a unique barcode to the customer’s smartphone, which is then presented to a cashier at a participating retailer who then scans the barcode to fulfill the transfer.
- Our Simply Paid Disbursement service that enables wages and any type of authorized funds disbursement to be sent to accounts we issue or manage and accounts issued by any third party bank or program manager that has enabled its cards to accept funds through our processing system.

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Tax Processing

We offer several services designed for participants in the tax industry. Those services include:

- Tax refund transfers that provide the processing technology to facilitate receipt of a taxpayers' refund proceeds. When a customer of a third party tax preparation provider chooses to pay their tax preparation fees using our processing services, we deduct the tax preparation service fee and our processing service fee from the customer's refund, and remit the remaining balance to the customer's account;
- Small business lending to independent tax preparation providers that seek small loans in order to help provide working capital in advance of generating income during the tax filing season;
- GPR card offerings that are integrated into the tax preparation software that enables a tax preparation provider to offer its customers a Green Dot Bank-issued GPR card for the purpose of receiving tax refunds more rapidly and securely than check disbursements; and
- Fast Cash Advance, a consumer-friendly loan that enables tax refund recipients utilizing our tax processing services the opportunity to receive a portion of their expected tax refund amount in advance of receiving their actual tax refund.

2018 Six Step Plan

In February 2018, we announced our 2018 Six Step Plan (the "2018 Plan") outlining our strategy to grow revenue, reduce expenses and appropriately allocate capital, all with the objective of driving EPS growth. The following describes each of the six steps within the 2018 Plan.

Step 1: Continue growing our number of active accounts year over year, and improve the unit economics of those accounts.

Step 2: Launch a new use case for MoneyPak and continue to increase the number of cash transfer transactions year over year.

Step 3: Make strategic investments in new, high potential initiatives.

Step 4: Drive increasing efficiencies across our consolidated operating platform to successfully expand margins year over year.

Step 5: Continue integration of 2017 acquisitions and look for new strategic acquisitions.

Step 6: Return capital to shareholders through share buy-backs.

Financial Results and Trends

Our consolidated results of operations for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,			
	2018	2017	Change	%
	(In thousands, except percentages)			
Total operating revenues	$314,998	$253,001	$61,997	24.5%
Total operating expenses	238,618	191,625	46,993	24.5%
Net income	70,031	40,754	29,277	71.8%

Total operating revenues

Our total operating revenues for the three months ended March 31, 2018 increased $62.0 million, or 24.5%, over the prior year comparable period. Our growth was driven by a 19% increase in our active accounts and greater customer engagement as evidenced by growth in gross dollar volume and purchase volume within our Account Services segment. Total operating revenues also increased as a result of year-over-year growth in the total number of cash transfers and the number of tax refunds processed within our Processing and Settlement Services segment. In the first quarter of 2018, our Account Services segment had a mix of revenue from both our established product lines and several new product lines. Our new product lines currently have margins below our established product lines and as a result, we experienced year- over-year margin compression during the quarter. In the second half of 2018, we expect the revenue growth from our established product lines, as well as the maturation of our new products will offset the unfavorable mix impact in the first quarter.

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Total operating expenses

Our total operating expenses for the three months ended March 31, 2018 increased $47.0 million, or 24.5% over the prior year comparable period. This increase was principally the result of higher sales and marketing expenses attributable to the year-over-year increase in operating revenues generated from products that are subject to revenue share payments to our distributors and partners, increases in processing expenses as a result of higher transactional usage and an increase in compensation and benefits expenses attributable to a growth in employee headcount, principally in late 2017, and third-party contractor costs to support our growth initiatives in 2018.

Income taxes

Income tax expense for the three months ended March 31, 2018 decreased $11.4 million, or 52.2%, from the prior year comparable period. This decrease was the result of a lower effective tax rate. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law and introduced significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduced the US federal corporate tax rate from 35% to 21%, created new taxes on certain foreign-sourced earnings and certain related-party payments, eliminates certain deductions and enhances and extends through 2026 the option to claim accelerated depreciation deductions on qualified property.

Key Metrics

Our key business metrics described in the latest Annual Report on Form 10-K have been revised to include additional product lines or services that have grown to become sufficiently material to warrant inclusion. Previously reported metrics have been restated herein for comparative purposes.

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.

Gross Dollar Volume — represents the total dollar volume of funds loaded to our account products. Our dollar volume was $11.7 billion and $7.5 billion for the three months ended March 31, 2018 and 2017, respectively. We use this metric to analyze the total amount of money moving onto our account programs, determine the overall engagement and usage patterns of our account holder base and serves as a leading indicator of revenue generated through our Account Services segment products, inclusive of interest income generated on deposits held at Green Dot Bank, fees charged to account holders and interchange revenues generated through the spending of account balances. The increases in dollar volume of 57% during the three months ended March 31, 2018, from the comparable prior year period was principally driven by higher dollar volume from direct deposit onto our products.

Number of Active Accounts — represents any bank account within our Account Services segment that is subject to United States Patriot Act compliance and, therefore, requires customer identity verification prior to use and is intended to accept ongoing customer cash or ACH deposits. This includes general purpose reloadable prepaid card accounts, demand deposit or "checking" accounts, and credit card accounts in our portfolio that had a purchase, deposit or ATM withdrawal transaction during the applicable quarter. We had 6.01 million and 5.05 million active accounts outstanding as of March 31, 2018 and 2017, respectively. We use this metric to analyze the overall size of our active customer base and to analyze multiple metrics expressed as an average across this active account base. The increase in the number of active accounts of 19% was primarily driven by the launch of new products during the first quarter of 2018 and growth from our existing account programs.

Purchase Volume — represents the total dollar volume of purchase transactions made by our account holders. This metric excludes the dollar volume of ATM withdrawals. Our purchase volume was $7.5 billion and $5.5 billion for the three months ended March 31, 2018 and 2017, respectively. We use this metric to analyze interchange revenue, which is a key component of our financial performance. The increases in purchase volume of 36% during the three months ended March 31, 2018 from the comparable prior year period was driven by an increase in Gross Dollar Volume, as described above.

Number of Cash Transfers — represents the total number of cash transfer transactions conducted by consumers, such as a point-of-sale swipe reload transaction, the purchase of a MoneyPak or an e-cash mobile remittance transaction marketed under various brand names, that we conducted through our retail distributors in a specified period. This metric excludes disbursements made through our Simply Paid wage disbursement platform. We processed 10.10 million and 9.30 million reload transactions in the three months ended March 31, 2018 and 2017, respectively. We review this metric as a measure of the size and scale of our retail cash processing network, as an indicator of customer engagement and usage of our products and services, and to analyze cash transfer revenue, which is a key component of our financial performance. Our cash transfers increased 9% during the three months ended March 31, 2018 over the prior year comparable period due to growth in our updated MoneyPak PIN product utilized by our accounts holders as well as third-party programs. Our swipe reload service also increased, driven by the increase in active accounts,

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partially offset by an increase in direct deposit penetration in our active account portfolio as direct deposit customers, on average, perform fewer cash reloads.

Number of Tax Refunds Processed — represents the total number of tax refunds processed in a specified period. We processed 8.75 million and 8.60 million tax refund transactions in the three months ended March 31, 2018 and 2017, respectively. Due to seasonality, the number of tax refunds processed is most concentrated during the first half of each year and is minimal during the second half of each year. We review this metric as a measure of the size and scale of our tax refund processing platform and as an indicator of customer engagement and usage of its products and services. The 2% increase in the number of tax refunds processed for the three months ended March 31, 2018 from the comparable prior year period was primarily driven by an increase of refunds processed through online tax filing software platforms, partially offset by a decrease in the number of refunds processed by traditional tax preparation providers.

Key components of our results of operations

Operating Revenues

We classify our operating revenues into the following three 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 cards, checking accounts and certain cash transfer products, such as MoneyPak, pursuant to the terms and conditions in our customer 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, if applicable, when a consumer purchases a GPR card, gift card, or a checking account product. Other revenues consist primarily of revenue associated with our gift card program, annual fees associated with our secured credit card portfolio, transaction-based fees and fees associated with optional products or services, which we offer to cardholders from time to time.

Our aggregate monthly maintenance fee revenues vary primarily based upon the number of active accounts in our portfolio and the average fee assessed per account. Our average monthly maintenance fee per active account depends upon the mix of products in our portfolio at any given point in time and upon the extent to which fees are waived based on various incentives provided to customers in an effort to encourage higher usage and retention. Our aggregate ATM fee revenues vary based upon the number of cardholder ATM transactions and the average fee per ATM transaction. The average fee per ATM transaction depends upon the mix of products in our portfolio at any given point in time and the extent to which cardholders use ATMs within our free network that carry no fee for cash withdrawal transactions. Our aggregate new card fee revenues vary based upon the number of GPR cards and checking accounts 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 account fees based on the product and/or the location or source where our products are purchased. Our aggregate other fees vary primarily based upon account sales of all types, gift card sales, purchase transactions and the number of active accounts in our portfolio.

Processing and Settlement Service Revenues — Processing and settlement service revenues consist of cash transfer revenues, tax refund processing service revenues and Simply Paid disbursement revenues. We earn cash transfer revenues when consumers fund their cards through a reload transaction at a Green Dot Network retail location. Our aggregate cash transfer revenues vary based upon the mix of locations where reload transactions occur, since reload fees vary by location. We earn tax refund processing service revenues at the point in time when a customer of a third party tax preparation company chooses to pay their tax preparation fee through the use of our tax refund processing services. We earn Simply Paid disbursement fees from our business partners at the point in time payment disbursements are made.

Interchange Revenues — We earn interchange revenues from fees remitted by the merchant's bank, which are based on rates established by the payment networks, at the point in time when customers make purchase transactions using our products. Our aggregate interchange revenues vary based primarily on the number of active accounts in our portfolio, the average transactional volume of the active accounts 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.

Operating Expenses

We classify our operating expenses into the following four categories:

Sales and Marketing Expenses — Sales and marketing expenses consist primarily of the commissions we pay to our retail distributors, brokers and platform partners, advertising and marketing expenses, and the costs of manufacturing and distributing card packages, placards and promotional materials to our retail distributors and

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personalized GPR and GoBank cards to consumers who have activated their cards. We generally establish commission percentages in long-term distribution agreements with our retail distributors and platform partners. Aggregate commissions with our retail distributors are determined by the number of prepaid cards, checking account products and cash transfers sold at their respective retail stores. Commissions with our platform partners and, in certain cases, our retail distributors are determined by the revenue generated from the ongoing use of the associated card programs. We incur advertising and marketing expenses for television, sponsorships, 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 accounts activated by consumers.

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 account 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 processors that maintains the records of our customers' accounts and processes transaction authorizations and postings for us and the third-party banks that issue our accounts. These costs generally vary based on the total number of active accounts in our portfolio and gross dollar volume transacted by those accounts. Also included in processing expenses are bank fees associated with our tax refund processing services and gateway and network fees associated with our Simply Paid disbursement services. Bank fees generally vary based on the total number of tax refund transfers processed and gateway and network fees vary based on the numbers of disbursements made.

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, changes in contingent consideration, transaction losses (losses from customer disputed transactions, unrecovered customer purchase transaction overdrafts and fraud), rent and utilities, and insurance. We incur telephone and communication costs primarily from customers contacting us through our toll-free telephone numbers. These costs vary with the total number of active accounts 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, amortization of our acquired intangible assets, 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, 2017. Except as disclosed in Note 2 — Summary of Significant Accounting Policies under Recently Adopted Accounting Pronouncements to the Consolidated Financial Statements included herein, there have been no changes to our critical accounting policies and estimates during the three months ended March 31, 2018.

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.

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Comparison of Three-Month Periods Ended March 31, 2018 and 2017

Operating Revenues

The following table presents a breakdown of our operating revenues among card revenues and other fees, processing and settlement service revenues and interchange revenues:

	Three Months Ended March 31,					
	2018			2017		
	Amount	% of Total Operating Revenues		Amount	% of Total Operating Revenues	
	(In thousands, except percentages)					
Operating revenues:						
Card revenues and other fees	$130,060	41.3	%	$100,969	39.9	%
Processing and settlement service revenues	100,240	31.8		90,675	35.8	
Interchange revenues	84,698	26.9		61,357	24.3	
Total operating revenues	$314,998	100.0	%	$253,001	100.0	%

Card Revenues and Other Fees — Card revenues and other fees totaled $130.1 million for the three months ended March 31, 2018, an increase of $29.1 million, or 29%, from the comparable prior year period. The increase is attributable to the year-over-year growth in the number of active accounts and the improved engagement by our account holders, resulting in increased revenues associated with ATM fees, monthly maintenance fees, transaction-based fees and new card fees earned within our Account Services segment.

Processing and Settlement Service Revenues — Processing and settlement service revenues totaled $100.2 million for the three months ended March 31, 2018, an increase of $9.5 million, or 10%, from the comparable prior year period. The increase was driven primarily by a higher transaction volume and revenue earned per cash transfer, higher volume of tax refunds processed and an increase in disbursement transactions processed by our Simply Paid platform.

Interchange Revenues — Interchange revenues totaled $84.7 million for the three months ended March 31, 2018, an increase of $23.3 million, or 38%, from the comparable prior year period. The increase was primarily due to an increase in purchase volume during the three months ended March 31, 2018.

Operating Expenses

The following table presents a breakdown of our operating expenses among sales and marketing, compensation and benefits, processing, and other general and administrative expenses:

	Three Months Ended March 31,					
	2018			2017		
	Amount	% of Total Operating Revenues		Amount	% of Total Operating Revenues	
	(In thousands, except percentages)					
Operating expenses:						
Sales and marketing expenses	$91,968	29.2	%	$71,685	28.3	%
Compensation and benefits expenses	54,507	17.3		41,218	16.3	
Processing expenses	48,425	15.4		40,942	16.2	
Other general and administrative expenses	43,718	13.9		37,780	14.9	
Total operating expenses	$238,618	75.8	%	$191,625	75.7	%

Sales and Marketing Expenses — Sales and marketing expenses totaled $92.0 million for the three months ended March 31, 2018, an increase of $20.3 million, or 28% from the comparable prior year period. This increase was primarily driven by an $18.4 million increase in sales commissions associated with higher revenues generated from products that are subject to revenue-sharing agreements and an increase of $1.7 million in advertising expenses.

Compensation and Benefits Expenses — Compensation and benefits expenses totaled $54.5 million for the three months ended March 31, 2018, an increase of $13.3 million or 32% from the comparable prior year period. The increase was primarily the result of $9.6 million in higher salaries and wages and third party contractor expenses, both in support of our growth initiatives in 2018, and a $2.8 million increase in stock-based compensation.
Processing Expenses — Processing expenses totaled $48.4 million for the three months ended March 31, 2018, an increase of $7.5 million or 18% from the comparable prior year period. This increase was principally the result of

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higher volume of ATM and purchase transactions initiated by our account holders within our Account Services segment and higher merchant acquiring costs associated with peer-to-peer payment activity on our mobile-only accounts. The year-over-year increase was also attributable to the growth in disbursement transactions processed by our Simply Paid platform within our Processing and Settlement Services segment.

Other General and Administrative Expenses — Other general and administrative expenses totaled $43.7 million for the three months ended March 31, 2018, an increase of $5.9 million or 16%, from the comparable prior year period primarily due to increases of $4.4 million in transaction losses correlated with the increase in purchase volume, $1.7 million in amortization of acquired intangible assets and $0.9 million of telecommunication expenses. These increases were partially offset by a year-over-year decrease of $1.3 million in professional services expenses.

Income Tax Expense

The following table presents a breakdown of our effective tax rate among federal, state and other:

	Three Months Ended March 31,	
	2018	2017
U.S. federal statutory tax rate	21.0 %	35.0 %
State income taxes, net of federal tax benefit	0.9	1.4
General business credits	(0.6)	(1.0)
Employee stock-based compensation	(10.0)	(1.0)