

GREEN DOT CORP
Form 10-Q
November 09, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-34819

(Exact name of Registrant as specified in its charter)

Delaware	95-4766827
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3465 E. Foothill Blvd.	(626) 765-2000
Pasadena, California 91107	(Registrant's telephone number, including area code)
(Address of principal executive offices, including zip code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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.

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

There were 52,701,571 shares of Class A common stock outstanding, par value \$.001 per share as of October 31, 2018.

GREEN DOT CORPORATION
TABLE OF CONTENTS

	Page
 <u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets – September 30, 2018 and December 31, 2017</u>	<u>1</u>
<u>Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Notes to Consolidated Financial Statements</u>	<u>5</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
Item 4. <u>Controls and Procedures</u>	<u>43</u>
 <u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>44</u>
Item 1A. <u>Risk Factors</u>	<u>44</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>58</u>
Item 5. <u>Other Information</u>	<u>58</u>
Item 6. <u>Exhibits</u>	<u>59</u>
<u>Signature</u>	<u>60</u>

Table of Contents

PART I

ITEM 1. Financial Statements

GREEN DOT CORPORATION

CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (unaudited)	December 31, 2017 (unaudited)
Assets		
Current assets:		
Unrestricted cash and cash equivalents	\$ 1,037,617	\$ 919,243
Restricted cash	559	90,852
Investment securities available-for-sale, at fair value	14,946	11,889
Settlement assets	291,113	209,399
Accounts receivable, net	27,405	35,277
Prepaid expenses and other assets	46,150	47,086
Income tax receivable	5,071	7,459
Total current assets	1,422,861	1,321,205
Investment securities available-for-sale, at fair value	208,931	141,620
Loans to bank customers, net of allowance for loan losses of \$1,334 and \$291 as of September 30, 2018 and December 31, 2017, respectively	21,917	18,570
Prepaid expenses and other assets	7,657	8,179
Property and equipment, net	110,205	97,282
Deferred expenses	8,008	21,791
Net deferred tax assets	6,691	6,507
Goodwill and intangible assets	557,790	582,377
Total assets	\$ 2,344,060	\$ 2,197,531
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 30,205	\$ 34,863
Deposits	1,006,202	1,022,180
Obligations to customers	144,278	95,354
Settlement obligations	14,885	6,956
Amounts due to card issuing banks for overdrawn accounts	2,274	1,371
Other accrued liabilities	137,516	123,397
Deferred revenue	18,195	30,875
Note payable	20,906	20,906
Income tax payable	68	74
Total current liabilities	1,374,529	1,335,976
Other accrued liabilities	26,985	30,520
Note payable	43,025	58,705
Net deferred tax liabilities	7,791	7,780
Total liabilities	1,452,330	1,432,981
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Class A common stock, \$0.001 par value; 100,000 shares authorized as of September 30, 2018 and December 31, 2017; 52,664 and 51,136 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	53	51
Additional paid-in capital	378,103	354,789

Edgar Filing: GREEN DOT CORP - Form 10-Q

Retained earnings	514,871	410,440
Accumulated other comprehensive loss	(1,297)	(730)
Total stockholders' equity	891,730	764,550
Total liabilities and stockholders' equity	\$2,344,060	\$2,197,531
See notes to unaudited consolidated financial statements		

1

Table of ContentsGREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Operating revenues:				
Card revenues and other fees	\$113,474	\$100,781	\$364,317	\$309,090
Processing and settlement service revenues	43,043	36,681	203,901	179,031
Interchange revenues	74,060	64,151	235,706	189,041
Total operating revenues	230,577	201,613	803,924	677,162
Operating expenses:				
Sales and marketing expenses	72,745	65,586	247,191	207,415
Compensation and benefits expenses	57,070	47,271	166,055	139,355
Processing expenses	43,654	34,027	138,442	119,723
Other general and administrative expenses	62,193	41,677	153,760	116,050
Total operating expenses	235,662	188,561	705,448	582,543
Operating (loss) income	(5,085)	) 13,052	98,476	94,619
Interest income	6,153	2,635	17,542	7,812
Interest expense	(1,388)	) (1,397)	) (4,530)	) (4,595)
(Loss) income before income taxes	(320)	) 14,290	111,488	97,836
Income tax (benefit) expense	(4,893)	) 651	7,057	24,177
Net income	\$4,573	\$13,639	\$104,431	\$73,659
Basic earnings per common share:	\$0.09	\$0.27	\$2.01	\$1.46
Diluted earnings per common share:	\$0.08	\$0.26	\$1.92	\$1.40
Basic weighted-average common shares issued and outstanding:	52,580	50,519	52,046	50,330
Diluted weighted-average common shares issued and outstanding:	54,615	52,923	54,437	52,788
See notes to unaudited consolidated financial statements				

Table of Contents

GREEN DOT CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (UNAUDITED)

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income	\$4,573	\$13,639	\$104,431	\$73,659
Other comprehensive loss				
Unrealized holding losses, net of tax	(206)	(199)	(567)	(206)
Comprehensive income	\$4,367	\$13,440	\$103,864	\$73,453
See notes to unaudited consolidated financial statements				

Table of Contents

GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Operating activities		
Net income	\$ 104,431	\$ 73,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	28,154	25,282
Amortization of intangible assets	24,586	22,926
Provision for uncollectible overdrawn accounts	63,358	58,505
Employee stock-based compensation	37,373	27,384
Amortization of premium on available-for-sale investment securities	914	1,157
Change in fair value of contingent consideration and related accruals	13,500	(7,500)
Amortization of deferred financing costs	1,195	1,191
Impairment of capitalized software	352	1,066
Changes in operating assets and liabilities:		
Accounts receivable, net	(55,486)	(35,866)
Prepaid expenses and other assets	1,458	(4,775)
Deferred expenses	13,783	9,025
Accounts payable and other accrued liabilities	(13,315)	(12,541)
Deferred revenue	(11,587)	(12,764)
Income tax receivable/payable	2,452	14,711
Other, net	3,174	1,888
Net cash provided by operating activities	214,342	163,348
Investing activities		
Purchases of available-for-sale investment securities	(128,991)	(58,665)
Proceeds from maturities of available-for-sale securities	45,774	57,784
Proceeds from sales of available-for-sale securities	11,125	29,074
Payments for acquisition of property and equipment	(43,397)	(32,373)
Net increase in loans	(5,617)	(13,732)
Acquisition, net of cash acquired	—	(141,493)
Net cash used in investing activities	(121,106)	(159,405)
Financing activities		
Borrowings from notes payable	—	20,000
Repayments of borrowings from notes payable	(16,875)	(36,875)
Borrowings on revolving line of credit	—	335,000
Repayments on revolving line of credit	—	(335,000)
Proceeds from exercise of options	19,123	18,183
Taxes paid related to net share settlement of equity awards	(33,180)	(12,737)
Net (decrease) increase in deposits	(5,506)	97,270
Net decrease in obligations to customers	(24,861)	(11,835)
Contingent consideration payments	(3,856)	(1,907)
Repurchase of Class A common stock	—	(50,000)
Deferred financing costs	—	(164)

Edgar Filing: GREEN DOT CORP - Form 10-Q

Net cash (used in) provided by financing activities	(65,155	) 21,935
Net increase in unrestricted cash, cash equivalents and restricted cash	28,081	25,878
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	\$1,038,176	\$770,639
Cash paid for interest	\$3,335	\$3,404
Cash paid for income taxes	\$4,313	\$9,408
Reconciliation of unrestricted cash, cash equivalents and restricted cash at end of period:		
Unrestricted cash and cash equivalents	\$1,037,617	\$708,265
Restricted cash	559	62,374
Total unrestricted cash, cash equivalents and restricted cash, end of period	\$1,038,176	\$770,639
See notes to unaudited consolidated financial statements		

Table of Contents

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 financial technology leader and bank holding company with a mission to power the banking industry’s branchless future.

Enabled by proprietary technology and our wholly-owned commercial bank charter, our “Banking as a Service,” or “BaaS” platform is used by a growing list of America’s most prominent consumer and technology companies to design and deploy their own bespoke banking solutions to their customers and partners, while we use that same integrated technology and banking platform to design and deploy our own leading collection of banking and financial services products directly to consumers through one of the largest retail banking distribution platforms in America. Our products are marketed under brand names such as Green Dot, GoBank, MoneyPak, AccountNow, RushCard and RapidPay, and can be acquired through more than 100,000 retailers nationwide, thousands of corporate paycard partners, several “direct-2-consumer” branded websites, thousands of tax return preparation offices and accounting firms, thousands of neighborhood check cashing locations and both of the leading app stores. 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 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 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

5

Table of Contents

GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Organization (continued)

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 offer the following types of products and services in partnership with 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 nine months ended September 30, 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 August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15"), which amends ASC 350-40 to address implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. As a result, certain implementation costs incurred by companies under hosting arrangements will be deferred and amortized. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the pronouncement on our consolidated financial statements.

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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 2—Summary of Significant Accounting Policies (continued)

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.

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. The guidance has been modified through additional technical corrections since its original issuance, including optional transition relief as provided for under ASU No. 2018-11- Leases (Topic 842): Targeted Improvements. 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 and early adoption is permitted. We are currently assessing the impact of the adoption of this principle on our consolidated financial statements. We have reviewed the requirements under the new standard, and are in the process of quantifying its effect on our consolidated financial statements upon adoption and assessing its impact on our related disclosures or our internal controls over financial reporting. We anticipate adopting this ASU on January 1, 2019 on a prospective basis with a cumulative effect adjustment to retained earnings, if any, upon adoption.

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 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 and had no effect on our consolidated financial results.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 2—Summary of Significant Accounting Policies (continued)

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 \$1.3 million for the three months ended September 30, 2018 and 2017, respectively, and \$5.3 million and \$3.6 million for the nine months ended September 30, 2018 and 2017, respectively.

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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 3—Revenues (continued)

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 performed. 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 performance obligation is satisfied. In the case of our gift card program, we record the related revenues using the redemption method.

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 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 satisfy our performance obligation by remitting 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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 3—Revenues (continued)

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Processing Account and Services Settlement Services		Processing Account and Services Settlement Services	
Timing of revenue recognition (In thousands)				
Transferred at a point in time	\$ 120,427	\$ 43,040	\$ 381,738	\$ 203,888
Transferred over time	66,196	914	215,612	2,686
Operating revenues	\$ 186,623	\$ 43,954	\$ 597,350	\$ 206,574

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. Significant Judgments and Estimates

Transaction prices related to our account services are based on stand-alone fees stated within the terms and conditions and 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 and customer behavior patterns to determine these estimates which are recorded 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. We recognized approximately \$0.1 million and \$28.5 million for the three and nine months ended September 30, 2018, respectively, or substantially all of the amount of contract liabilities included in deferred revenue at the beginning of the period and did not recognize any revenue during these periods 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 deferral of new card fees associated with cards sold during the period.

Costs to Obtain or Fulfill a Contract

Our incremental direct costs of obtaining a contract consist primarily of 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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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 names 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 names 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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 4—Business Combination (continued)

Unaudited pro forma financial information

The following unaudited pro forma summary financial results for the nine months ended September 30, 2017 present the consolidated results of operations as if the acquisition of UniRush had occurred as of January 1, 2016, 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 for the nine months ended September 30, 2017 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, 2016, or of any potential results which may occur in the future.

	Nine Months Ended September 30, 2018 2017 (In thousands, except per share data)	
	(Pro forma)	
Net revenues	\$803,924	\$696,447
Net income attributable to common stock	\$104,431	\$66,026
Basic earnings per common share	\$2.01	\$1.31
Diluted earnings per common share	\$1.92	\$1.25
Basic weighted-average common shares issued and outstanding	52,046	50,330
Diluted weighted-average common shares issued and outstanding	54,437	52,788

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)			
September 30, 2018				
Negotiable certificate of deposit	\$15,000	\$ —	\$ —	\$15,000
Agency bond securities	19,712	—	(128)	19,584
Agency mortgage-backed securities	114,158	43	(1,730)	112,471
Municipal bonds	507	—	(30)	477
Asset-backed securities	76,452	2	(109)	76,345
Total investment securities	\$225,829	\$ 45	\$ (1,997)	\$223,877
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

12

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 5—Investment Securities (continued)

As of September 30, 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)						
September 30, 2018						
Agency bond securities	\$19,584	\$ (128)	\$—	\$—	\$19,584	\$ (128)
Agency mortgage-backed securities	32,282	(328)	65,414	(1,402)	97,696	(1,730)
Municipal bonds	346	(21)	131	(9)	477	(30)
Asset-backed securities	55,665	(65)	9,259	(44)	64,924	(109)
Total investment securities	\$107,877	\$ (542)	\$74,804	\$ (1,455)	\$182,681	\$ (1,997)

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 and nine months ended September 30, 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.

As of September 30, 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	\$14,962	\$14,946
Due after one year through five years	19,750	19,638
Due after five years through ten years	—	—
Due after ten years	507	477
Mortgage and asset-backed securities	190,610	188,816
Total investment securities	\$225,829	\$223,877

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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 6—Accounts Receivable

Accounts receivable, net consisted of the following:

	September 30, 2018	September 30, 2017
	(In thousands)	
Overdrawn account balances due from cardholders	\$21,033	\$ 17,856
Reserve for uncollectible overdrawn accounts	(16,280)	(14,471)
Net overdrawn account balances due from cardholders	4,753	3,385
Trade receivables	8,359	4,231
Reserve for uncollectible trade receivables	(1,101)	(3)
Net trade receivables	7,258	4,228
Receivables due from card issuing banks	6,779	6,309
Fee advances	3,010	16,194
Other receivables	5,605	5,161
Accounts receivable, net	\$27,405	\$ 35,277

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(In thousands)			
Balance, beginning of period	\$17,087	\$13,619	\$14,471	\$11,932
Provision for uncollectible overdrawn accounts:				
Fees	17,404	19,124	53,536	53,393
Purchase transactions	4,137	1,943	9,822	5,112
Charge-offs	(22,348)	(19,299)	(61,549)	(55,050)
Balance, end of period	\$16,280	\$15,387	\$16,280	\$15,387

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)					
September 30, 2018						
Residential	\$—	\$—	\$9	\$9	\$3,786	\$ 3,795
Commercial	8	—	—	8	172	180
Installment	11	2	—	13	996	1,009
Secured credit card	1,582	1,505	1,104	4,191	14,076	18,267
Total loans	\$1,601	\$1,507	\$1,113	\$4,221	\$19,030	\$ 23,251

Edgar Filing: GREEN DOT CORP - Form 10-Q

Percentage of outstanding	6.9	% 6.5	% 4.8	% 18.2	% 81.8	% 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 %

14

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 7—Loans to Bank Customers (continued)

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 act 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.

	September 30, 2018	December 31, 2017
Residential	\$ 422	\$ 502
Installment	175	191
Total loans	\$ 597	\$ 693

(In thousands)

Credit Quality Indicators

We closely monitor and assess the credit quality and credit risk of our loan portfolio on an ongoing basis. We continuously review and update loan risk classifications. We evaluate our loans using non-classified or classified as the primary credit quality indicator. Classified loans are those loans that have demonstrated credit weakness where we believe there is a heightened risk of principal loss, including all impaired loans. Classified loans are generally internally categorized as substandard, doubtful or loss, consistent with regulatory guidelines.

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

	September 30, 2018		December 31, 2017	
	Non-Classified	Classified	Non-Classified	Classified
Residential	\$3,373	\$ 422	\$3,038	\$ 516
Commercial	180	—	315	—
Installment	665	344	1,059	320
Secured credit card	18,267	—	13,613	—
Total loans	\$22,485	\$ 766	\$18,025	\$ 836

(In thousands)

Impaired Loans and Troubled Debt Restructurings

When, for economic or legal reasons related to a borrower's financial difficulties, we grant a concession for other than an insignificant period of time to a borrower that we would not otherwise consider, the related loan is classified as a Troubled Debt Restructuring, or TDR. Our TDR modifications involve an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk. The following table presents our impaired loans and loans that we modified as TDRs as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance
	Value	Value

(In thousands)

Residential	\$422	\$ 344	\$ 516	\$ 452
Installment	209	60	262	120

15

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 7—Loans to Bank Customers (continued)

Allowance for Loan Losses

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
	(In thousands)			
Balance, beginning of period	\$1,173	\$319	\$291	\$277
Provision for loans	1,036	72	2,270	135
Loans charged off	(964)	(158)	(1,598)	(189)
Recoveries of loans previously charged off	89	4	371	14
Balance, end of period	\$1,334	\$237	\$1,334	\$237

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 September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Restricted stock units granted	105	106	288	301
Weighted-average grant-date fair value	\$79.71	\$47.19	\$71.74	\$36.86

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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 8—Employee Stock-Based Compensation (continued)

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

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017	2017
	(In thousands, except per share data)		
Performance based restricted stock units granted ⁽¹⁾	—	612	616
Weighted-average grant-date fair value	\$—	\$46.28	\$49.04
			\$36.02

Performance awards granted also reflects the impact of any incremental shares awarded during the periods ended (1) 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.

In April 2018, the compensation committee of our board of directors adopted a policy applicable to all employees that provides for vesting of equity awards in connection with a qualifying retirement (as defined in the policy), with the settlement or payout of those awards to be made in accordance with the applicable vesting schedule pertaining to such awards. The policy applies only with respect to restricted stock units and performance-based restricted stock units granted after January 1, 2018. Under the policy, following a qualified retirement, any substantial risk of forfeiture of the award by the eligible employee is eliminated. Accordingly, the related compensation expense is recognized immediately for awards granted to eligible employees or over the period from the grant date to the date a qualifying retirement is achieved, if less than the stated vesting period.

The total stock-based compensation expense recognized was \$16.8 million and \$11.0 million for the three months ended September 30, 2018 and 2017, respectively, and \$37.4 million and \$27.4 million for the nine months ended September 30, 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, and reflects the effects of the adoption of the retirement policy during the current year.

Note 9—Deposits

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

	September 30, 2018	December 31, 2017
	(In thousands)	
Non-interest bearing deposit accounts		
GPR deposits	\$ 778,753	\$ 803,549
Other demand deposits	90,981	61,264
Total non-interest bearing deposit accounts	869,734	864,813
Interest-bearing deposit accounts		
Checking accounts	114,628	140,555
Savings	9,465	10,523
GPR deposits	7,198	—
Time deposits, denominations greater than or equal to \$100	3,914	4,752
Time deposits, denominations less than \$100	1,263	1,537

Edgar Filing: GREEN DOT CORP - Form 10-Q

Total interest-bearing deposit accounts	136,468	157,367
Total deposits	\$1,006,202	\$ 1,022,180

17

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 9—Deposits (continued)

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

	September 30, 2018 (In thousands)
Due in 2018	\$ 569
Due in 2019	1,267
Due in 2020	1,380
Due in 2021	835
Due in 2022	790
Thereafter	336
Total time deposits	\$ 5,177

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 September 30, 2018 and December 31, 2017, our outstanding debt, net of deferred financing costs of \$1.7 million and \$2.9 million, respectively, consisted of the following:

	September 30, 2018	December 31, 2017
	(In thousands)	
Term facility	\$63,931	\$ 79,611
Revolving facility	—	—
Total notes payable	\$63,931	\$ 79,611

Quarterly principal payments of \$5.6 million are payable on the loans under the Term Facility. During each of the nine months ended September 30, 2018 and 2017, we made scheduled quarterly principal payments totaling \$16.9 million.

The Senior Credit Facility matures on October 23, 2019 and any amounts then outstanding are due upon maturity.

Interest

At our election, loans made under the credit agreement bear interest at 1) a LIBOR rate (the "LIBOR Rate") or 2) a base rate determined by reference to the highest of (a) the Bank of America prime rate, (b) the United States federal funds rate plus 0.50% and (c) a daily rate equal to one-month LIBOR rate plus 1.0% (the "Base Rate"), plus in either case an applicable margin. The applicable margin for borrowings depends on our total leverage ratio and varies from 2.50% to 3.00% for LIBOR Rate loans and 1.50% to 2.00% for Base Rate loans. The effective interest rate on borrowings outstanding as of September 30, 2018 was 4.81%. Interest expense, excluding the amortization of debt issuance costs, related to our Senior Credit Facility was \$0.6 million and \$1.0 million for the three months ended September 30, 2018 and 2017, respectively, and \$2.3 million and \$3.3 million for the nine months ended September 30, 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 September 30, 2018, we were in compliance with all such covenants.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 11—Income Taxes

Income tax expense for the nine months ended September 30, 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:

	Nine Months Ended September 30,	
	2018	2017
U.S. federal statutory tax rate	21.0 %	35.0 %
State income taxes, net of federal tax benefit	(0.1)	(0.5)
General business credits	(1.4)	(3.0)
Employee stock-based compensation	(16.1)	(8.2)
IRC 162(m) limitation	2.7	1.7
Other	0.2	(0.3)
Effective tax rate	6.3 %	24.7 %

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 U.S. 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 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 next quarter.

The effective tax rate for the nine months ended September 30, 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 nine months ended September 30, 2018 as compared to the nine months ended September 30, 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 at the time equity awards are vested or exercised. In addition, the overall decrease in the effective tax rate for the nine months ended September 30, 2018 was partially offset by an increase to the IRC 162(m) limitation on executive compensation due to the Tax Act's repeal of the performance-based exception previously available under IRC 162(m).

We establish a valuation allowance when we consider it more-likely-than-not that some portion or all of the deferred tax assets will not be realized. As of September 30, 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 September 30, 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 \$11.8 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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 11—Income Taxes (continued)

As of September 30, 2018 and December 31, 2017, we had a liability of \$6.5 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:

	Nine Months Ended September 30, 2018 2017 (In thousands)	
Beginning balance	\$5,560	\$7,314
Increases related to positions taken during prior years	470	404
Increases related to positions taken during the current year	1,170	1,119
Decreases related to positions settled with tax authorities	—	(1,189)
Decreases as a result of a lapse of applicable statute of limitations	(664)	(1,392)
Ending balance	\$6,536	\$6,256

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate \$6,536 \$6,256
As of September 30, 2018 and 2017, we recognized accrued interest and penalties related to unrecognized tax benefits of approximately \$0.3 million.

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.

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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 13—Earnings per Common Share

The calculation of basic and diluted EPS was as follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(In thousands, except per share data)			
Basic earnings per Class A common share				
Numerator:				
Net income	\$4,573	\$13,639	\$104,431	\$73,659
Denominator:				
Weighted-average Class A shares issued and outstanding	52,580	50,519	52,046	50,330
Basic earnings per Class A common share	\$0.09	\$0.27	\$2.01	\$1.46
Diluted earnings per Class A common share				
Numerator:				
Net income	\$4,573	\$13,639	\$104,431	\$73,659
Denominator:				
Weighted-average Class A shares issued and outstanding	52,580	50,519	52,046	50,330
Dilutive potential common shares:				
Stock options	214	790	372	764
Restricted stock units	1,032	1,292	1,223	1,404
Performance based restricted stock units	780	306	791	282
Employee stock purchase plan	9	16	5	8
Diluted weighted-average Class A shares issued and outstanding	54,615	52,923	54,437	52,788
Diluted earnings per Class A common share	\$0.08	\$0.26	\$1.92	\$1.40

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 September 30, 2018		Nine Months Ended September 30, 2017	
	(In thousands)			
Class A common stock				
Options to purchase Class A common stock	—	56	—	9
Performance based restricted stock units	223	539	123	301
Total options and restricted stock units	223	595	123	310

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.

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 14—Fair Value Measurements (continued)

As of September 30, 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
September 30, 2018	(In thousands)			
Assets				
Negotiable certificate of deposit	\$—	\$15,000	\$—	\$15,000
Agency bond securities	—	19,584	—	19,584
Agency mortgage-backed securities	—	112,471	—	112,471
Municipal bonds	—	477	—	477
Asset-backed securities	—	76,345	—	76,345
Total assets	\$—	\$223,877	\$—	\$223,877

Liabilities

Contingent consideration	\$—	\$—	\$13,502	\$13,502
--------------------------	-----	-----	----------	----------

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 September 30, 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 and nine months ended September 30, 2018 or 2017.

The following table presents changes in our contingent consideration payable for the three and nine months ended September 30, 2018 and 2017, which is categorized in Level 3 of the fair value hierarchy:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(In thousands)			
Balance, beginning of period	\$14,664	\$21,911	\$17,358	\$8,634
Issuance	—	—	—	18,000
Payments of contingent consideration	(1,162)	(1,184)	(3,856)	(1,907)
Purchase accounting adjustment	—	—	—	3,500
Change in fair value of contingent consideration	—	—	—	(7,500)
Balance, end of period	\$13,502	\$20,727	\$13,502	\$20,727

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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 September 30, 2018 and December 31, 2017 are presented in the table below.

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial Assets				
Loans to bank customers, net of allowance	\$21,917	\$21,270	\$18,570	\$18,102

Edgar Filing: GREEN DOT CORP - Form 10-Q

Financial Liabilities

Deposits	\$1,006,202	\$1,006,146	\$1,022,180	\$1,022,102
Note payable	\$63,931	\$63,931	\$79,611	\$79,611

23

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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 believed 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 had not been accrued in any period subsequent to June 30, 2017. We were in the process of resolving the final earn-out calculation with the selling shareholders with the assistance of a neutral third party pursuant to the terms of the contract. Prior to the final outcome of that process, we and the sellers mutually agreed to a payment of \$13.5 million. This payment amount has been accrued in our consolidated balance sheet as of September 30, 2018 and reflected as a component of other general and administrative expenses on our consolidated income statement for the three and nine months ended September 30, 2018. This amount was subsequently paid in October of 2018.

During the quarter ended June 30, 2016, we were in the process of 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, which resulted in two putative class action complaints filed during the second quarter of 2016. We previously recorded an accrual of approximately \$2.3 million, which represented our portion of the estimated total settlement amount, all of which our insurance carrier agreed to reimburse us. As of September 30, 2018, substantially all payments have been made to members of the class for open claims and the matter is considered resolved.

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 September 30, 2018 and December 31, 2017, we had restricted cash balances of \$0.6 million and \$90.9 million, which consist principally of funds required to collateralize a prefunding obligation with a business partner.

Table of Contents

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 September 30, 2018	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017
---------------------------------------	--------------------------------------	---------------------------------------	--------------------------------------

Walmart	38%	41%	36%	39%
---------	-----	-----	-----	-----

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:

September 30, 2018	December 31, 2017
--------------------	-------------------

Walmart	21%	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 our 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 our leading consumer brand names and under the brand names of our Banking as a Service, or "BaaS," partners. The Processing and Settlement Services segment consists of revenues and expenses derived from our 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 September 30, 2018

	Account Services	Processing and Settlement Services	Corporate and Other	Total
--	------------------	------------------------------------	---------------------	-------

(In thousands)

Operating revenues	\$193,763	\$44,150	\$(7,336)	\$230,577
Operating expenses	149,876	42,923	42,863	235,662
Operating income (loss)	\$43,887	\$1,227	\$(50,199)	\$(5,085)

Three Months Ended September 30, 2017

	Account Services	Processing and Settlement Services	Corporate and Other	Total
	(In thousands)			
Operating revenues	\$170,160	\$ 39,088	\$(7,635)	\$201,613
Operating expenses	135,693	39,606	13,262	188,561
Operating income	\$34,467	\$(518)	\$(20,897)	\$13,052

Table of Contents

GREEN DOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Note 18—Segment Information (continued)

Nine Months Ended September 30, 2018

Processing

	Account Services	and Settlement Services	Corporate and Other	Total
--	---------------------	-------------------------------	------------------------	-------

(In thousands)

Operating revenues	\$620,462	\$ 207,914	\$(24,452)	\$803,924
--------------------	-----------	------------	-------------	-----------

Operating expenses	485,112	136,445	83,891	705,448
--------------------	---------	---------	--------	---------

Operating income	\$ 135,350	\$ 71,469	\$(108,343)	\$98,476
------------------	------------	-----------	-------------	----------

Nine Months Ended September 30, 2017

Processing

	Account Services	and Settlement Services	Corporate and Other	Total
--	---------------------	-------------------------------	------------------------	-------

(In thousands)

Operating revenues	\$512,967	\$ 187,862	\$(23,667)	\$677,162
--------------------	-----------	------------	------------	-----------

Operating expenses	403,906	123,287	55,350	582,543
--------------------	---------	---------	--------	---------

Operating income	\$ 109,061	\$ 64,575	\$(79,017)	\$94,619
------------------	------------	-----------	------------	----------

Table of Contents

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,” “strives,” “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 financial technology leader and bank holding company with a mission to power the banking industry’s branchless future. Enabled by proprietary technology and our wholly-owned commercial bank charter, our “Banking as a Service,” or “BaaS” platform is used by a growing list of America’s most prominent consumer and technology companies to design and deploy their own bespoke banking solutions to their customers and partners, while we use that same integrated technology and banking platform to design and deploy our own leading collection of banking and financial services products directly to consumers through one of the largest retail banking distribution platforms in America. Our products are marketed under brand names such as Green Dot, GoBank, MoneyPak, AccountNow, RushCard and RapidPay, and can be acquired through more than 100,000 retailers nationwide, thousands of corporate paycard partners, several “direct-2-consumer” branded websites, thousands of tax return preparation offices and accounting firms, thousands of neighborhood check cashing locations and both of the leading app stores. 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;

Table of Contents

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 offer the following types of products and services in partnership with 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.

Table of Contents

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 our 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.

Table of Contents

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 advances in order to help provide working capital prior to 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 and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Change	%	2018	2017	Change	%
	(In thousands, except percentages)							
Total operating revenues	\$230,577	\$201,613	\$28,964	14.4 %	\$803,924	\$677,162	\$126,762	18.7 %
Total operating expenses	235,662	188,561	47,101	25.0 %	705,448	582,543	122,905	21.1 %
Net income	4,573	13,639	(9,066)	(66.5)%	104,431	73,659	30,772	41.8 %

Total operating revenues

Our total operating revenues for the three and nine months ended September 30, 2018 increased \$29.0 million and \$126.8 million, respectively, or 14.4% and 18.7%, respectively, over the prior year comparable periods. Our growth was driven by an increase year-over-year in our active accounts and continuation of greater customer engagement of our new product lines 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 tax refunds processed within our Processing and Settlement Services segment.

Total operating expenses

Our total operating expenses for the three and nine months ended September 30, 2018 increased \$47.1 million and \$122.9 million, respectively, or 25.0% and 21.1%, respectively, over the prior year comparable periods. This increase was the result of several factors, including higher sales and marketing expenses attributable to the year-over-

Table of Contents

year increases in operating revenues generated from products that are subject to revenue share payments to our distributors and partners, higher transaction losses, a component of other general and administrative expenses, correlated with increased purchase volume, higher processing expenses as a result of increased transactional usage and higher 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.

Our operating expenses for the three and nine months ended September 30, 2018 also increased over the prior year comparable period as a result of the resolution of the final performance period payment under an earn-out provision for the 2014 acquisition of our tax refund processing business. We agreed to a payment of \$13.5 million, which is accrued on our consolidated balance sheet as of September 30, 2018 and reflected as a component of other general and administrative expenses on our consolidated income statement during the quarter. Additionally, we accelerated stock-based compensation expense during the quarter for certain awards associated with retirement eligible employees pursuant to our recently adopted retirement policy. Stock-based compensation is reflected as a component of compensation and benefits expenses on our consolidated income statement.

Income taxes

Income tax expense for the three and nine months ended September 30, 2018 decreased \$5.5 million and \$17.1 million, respectively, or 851.6% and 70.8%, respectively, from the prior year comparable period. This decrease was principally 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 U.S. 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 \$9.1 billion and \$7.7 billion for the three months ended September 30, 2018 and 2017, respectively, and \$30.2 billion and \$22.7 billion for the nine months ended September 30, 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 18% and 33% during the three and nine months ended September 30, 2018, respectively, from the comparable prior year periods were principally driven by higher dollar volume from direct deposit onto our products and the launch of several new product lines.

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 5.43 million and 5.27 million active accounts outstanding as of September 30, 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 3% 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 \$5.9 billion and \$5.2 billion for the three months ended September 30, 2018 and 2017, respectively, and \$19.7 billion and \$16.0 billion for the nine

months ended September 30, 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 13% and 23% during the three and nine months ended September 30, 2018, respectively, from the comparable prior year periods were driven by an increase in Gross Dollar Volume, as described above.

Table of Contents

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 10.68 million and 9.80 million reload transactions in the three months ended September 30, 2018 and 2017, respectively, and 31.34 million and 28.65 million reload transactions in the nine months ended September 30, 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 each of the three and nine months ended September 30, 2018 over the prior year comparable periods 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, 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 0.10 million tax refund transactions in each of the three months ended September 30, 2018 and 2017, and 11.64 million and 11.11 million tax refund transactions in the nine months ended September 30, 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 increase in the number of tax refunds processed of 5% for the nine months ended September 30, 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

Table of Contents

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 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 nine months ended September 30, 2018.
Recent Accounting Pronouncements

Table of Contents

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

34

Table of Contents

Comparison of Three-Month Periods Ended September 30, 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 September 30,			
	2018	2017	2018	2017
	Amount	% of Total Operating Revenues	Amount	% of Total Operating Revenues
(In thousands, except percentages)				
Operating revenues:				
Card revenues and other fees	\$113,474	49.2 %	\$100,781	50.0 %
Processing and settlement service revenues	43,043	18.7	36,681	18.2
Interchange revenues	74,060	32.1	64,151	31.8
Total operating revenues	\$230,577	100.0 %	\$201,613	100.0 %

Card Revenues and Other Fees — Card revenues and other fees totaled \$113.5 million for the three months ended September 30, 2018, an increase of \$12.7 million, or 13%, from the comparable prior year period. The increase is attributable to the year-over-year growth in the number of active accounts and the continued improved engagement by our account holders, resulting in increased revenues associated with ATM fees, monthly maintenance fees, and transaction-based fees earned within our Account Services segment.

Processing and Settlement Service Revenues — Processing and settlement service revenues totaled \$43.0 million for the three months ended September 30, 2018, an increase of \$6.3 million, or 17%, from the comparable prior year period. The increase was driven primarily by a higher transaction volume and revenue earned per cash transfer and an increase in disbursement transactions processed by our Simply Paid platform.

Interchange Revenues — Interchange revenues totaled \$74.1 million for the three months ended September 30, 2018, an increase of \$9.9 million, or 15%, from the comparable prior year period. The increase was primarily due to an increase in purchase volume during the three months ended September 30, 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 September 30,			
	2018	2017	2018	2017
	Amount	% of Total Operating Revenues	Amount	% of Total Operating Revenues
(In thousands, except percentages)				
Operating expenses:				
Sales and marketing expenses	\$72,745	31.5 %	\$65,586	32.5 %
Compensation and benefits expenses	57,070	24.8	47,271	23.4
Processing expenses	43,654	18.9	34,027	16.9
Other general and administrative expenses	62,193	27.0	41,677	20.7
Total operating expenses	\$235,662	102.2 %	\$188,561	93.5 %

Sales and Marketing Expenses — Sales and marketing expenses totaled \$72.7 million for the three months ended September 30, 2018, an increase of \$7.1 million, or 11% from the comparable prior year period. This increase was primarily driven by an increase in sales commissions associated with higher revenues generated from products that are subject to revenue-sharing agreements, partially offset by a year-over-year decrease of \$2.5 million in advertising expenses.

Compensation and Benefits Expenses — Compensation and benefits expenses totaled \$57.1 million for the three months ended September 30, 2018, an increase of \$9.8 million or 21% from the comparable prior year period. The increase was primarily the result of a \$5.8 million increase in employee stock-based compensation and \$3.6 million in higher salaries and wages and third party contractor expenses in support of our growth initiatives in 2018.

Processing Expenses — Processing expenses totaled \$43.7 million for the three months ended September 30, 2018, an increase of \$9.7 million or 29% from the comparable prior year period. This increase was principally the result

Table of Contents

of higher volume of ATM and purchase transactions initiated by our account holders and higher merchant acquiring costs associated with peer-to-peer payment activity on our mobile-only accounts by our cardholders within our Account Services segment. 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. Additionally, processing expenses for the comparable prior year period benefited from a \$6.5 million net repayment of incremental processing expenses associated with our need to continue to support customer accounts on our legacy third-party card processor.

Other General and Administrative Expenses — Other general and administrative expenses totaled \$62.2 million for the three months ended September 30, 2018, an increase of \$20.5 million or 49%, from the comparable prior year period. We recorded a \$13.5 million accrual for the three months ended September 30, 2018 related to the resolution with the selling shareholders of the final earn-out calculation related to the acquisition of our tax refund processing business. Additionally, other general and administrative expenses increased due to an increase in transaction losses correlated with the increase in purchase volume relative to the comparable prior year period and higher depreciation and amortization of property and equipment.

Income Tax Expense

Our income tax expense amounted to a \$4.9 million income tax benefit for the three months ended September 30, 2018 compared to a \$0.7 million income tax expense for the comparable prior year period, resulting in an effective tax rate of 1,529.9% and 4.6%, respectively.

We have omitted the effective tax rate reconciliation for the three months ended September 30, 2018, as well as the discussion of the comparison to the same prior year period because the effective tax rate calculated for the three months ended September 30, 2018 is not meaningful to our consolidated financial statements on a year-over-year basis. For the three months ended September 30, 2018, we generated a pre-tax loss of \$0.3 million, along with an income tax benefit of \$4.9 million, primarily due to excess tax benefits on employee stock-based compensation that vested during the period. As a result, the calculation of the effective tax rate for the three months ended September 30, 2018 produced an effective tax rate for the period that is not meaningful to our consolidated financial results.

Comparison of Nine-Month Periods Ended September 30, 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:

	Nine Months Ended September 30, 2018		2017	
	Amount	% of Total Operating Revenues	Amount	% of Total Operating Revenues
(In thousands, except percentages)				
Operating revenues:				
Card revenues and other fees	\$364,317	45.3	\$309,090	45.6
Processing and settlement service revenues	203,901	25.4	179,031	26.4
Interchange revenues	235,706	29.3	189,041	28.0
Total operating revenues	\$803,924	100.0	\$677,162	100.0

Card Revenues and Other Fees — Card revenues and other fees totaled \$364.3 million for the nine months ended September 30, 2018, an increase of \$55.2 million, or 18%, from the comparable prior year period. The increase is attributable to the year-over-year growth in the number of active accounts and the continued 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 \$203.9 million for the nine months ended September 30, 2018, an increase of \$24.9 million, or 14%, from the comparable prior year period. This increase was driven by the same factors discussed above under “Comparison of Three-Month Periods

Ended September 30, 2018 and 2017—Operating Revenues—Processing and Settlement Service Revenues." Interchange Revenues — Interchange revenues totaled \$235.7 million for the nine months ended September 30, 2018, an increase of \$46.7 million, or 25%, from the comparable prior year period. This increase was driven by the same factors discussed above under "Comparison of Three-Month Periods Ended September 30, 2018 and 2017—Operating Revenues—Interchange Revenues."

Table of Contents

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:

	Nine Months Ended September 30,			
	2018	2017	2018	2017
	Amount	% of Total Operating Revenues	Amount	% of Total Operating Revenues
(In thousands, except percentages)				
Operating expenses:				
Sales and marketing expenses	\$247,191	30.7 %	\$207,415	30.6 %
Compensation and benefits expenses	166,055	20.7	139,355	20.6
Processing expenses	138,442	17.2	119,723	17.7
Other general and administrative expenses	153,760	19.2	116,050	17.1
Total operating expenses	\$705,448	87.8 %	\$582,543	86.0 %

Sales and Marketing Expenses — Sales and marketing expenses totaled \$247.2 million for the nine months ended September 30, 2018, an increase of \$39.8 million, or 19% from the comparable period in 2017. This increase was principally the result of an increase in sales commissions associated with higher revenues generated from products that are subject to revenue-sharing agreements.

Compensation and Benefits Expenses — Compensation and benefits expenses totaled \$166.1 million for the nine months ended September 30, 2018, an increase of \$26.7 million or 19% from the comparable prior year period. The increase was principally the result of \$15.0 million in higher salaries and wages and third party contractor expenses in support of our growth initiatives in 2018 and a \$10.0 million increase in employee stock-based compensation.

Processing Expenses — Processing expenses totaled \$138.4 million for the nine months ended September 30, 2018, an increase of \$18.7 million or 16% from the comparable period in 2017. This increase was driven principally by the same factors discussed above under “Comparison of Three-Month Periods Ended September 30, 2018 and 2017—Operating Expenses—Processing Expenses.” Additionally, our processor costs increased during the nine months ended September 30, 2018 compared to the prior year period due to the acquisition of UniRush in the first quarter of 2017.

Other General and Administrative Expenses — Other general and administrative expenses totaled \$153.8 million for the nine months ended September 30, 2018, an increase of \$37.7 million or 32%, from the comparable period in 2017. We recorded a \$13.5 million accrual for the nine months ended September 30, 2018 related to the resolution with the selling shareholders of the final earn-out calculation related to the acquisition of our tax refund processing business. Additionally, the comparable prior year period had a favorable reduction in our contingent consideration liability of \$7.5 million related to this matter, resulting in a year-over-year total increase in expense of \$21 million. Other general and administrative expenses also increased due to an increase in transaction losses correlated with the increase in purchase volume relative to the comparable prior year period and an increase in depreciation and amortization of property and equipment.

Income Tax Expense

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

	Nine Months Ended	
	September 30, 2018	September 30, 2017
U.S. federal statutory tax rate	21.0 %	35.0 %
State income taxes, net of federal tax benefit	(0.1)	(0.5)
General business credits	(1.4)	(3.0)
Employee stock-based compensation	(16.1)	(8.2)

Edgar Filing: GREEN DOT CORP - Form 10-Q

IRC 162(m) limitation	2.7	1.7
Other	0.2	(0.3)
Effective tax rate	6.3 %	24.7 %

37

Table of Contents

Our income tax expense decreased by \$17.1 million to \$7.1 million for the nine months ended September 30, 2018 from the comparable period in 2017 due to a decrease in our effective tax rate from 24.7% to 6.3%. Our effective tax rate decreased primarily due to the Tax Act, which reduced the US federal corporate tax rate from 35% to 21%, and the recognition of significant excess tax benefits during the period related to our employee stock-based compensation expense. The Tax Act also repealed the performance-based exception to the limitation on executive compensation under Section 162(m) of the Internal Revenue Code, or IRC, which resulted in an increased IRC 162(m) limitation for the nine months ended September 30, 2018. These changes to the effective tax rate were further offset by higher business credits and a larger state income tax benefit for the comparable prior year period.

The "Other" category in our effective tax rate consists of a variety of permanent differences, none of which were individually significant.

Liquidity and Capital Resources

The following table summarizes our major sources and uses of cash for the periods presented:

	Nine Months Ended September 30, 2018 2017 (In thousands)	
Total cash provided by (used in)		
Operating activities	\$214,342	\$163,348
Investing activities	(121,106)	(159,405)
Financing activities	(65,155)	21,935
Increase in unrestricted cash, cash equivalents and restricted cash	\$28,081	\$25,878

For the nine months ended September 30, 2018 and 2017, we financed our operations primarily through our cash flows generated from operations. As of September 30, 2018, our primary source of liquidity was unrestricted cash and cash equivalents totaling \$1.0 billion. We also consider our \$223.9 million of available-for-sale investment securities to be highly-liquid instruments.

We use trend and variance analysis as well as our detailed budgets and forecasts to project future cash needs, making adjustments to the projections when needed. We believe that our current unrestricted cash and cash equivalents, cash flows from operations and borrowing capacity under our senior credit facility will be sufficient to meet our working capital, capital expenditure and debt service requirements, as discussed below.

Cash Flows from Operating Activities

Our \$214.3 million of net cash provided by operating activities during the nine months ended September 30, 2018 was primarily the result of \$104.4 million of net income, adjusted for certain non-cash operating items of \$106.1 million and increases in net changes in our working capital assets and liabilities of \$3.8 million. Our \$163.3 million of net cash provided by operating activities during the nine months ended September 30, 2017 was primarily the result of \$73.7 million of net income, adjusted for certain non-cash operating items of \$71.5 million and increases in net changes in our working capital assets and liabilities of \$18.2 million, driven principally by the utilization of our prior year income tax receivable to offset current year tax payments and the collection of short term advances from ERO tax partners, offset by timing of payments of our accounts payable and accrued liabilities.

Cash Flows from Investing Activities

Our \$121.1 million of net cash used in investing activities in the nine months ended September 30, 2018 was due to the purchase of available-for-sale investment securities, net of proceeds from sales and maturities, of \$72.1 million and the acquisition of property and equipment of \$43.4 million. Our \$159.4 million of net cash used in investing activities in the nine months ended September 30, 2017 reflects payments related to our acquisition of UniRush of \$141.5 million (net of cash acquired) and the acquisition of property and equipment of \$32.4 million, offset by proceeds from available-for-sale investment securities, net of purchases, sales and maturities, of \$28.2 million.

Cash Flows from Financing Activities

Our \$65.2 million of net cash used in financing activities during the nine months ended September 30, 2018 was primarily the result of \$33.2 million in tax payments made to net settle equity awards and decreases of \$24.9 million

Table of Contents

in obligations to customers and \$5.5 million in customer deposits, as well as \$16.9 million in repayments of our notes payable. These uses of cash were offset by \$19.1 million in stock option exercise proceeds received.

Our \$21.9 million of net cash provided by financing activities during the nine months ended September 30, 2017 was primarily the result of an increase of \$97.3 million in customer deposits, offset by \$50.0 million used for repurchases under our stock repurchase program and \$16.9 million in net repayments of our notes payable. In connection with our acquisition of UniRush, we borrowed \$75 million under our Revolving Facility and issued additional subordinated notes payable of \$20 million to the selling shareholders of UniRush. These amounts were fully repaid during the nine months ended September 30, 2017. Additionally, during the nine months ended September 30, 2017, we borrowed and repaid in full an aggregate of \$335.0 million under our Revolving Facility in connection with managing our short term working capital needs.

Commitments

We anticipate that we will continue to purchase property and equipment as necessary in the normal course of our business. The amount and timing of these purchases and the related cash outflows in future periods is difficult to predict and is dependent on a number of factors including the hiring of employees, the rate of change of computer hardware and software used in our business and our business outlook. We intend to continue to invest in new products and programs, new features for our existing products and IT infrastructure to scale and operate effectively to meet our strategic objectives. We expect these capital expenditures will exceed the amount of our capital expenditures in 2017 as we reinvest a portion of the incremental cash flow we expect to generate as a result of the Tax Act and the expected lower effective tax rate.

We have used cash to acquire businesses and technologies and we anticipate that we may continue to do so in the future. The nature of these transactions makes it difficult to predict the amount and timing of such cash requirements.

We may also be required to raise additional financing to complete future acquisitions. As discussed above in Note 4—Business Combination to the Consolidated Financial Statements included herein, on February 28, 2017, we completed our acquisition of all the membership interests of UniRush for \$142.2 million plus a minimum \$4 million annual earn-out payment for five years following the closing. The earn-out payments will be made each year, with the minimum payment potentially becoming greater if certain revenue growth targets for the RushCard GPR card program are met in a given year, although any potential increase is not expected to be material to the overall purchase price.

Additionally, we may make periodic cash contributions to our subsidiary bank, Green Dot Bank, to maintain its capital, leverage and other financial commitments at levels we have agreed to with our regulators.

Senior Credit Facility

In October 2014, we entered into a \$225 million credit agreement with Bank of America, N.A., as administrative agent, Wells Fargo Bank, National Association, and other lenders party thereto. The agreement provides for (i) a \$75 million five-year revolving facility (the “Revolving Facility”) and (ii) a five-year \$150 million term loan facility (the “Term Facility”) and, together with the Revolving Facility, the “Senior Credit Facility”). At our election, loans made under the credit agreement bear interest at (1) a LIBOR rate or (2) a base rate as defined in the agreement, plus an applicable margin (4.81% as of September 30, 2018). The balance outstanding on the Term Facility was \$63.9 million and \$79.6 million at September 30, 2018 and December 31, 2017, respectively, net of deferred financing fees. Quarterly principal payments of \$5.6 million are payable on the loans under the Term Facility. The loans made under the Term Facility mature and all amounts then outstanding thereunder are payable on October 23, 2019. There were no borrowings outstanding on our Revolving Facility at September 30, 2018. We are also subject to certain financial covenants, which include maintaining a minimum fixed charge coverage ratio and a maximum consolidated leverage ratio at the end of each fiscal quarter, as defined in the agreement, as amended. At September 30, 2018, we were in compliance with all such covenants.

Stock Repurchase Program

Over the course of 2015 through 2017, we repurchased 6.5 million shares of our Class A Common Stock at an average price of approximately \$23 under our then authorized \$150 million stock repurchase program. In May 2017, our Board of Directors authorized, subject to regulatory approval, expansion of our stock repurchase program by an additional \$150 million. Management and our Board of Directors periodically review opportunities for responsible and prudent capital allocation, including investing capital to support our strategic initiatives. Any stock repurchases

and certain other uses of capital are subject to regulatory approval and compliance with our internal and regulatory capital and liquidity requirements.

Table of Contents

Contractual Obligations

There have been no material changes in our contractual obligations 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.

Off-Balance Sheet Arrangements

As of and for the nine months ended September 30, 2018 and 2017, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Capital Requirements for Bank Holding Companies

Our subsidiary bank, Green Dot Bank, is a member bank of the Federal Reserve System and our primary regulators are the Federal Reserve Board and the Utah Department of Financial Institutions. We are subject to various regulatory capital requirements administered by the banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines, we must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, the Federal Reserve and other U.S. banking regulators approved final rules regarding new risk-based capital, leverage and liquidity standards, known as "Basel III." The Basel III rules, which became effective for us and our bank on January 1, 2015, are subject to certain phase-in periods that occur over several years. The U.S. Basel III rules contain new capital standards that change the composition of capital, increase minimum capital ratios and strengthen counter-party credit risk capital requirements. The Basel III rules also include a new definition of common equity Tier 1 capital and require that certain levels of such common equity Tier 1 capital be maintained. The rules also include a new capital conservation buffer, which imposes a common equity requirement above the new minimum that can be depleted under stress and could result in restrictions on capital distributions and discretionary bonuses under certain circumstances, as well as a new standardized approach for calculating risk-weighted assets. Under the Basel III rules, we must maintain a ratio of common equity Tier 1 capital to risk-weighted assets of at least 4.5%, a ratio of Tier 1 capital to risk-weighted assets of at least 6%, a ratio of total capital to risk-weighted assets of at least 8% and a minimum Tier 1 leverage ratio of 4.0%.

As of September 30, 2018 and December 31, 2017, we were categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," we must maintain specific total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since September 30, 2018 which management believes would have changed our category as "well capitalized." The definitions associated with the amounts and ratios below are as follows:

Ratio	Definition
Tier 1 leverage ratio	Tier 1 capital divided by average total assets
Common equity Tier 1 capital ratio	Common equity Tier 1 capital divided by risk-weighted assets
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets
Total risk-based capital ratio	Total capital divided by risk-weighted assets

Terms

Definition

Tier 1 capital and Common equity Tier 1 capital
Primarily includes common stock, retained earnings and accumulated OCI, net of deductions and adjustments primarily related to goodwill, deferred tax assets and intangibles. Under the regulatory capital rules, certain deductions and adjustments to these capital figures are phased in through January 1, 2018.

Total capital

Tier 1 capital plus supplemental capital items such as the allowance for loan losses, subject to certain limits

Average total assets

Average total consolidated assets during the period less deductions and adjustments primarily related to goodwill, deferred tax assets and intangibles assets

Risk-weighted assets

Represents the amount of assets or exposure multiplied by the standardized risk weight (%) associated with that type of asset or exposure. The standardized risk weights are prescribed in the bank capital rules and reflect regulatory judgment regarding the riskiness of a type of asset or exposure

Table of Contents

The actual amounts and ratios, and required "well capitalized" minimum capital amounts and ratios at September 30, 2018 and December 31, 2017 were as follows:

September 30, 2018

	Amount	Ratio	Regulatory Minimum	"Well-capitalized" Minimum		
(In thousands, except ratios)						
Green Dot Corporation:						
Tier 1 leverage	\$332,878	18.9%	4.0	%	n/a	
Common equity Tier 1 capital	\$332,878	67.1%	4.5	%	n/a	
Tier 1 capital	\$332,878	67.1%	6.0	%	6.0	%
Total risk-based capital	\$338,111	68.1%	8.0	%	10.0	%

Green Dot Bank:

Tier 1 leverage	\$164,145	12.3%	4.0	%	5.0	%
Common equity Tier 1 capital	\$164,145	55.6%	4.5	%	6.5	%
Tier 1 capital	\$164,145	55.6%	6.0	%	8.0	%
Total risk-based capital	\$165,479	56.0%	8.0	%	10.0	%

December 31, 2017

	Amount	Ratio	Regulatory Minimum	"Well-capitalized" Minimum		
(In thousands, except ratios)						
Green Dot Corporation:						
Tier 1 leverage	\$236,885	15.6%	4.0	%	n/a	
Common equity Tier 1 capital	\$236,885	45.3%	4.5	%	n/a	
Tier 1 capital	\$236,885	45.3%	6.0	%	6.0	%
Total risk-based capital	\$240,509	46.0%	8.0	%	10.0	%

Green Dot Bank:

Tier 1 leverage	\$95,461	10.2%	4.0	%	5.0	%
Common equity Tier 1 capital	\$95,461	37.5%	4.5	%	6.5	%
Tier 1 capital	\$95,461	37.5%	6.0	%	8.0	%
Total risk-based capital	\$95,752	37.6%	8.0	%	10.0	%

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential for economic losses from changes in market factors such as foreign currency exchange rates, credit, interest rates and equity prices. We believe that we have limited exposure to risks associated with changes in foreign currency exchange rates, interest rates and equity prices. We have no significant foreign operations. We do not hold or enter into derivatives or other financial instruments for trading or speculative purposes.

Interest rates

We do not consider our cash and cash equivalents or our investment securities to be subject to significant interest rate risk due to their short duration.

As of September 30, 2018, we had \$63.9 million in total debt outstanding under our \$225.0 million credit agreement. Refer to Note 10 — Note Payable to the Consolidated Financial Statements included herein for additional information. Our term loan and revolving credit facility are, and are expected to be, at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease. Although any short-term borrowings under our revolving credit facility would likely be insensitive to interest rate changes, interest expense on short-term borrowings will increase and decrease with changes in the underlying short-term interest rates. Assuming our credit agreement is drawn up to its maximum borrowing capacity of \$225.0 million, based on the applicable LIBOR and margin in effect as of September 30, 2018, each quarter point of change in interest rates would result in a \$0.6 million change in our annual interest expense. We actively monitor our interest rate exposure and our objective is to reduce, where we deem appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates. In order to accomplish this objective, we may enter into derivative financial instruments, such as forward contracts and interest rate hedge contracts only to the extent necessary to manage our exposure. We do not hold or enter into derivatives or other financial instruments for trading or speculative purposes.

Credit and liquidity risk

We do have exposure to credit and liquidity risk associated with the financial institutions that hold our cash and cash equivalents, restricted cash, available-for-sale investment securities, settlement assets due from our Simply Paid distribution partners and retail distributors that collect funds and fees from our customers and amounts due from our issuing banks for fees collected on our behalf.

We manage the credit and liquidity risk associated with our cash and cash equivalents, available-for-sale investment securities and amounts due from issuing banks by maintaining an investment policy that restricts our correspondent banking relationships to approved, well capitalized institutions and restricts investments to highly liquid, low credit risk assets. Our policy has limits related to liquidity ratios, the concentration that we may have with a single institution or issuer and effective maturity dates as well as restrictions on the type of assets that we may invest in. The management Asset Liability Committee is responsible for monitoring compliance with our Capital Asset Liability Management policy and related limits on an ongoing basis and reports regularly to the audit committee of our board of directors.

Our exposure to credit risk associated with our retail distributors and Simply Paid distribution partners is mitigated due to the short time period, currently an average of two days, that retailer settlement assets are outstanding. We perform an initial credit review and assign a credit limit to each new retail distributor and Simply Paid distribution partner. We monitor each retail distributor's and Simply Paid distribution partner's settlement asset exposure and its compliance with its specified contractual settlement terms on a daily basis and assess their credit limit and financial condition on a periodic basis. Our management's Enterprise Risk Management Committee is responsible for monitoring our retail distributor and Simply Paid distribution partner exposure and assigning credit limits and reports regularly to the audit committee of our board of directors.

Table of Contents

ITEM 4. Controls and Procedures

Disclosure controls and procedures — Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 13d-15(e)) at the end of the period covered by this report. Based on such evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that, at the end of such period, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Change in internal control over financial reporting — There was no material change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls — Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Table of Contents

PART II

ITEM 1. Legal Proceedings

Refer to Note 16 — Commitments and Contingencies to the Consolidated Financial Statements included herein for information regarding our legal proceedings.

ITEM 1A. Risk Factors

Risks Related to Our Business

Our operating results may fluctuate in the future, which could cause our stock price to decline.

Our quarterly and annual results of operations may fluctuate in the future as a result of a variety of factors, many of which are outside of our control. If our results of operations fall below the expectations of investors or any securities analysts who follow our Class A common stock, the trading price of our Class A common stock could decline substantially. Fluctuations in our quarterly or annual results of operations might result from a number of factors, including, but not limited to:

- the timing and volume of purchases, use and reloads of our prepaid cards and other products and services;
- the timing and volume of tax refunds processed by us, including the impact of any general delays in tax refund disbursements from the U.S. and State Treasuries;
- the timing and success of new product or service introductions by us or our competitors;
- seasonality in the purchase or use of our products and services;
- changes in the level of interchange rates that can be charged;
- fluctuations in customer retention rates;
- changes in the mix of products and services that we sell;
- changes in the mix of retail distributors through which we sell our products and services;
- the timing of commencement, renegotiation or termination of relationships with significant retail distributors and network acceptance members;
- the timing of commencement of new product development and initiatives, the timing of costs of existing product roll-outs to new retail distributors and the length of time we must invest in those new products, channels or retail distributors before they generate material operating revenues;
- our ability to effectively sell our products through online and direct mail marketing initiatives;
- changes in our or our competitors' pricing policies or sales terms;
- significant changes in our risk policies and controls;
- the amount and timing of costs related to fraud losses;
- the amount and timing of commencement and termination of major advertising campaigns, including sponsorships;
- the amount and timing of costs related to the development or acquisition of complementary businesses;
- the amount and timing of costs of any major litigation to which we are a party;
- disruptions in the performance of our products and services, including interruptions in the services we provide to other businesses, and the associated financial impact thereof;
- the amount and timing of capital expenditures and operating costs related to the maintenance and expansion of our business, operations and infrastructure;
- accounting charges related to impairment of goodwill and other intangible assets;
- our ability to control costs, including third-party service provider costs and sales and marketing expenses in an increasingly competitive market;
- volatility in the trading price of our Class A common stock, which may lead to higher or lower stock-based compensation expenses; and

Table of Contents

changes in the political or regulatory environment affecting the banking or electronic payments industries generally or the industries for prepaid financial services and tax refund processing specifically.

The loss of operating revenues from Walmart or any of our largest retail distributors would adversely affect our business.

Most of our operating revenues are derived from prepaid financial services sold at our four largest retail distributors. As a percentage of total operating revenues, operating revenues derived from products and services sold at the store locations of Walmart was approximately 38% and 36% for the three and nine months ended September 30, 2018, respectively. We expect that Walmart will continue to have a significant impact on our operating revenues in future periods, particularly in our Account Services segment. It would be difficult to replace Walmart and the operating revenues derived from products and services sold at their stores. Accordingly, the loss of Walmart would have a material adverse effect on our business and results of operations. In addition, any publicity associated with the loss of any of our large retail distributors could harm our reputation, making it more difficult to attract and retain consumers and other retail distributors, and could lessen our negotiating power with our remaining and prospective retail distributors.

The term of our Walmart Money Card agreement (which governs the MoneyCard program) expires on May 1, 2020, unless renewed under its automatic renewal provision which provides for a two-year extension. Our contracts with our three other largest retail distributors have terms that expire at various dates through 2021. Our contracts with Walmart and our three other largest retail distributors can in limited circumstances, such as our material breach or insolvency or, in the case of Walmart, our failure to meet agreed-upon service levels, certain changes in control, and our inability or unwillingness to agree to requested pricing changes, be terminated by these retail distributors on relatively short notice. There can be no assurance that we will be able to continue our relationships with our largest retail distributors on the same or more favorable terms in future periods or that our relationships will continue beyond the terms of our existing contracts with them. Our operating revenues and results of operations could suffer if, among other things, any of our retail distributors renegotiates, terminates or fails to renew, or to renew on similar or favorable terms, its agreement with us or otherwise chooses to modify the level of support it provides for our products.

Our base of tax preparation partners is concentrated and the performance of our Processing and Settlement Services segment depends in part on our ability to retain existing partners.

If one or more of our major tax preparation partners were to substantially reduce or stop offering our services to their customers, our tax refund processing services business, a component of our Processing and Settlement Services segment, results of operations and financial condition would be harmed. Substantially all the revenues we generate from our tax refund processing services business have come from sales through a relatively small number of tax preparation firms. We do not have long-term contractual commitments from any of our current tax preparation partners and our tax preparation partners may elect to not renew their contracts with us with little or no advance notice. As a result, we cannot be assured that any of our current tax preparation partners will continue to partner with us past the terms in their current agreements. A termination of our relationships with certain tax preparation partners that provide commercial tax preparation software would result in lost revenue and the loss of the ability to secure future relationships with new or existing tax preparation firms that use such tax software.

Our future success depends upon the active and effective promotion of our products and services by retail distributors and tax preparation partners, but their interests and operational decisions might not always align with our interests. Most of our operating revenues are derived from our products and services sold at the stores of our retail distributors. In addition, a large portion of our Processing and Settlement Services revenues are dependent on tax preparation partners as the revenues we generate from our tax refund processing services are largely derived from products and services sold through retail tax preparation businesses and income tax software providers. Revenues from our retail distributors and tax preparation partners depend on a number of factors outside our control and may vary from period to period. Because we compete with many other providers of products and services, including competing prepaid cards and tax refund processing services, for placement and promotion of products in the stores of our retail distributors or in conjunction with the delivery of tax preparation services by our tax preparation providers, our success depends on our retail distributors and tax preparation partners and their willingness to promote our products and services successfully. In general, our contracts with these third parties allow them to exercise significant

discretion over the placement and promotion of our products and services; they could give higher priority to the products and services of other companies for a variety of reasons. Accordingly, losing the support of our retail distributors and tax preparation partners might limit or reduce the sales of our products and services. Our operating revenues and operating expenses may also be negatively affected by operational decisions by our retail distributors and tax preparation partners. For example, if a retail distributor reduces shelf space for our products or implements changes in its systems that disrupt the integration between its systems and ours, our product sales could be reduced or decline and we may incur additional

45

Table of Contents

merchandising costs to ensure our products are appropriately stocked. Similarly, for a variety of reasons, many of our tax preparation partners that provide commercial income tax preparation software offer their customers several types for tax refund processing services, including those of our competitors. Even if our retail distributors and tax preparation partners actively and effectively promote our products and services, there can be no assurance that their efforts will maintain or result in growth of our operating revenues.

We make significant investments in products and services that may not be successful.

Our prospects for growth depend on our ability to innovate by offering new, and adding value to our existing, product and service offerings and on our ability to effectively commercialize such innovations. We will continue to make investments in research, development, and marketing for new products and services. Investments in new products and services are speculative. Commercial success depends on many factors, including innovativeness, price, the competitive environment and effective distribution and marketing. If customers do not perceive our new offerings as providing significant value, they may fail to accept our new products and services, which would negatively impact our operating revenues. We may not achieve significant operating revenues from new product and service investments for a number of years, if at all. Moreover, new products and services may not be profitable, and even if they are profitable, operating margins for new products and services may not be as high as the margins we have experienced in the past.

Our operating revenues for a particular period are difficult to predict, and a shortfall in our operating revenues may harm our results of operations.

Our operating revenues for a particular period are difficult to predict. Our total operating revenues may decline or grow at a slower rate than in prior periods. Our ability to meet financial expectations could be adversely affected by various factors, such as delays in implementing or realizing expected benefits from revenue growth activities and BaaS programs, increased competition within the store locations of many of our largest retail distributors and reputational damage and unreimbursed losses associated with disruption in the performance of our products and services.

Our ability to increase account usage and account holder retention and to attract new long-term users of our products can also have a significant effect on our operating revenues. We may be unable to generate increases in account usage, account holder retention or attract new long-term users of our products for a number of reasons, including our inability to maintain our existing distribution channels, the failure of our cardholder retention and usage incentives to influence account holder behavior, our inability to predict accurately consumer preferences or industry changes and to modify our products and services on a timely basis in response thereto, and our inability to produce new features and services that appeal to existing and prospective customers. As a result, our results of operations could vary materially from period to period based on the degree to which we are successful in increasing usage and retention and attracting long-term users of our products.

Either of the above factors could have a material adverse impact on our business, operating results and financial condition.

Seasonal fluctuations in the use of our products and services impact our results of operations and cash flows.

Our results of operations and cash flows vary from quarter to quarter, and periodically decline, due to the seasonal nature of the use of our products and services. For example, our results of operations for the first half of each year have been favorably affected by large numbers of taxpayers electing to receive their tax refunds via direct deposit on our accounts, which caused our operating revenues to be typically higher in the first halves of those years than they were in the corresponding second halves of those years. Our tax refund processing services business is also highly seasonal as it generates the substantial majority of its revenue in the first quarter, and substantially all of its revenue in the first half of each calendar year. Additionally, since the first quarter of 2018, our new business relationship with Intuit's TurboTax software has been an incremental driver of active accounts and revenue for our Account Services segment, particularly during tax season. To the extent that seasonal fluctuations become more pronounced, or are not offset by other factors, our results of operations and cash flows from operating activities could fluctuate materially from period to period.

The industries in which we compete are highly competitive, which could adversely affect our results of operations.

The prepaid financial services and tax refund services industries are highly competitive and include a variety of financial and non-financial services vendors. We expect conditions in the markets in which we compete will remain highly competitive. For example, Walmart, CVS and other retail distributors have been selling competitive products at their store locations for the past several years. Competition is expected to negatively impact our operating revenues, and could cause us to compete on the basis of price or increase our sales and marketing expenses, any of which

Table of Contents

would likely seriously harm our business, results of operations and financial condition. Our current and potential competitors include:

- prepaid card program managers, such as American Express, First Data, Total Systems Services, and traditional banks, such as J.P. Morgan Chase;

- reload network providers, such as Visa, Western Union and MoneyGram;

- prepaid card distributors, such as InComm and Blackhawk Network; and

- providers of tax refund processing services, including tax preparation businesses with their own internally-developed products and services and independent providers, such as Republic Bank & Trust Company.

Some of these vendors compete with us in more than one of the vendor categories described above, while others are primarily focused in a single category. In addition, competitors in one category have worked or are working with competitors in other categories to compete with us. We also face actual and potential competition from retail distributors or from other companies that have decided or may in the future decide to compete, or compete more aggressively, in the prepaid financial services industry. Similarly, some of our tax preparation partners have developed or may seek to develop their own products and services that compete with our tax refund processing services.

We also compete with businesses outside of the prepaid financial services industry, including traditional providers of financial services, such as banks that offer demand deposit accounts and card issuers that offer credit cards, private label retail cards and gift cards. In particular, our GoBank and secured card products are designed to compete directly with traditional service providers, such as banks and credit card companies, by providing products and services that they have traditionally provided. These and other competitors in the larger electronic payments industry are introducing innovative products and services that may compete with ours. We expect that this competition will continue as the prepaid financial services industry and the larger banking and electronic payments industry continues to evolve. We also expect to compete with businesses outside the traditional tax refund processing services industry in the future as new entrants seek to develop software solutions that may replace the need for our tax refund processing services.

Many existing and potential competitors have longer operating histories and greater name recognition than we do. In addition, many of our existing and potential competitors are substantially larger than we are, may already have or could develop substantially greater financial and other resources than we have, may offer, develop or introduce a wider range of programs and services than we offer or may use more effective advertising and marketing strategies than we do to achieve broader brand recognition, customer awareness and retail penetration. We could also experience increased price competition. If this happens, we expect that the purchase and use of our products and services would decline. If price competition materially intensifies, we may have to increase the incentives that we offer to our retail distributors and our tax preparation partners and decrease the prices of our products and services, any of which would likely adversely affect our results of operations.

Our long-term success depends on our ability to compete effectively against existing and potential competitors that seek to provide prepaid cards or other electronic payment products and services or tax refund processing services. If we fail to compete effectively against these competitors, our revenues, results of operations, prospects for future growth and overall business could be materially and adversely affected.

Acquisitions or investments could disrupt our business and harm our financial condition.

We have in the past acquired, and we expect to acquire in the future, other businesses and technologies. The process of integrating an acquired business, product, service or technology can involve a number of special risks and challenges, including:

- increased regulatory and compliance requirements;

- implementation or remediation of controls, procedures and policies at the acquired company;

- diversion of management time and focus from operation of our then-existing business;

- integration and coordination of product, sales, marketing, program and systems management functions;

- transition of the acquired company's users and customers onto our systems;

- integration of the acquired company's accounting, information management, human resource and other administrative systems and operations generally with ours;

Integration of employees from the acquired company into our organization;
Loss or termination of employees, including costs associated with the termination or replacement of those employees;

47

Table of Contents

liability for activities of the acquired company prior to the acquisition, including violations of law, commercial disputes, and tax and other known and unknown liabilities; and increased litigation or other claims in connection with the acquired company, including claims brought by terminated employees, customers, former stockholders or other third parties.

If we are unable to successfully integrate an acquired business or technology or otherwise address these special risks and challenges or other problems encountered in connection with an acquisition, we might not realize the anticipated benefits of that acquisition, we might incur unanticipated liabilities or we might otherwise suffer harm to our business generally. Unanticipated costs, delays or other operational or financial problems related to integrating the acquired company and business with our company may result in the diversion of our management's attention from other business issues and opportunities. To integrate acquired businesses, we must implement our technology systems in the acquired operations and integrate and manage the personnel of the acquired operations. We also must effectively integrate the different cultures of acquired business organizations into our own in a way that aligns various interests and may need to enter new markets in which we have no or limited experience and where competitors in such markets have stronger market positions. Failures or difficulties in integrating the operations of the businesses that we acquire, including their personnel, technology, compliance programs, risk management systems, financial systems, distribution and general business operations and procedures, marketing, promotion and other relationships, may affect our ability to grow and may result in us incurring asset impairment or restructuring charges. Furthermore, acquisitions and investments are often speculative in nature and the actual benefits we derive from them could be lower or take longer to materialize than we expect.

To the extent we pay the consideration for any future acquisitions or investments in cash, it would reduce the amount of cash available to us for other purposes. Future acquisitions or investments could also result in dilutive issuances of our equity securities or the incurrence of debt, contingent liabilities, amortization expenses, or goodwill impairment charges, any of which could harm our financial condition and negatively impact our stockholders.

Fraudulent and other illegal activity involving our products and services could lead to reputational damage to us, reduce the use and acceptance of our cards and reload network, reduce the use of our tax refund processing services, and may adversely affect our financial position and results of operations.

Criminals are using increasingly sophisticated methods to engage in illegal activities involving prepaid cards, reload products, checking accounts or customer information. Illegal activities involving our products and services often include malicious social engineering schemes, where people are asked to provide a prepaid card or reload product in order to obtain a loan or purchase goods or services. Illegal activities may also include fraudulent payment or refund schemes and identity theft. We rely upon third parties for transaction processing services, which subjects us and our customers to risks related to the vulnerabilities of those third parties. A single significant incident of fraud, or increases in the overall level of fraud, involving our cards and other products and services, have in the past and could in the future result in reputational damage to us. Such damage could reduce the use and acceptance of our cards and other products and services, cause retail distributors or network acceptance members to cease doing business with us or lead to greater regulation that would increase our compliance costs. Fraudulent activity could also result in the imposition of regulatory sanctions, including significant monetary fines, which could adversely affect our business, results of operations and financial condition.

In addition, to address the challenges we face with respect to fraudulent activity, we have implemented risk control mechanisms that have made it more difficult for all customers, including legitimate customers, to obtain and use our products and services. We believe it is likely that our risk control mechanisms may continue to adversely affect our new card activations from legitimate customers for the foreseeable future and that our operating revenues will be negatively impacted as a result.

As a bank holding company, we are subject to extensive and potentially changing regulation and may be required to serve as a source of strength for Green Dot Bank, which may adversely affect our business, financial position and results of operations.

As a bank holding company, we are subject to comprehensive supervision and examination by the Federal Reserve Board and the State of Utah Department of Financial Institutions and must comply with applicable regulations and other commitments we have agreed to, including financial commitments in respect to minimum capital and leverage

requirements. If we fail to comply with any of these requirements, we may become subject to formal or informal enforcement actions, proceedings, or investigations, which could result in regulatory orders, restrictions on our business operations or requirements to take corrective actions, which may, individually or in the aggregate, affect our results of operations and restrict our ability to grow. If we fail to comply with the applicable capital and leverage requirements, or if our subsidiary bank fails to comply with its applicable capital and leverage commitments, the Federal Reserve Board may limit our ability to pay dividends or fund stock repurchases, or if we become less than adequately capitalized,

Table of Contents

require us to raise additional capital. In addition, as a bank holding company and a financial holding company, we are generally prohibited from engaging, directly or indirectly, in any activities other than those permissible for bank holding companies and financial holding companies. This restriction might limit our ability to pursue future business opportunities which we might otherwise consider but which might fall outside the scope of permissible activities. A substantial portion of Green Dot Bank's deposit liabilities are currently classified as brokered deposits, and the failure by Green Dot Bank to maintain its status as a "well-capitalized" institution could have a serious adverse effect on Green Dot Bank's ability to conduct key portions of its current deposit-taking activity.

On January 5, 2015, the FDIC published industry guidance in the form of Frequently Asked Questions ("FAQs") with respect to, among other things, the categorization of deposit liabilities as "brokered" deposits. This guidance was later supplemented on November 13, 2015, and June 30, 2016. Based on this guidance, a vast majority of Green Dot Bank's deposits are currently classified as brokered. If Green Dot Bank ceases to be categorized as "well capitalized" under banking regulations, it could be prohibited from accepting, renewing or rolling over brokered deposits without the consent of the FDIC. In such a case, the FDIC's refusal to grant consent to our accepting, renewing or rolling over brokered deposits could materially adversely affect the financial condition and operations of Green Dot Bank and the Company and could effectively restrict the ability of Green Dot Bank to operate its business lines as presently conducted.

Changes in laws and regulations to which we are subject, or to which we may become subject, may increase our costs of operation, decrease our operating revenues and disrupt our business.

The provision of banking services, prepaid financial services and tax refund processing services is highly regulated and, from time to time, the laws and regulations affecting these industries, and the manner in which they are interpreted, are subject to change and legal action. Accordingly, changes in laws and regulations or the interpretation or enforcement thereof may occur that could increase our compliance and other costs of doing business, require significant systems redevelopment, or render our products or services less profitable or obsolete, any of which could have an adverse effect on our results of operations. For example, we could face more stringent anti-money laundering rules and regulations, as well as more stringent licensing rules and regulations, compliance with which could be expensive and time consuming. In addition, adverse rulings relating to the industries in which we participate could cause our products and services to be subject to additional laws and regulations, which could make our products and services less profitable.

If additional regulatory requirements were imposed on the sale of our products and services and our bank, the requirements could lead to a loss of retail distributors, tax preparation partners or other business partners, which, in turn, could materially and adversely impact our operations. Moreover, if our products are adversely impacted by the interpretation or enforcement of these regulations or we or any of our retail distributors or tax preparation partners were unwilling or unable to make any such operational changes to comply with the interpretation or enforcement thereof, we would no longer be able to sell our products and services through that noncompliant retail distributor or tax preparation partner, which could have a material adverse effect on our business, financial position and results of operations.

State and federal legislators and regulatory authorities are increasingly focused on the banking and consumer financial services industries and may propose and adopt new legislation that could result in significant adverse changes in the regulatory landscape for financial institutions and financial services companies.

If new regulations or laws result in changes in the way we are regulated, these regulations could expose us to increased regulatory oversight, more burdensome regulation of our business, and increased litigation risk, each of which could increase our costs and decrease our operating revenues. Furthermore, limitations placed on fees we charge or the disclosures that must be provided with respect to our products and services could increase our costs and decrease our operating revenues.

Changes in laws and regulations, or our failure to comply with existing laws and regulations, applicable to our tax refund-related services could have a material adverse effect on our business, prospects, results of operations, and financial condition.

We derive a significant portion of our total operating revenues and earnings from tax refund processing and settlement services. The tax preparation industry is regulated under a variety of statutes in addition to those

regulations currently applicable to our prepaid products and services, all of which are subject to change and which may impose significant costs, limitations or prohibitions on the way we conduct or expand our tax refund processing and related services. In recent years, state legislators, state attorneys general, and regulators have increased their focus on the tax preparation industry including tax refund processing services and the use thereof by tax preparation firms. Laws making such services less profitable, or even unprofitable, could be passed in any state at any time or existing laws could expire or be amended, any of which could have a material adverse effect on our business, prospects, results of operations, and financial condition. State regulators have broad discretionary power and may impose new

Table of Contents

requirements, interpret or enforce existing regulatory requirements in different ways or issue new administrative rules, even if not contained in state statutes, and state attorneys general could take actions, that affect the way we offer our tax refund-related services and may force us to terminate, modify, or cease our operations in particular states. State or federal regulators could also impose rules that are generally adverse to our tax refund-related services. Any new requirements or rules, or new interpretations of existing requirements or rules, or failure to follow requirements or rules, or future lawsuits or rulings, could have a material adverse effect on our business, prospects, results of operations, and financial condition.

We operate in a highly regulated environment, and failure by us, the banks that issue our cards, the businesses that participate in our reload network, the banks that assist with our tax refund processing services, and our tax preparation partners to comply with applicable laws and regulations could have an adverse effect on our business, financial position and results of operations.

We operate in a highly regulated environment, and failure by us, the banks that issue our cards or the businesses that participate in our reload network or other business partners to comply with the laws and regulations to which we are subject could negatively impact our business. We are subject to state money transmission licensing requirements and a wide range of federal and other state laws and regulations. In particular, our products and services are subject to an increasingly strict set of legal and regulatory requirements intended to protect consumers and to help detect and prevent money laundering, terrorist financing and other illicit activities.

Many of these laws and regulations are evolving, unclear and inconsistent across various jurisdictions, and ensuring compliance with them is difficult and costly. For example, with increasing frequency, federal and state regulators are holding businesses like ours to higher standards of training, monitoring and compliance, including monitoring for possible violations of laws by the businesses that participate in our reload network. Failure by us or those businesses to comply with the laws and regulations to which we are or may become subject could result in fines, penalties or limitations on our ability to conduct our business, or federal or state actions, any of which could significantly harm our reputation with consumers and other network participants, banks that issue our cards and regulators, and could materially and adversely affect our business, operating results and financial condition.

Changes in rules or standards set by the payment networks, such as Visa and MasterCard, or changes in debit network fees or products or interchange rates, could adversely affect our business, financial position and results of operations. We are subject to association rules that could subject us to a variety of fines or penalties that may be levied by the card associations or networks for acts or omissions by us or businesses that work with us, including card processors, such as MasterCard PTS. The termination of the card association registrations held by us or any changes in card association or other debit network rules or standards, including interpretation and implementation of existing rules or standards, that increase the cost of doing business or limit our ability to provide our products and services could have an adverse effect on our business, operating results and financial condition. In addition, from time to time, card associations may increase the fees that they charge, which could increase our operating expenses, reduce our profit margin and adversely affect our business, results of operations and financial condition.

Furthermore, a substantial portion of our operating revenues is derived from interchange fees. For the three months ended September 30, 2018, interchange revenues represented 32.1% of our total operating revenues, and we expect interchange revenues to continue to represent a significant percentage of our total operating revenues. The amount of interchange revenues that we earn is highly dependent on the interchange rates that the payment networks set and adjust from time to time.

The enactment of the Dodd-Frank Act required the Federal Reserve Board to implement regulations that have substantially limited interchange fees for many issuers. While the interchange rates that may be earned by us and our subsidiary bank are exempt from the limitations imposed by the Dodd-Frank Act, there can be no assurance that future regulation or changes by the payment networks will not impact our interchange revenues substantially. If interchange rates decline, whether due to actions by the payment networks or future regulation, we would likely need to change our fee structure to offset the loss of interchange revenues. However, our ability to make these changes is limited by the terms of our contracts and other commercial factors, such as price competition. To the extent we increase the pricing of our products and services, we might find it more difficult to acquire consumers and to maintain or grow card usage and customer retention, and we could suffer reputational damage and become subject to greater regulatory

scrutiny. We also might have to discontinue certain products or services. As a result, our total operating revenues, operating results, prospects for future growth and overall business could be materially and adversely affected.

50

Table of Contents

Our actual operating results may differ significantly from our guidance.

From time to time, we issue guidance in our quarterly earnings conference calls, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which constitutes forward-looking statements, is based upon a number of management's assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and are based upon specific assumptions with respect to future business decisions, some of which will change. While we have stated and we intend to continue to state possible outcomes as high and low ranges that are intended to provide a sensitivity analysis as variables are changed, we can provide no assurances that actual results will not fall outside of the suggested ranges.

The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any of these persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will prove to be incorrect or will vary significantly from actual results. For example, on a number of occasions over the last several years we adjusted our revenue guidance when actual results varied from our assumptions. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from our guidance and the variations may be material.

Any failure to implement our operating strategy successfully or the occurrence of any of the events or circumstances set forth in this Item 1A could result in our actual operating results being different from our guidance, and such differences may be adverse and material.

We receive important services from third-party vendors. Replacing them would be difficult and disruptive to our business.

Some services relating to our business, including fraud management and other customer verification services, transaction processing and settlement, card production, and customer service, are outsourced to third-party vendors. We also depend on third-party banks to assist with our tax refund processing services. It would be difficult to replace some of our third-party vendors in a timely manner if they were unwilling or unable to provide us with these services during the term of their agreements with us and our business and operations could be adversely affected. In particular, due to the seasonality in our business, any material service interruptions or service delays with key vendors during the tax season could result in losses that have an even greater adverse effect on that business than would be the case with our overall business.

Our business could suffer if there is a decline in the use of prepaid cards as a payment mechanism or there are adverse developments with respect to the prepaid financial services industry in general.

As the prepaid financial services industry evolves, consumers may find prepaid financial services to be less attractive than traditional or other financial services. Consumers might not use prepaid financial services for any number of reasons, including the general perception of our industry. If consumers do not continue or increase their usage of prepaid cards, including making changes in the way prepaid cards are loaded, our operating revenues may decline.

Any projected growth for the industry may not occur or may occur more slowly than estimated. If consumer acceptance of prepaid financial services does not continue to develop or develops more slowly than expected or if there is a shift in the mix of payment forms, such as cash, credit cards, traditional debit cards and prepaid cards, away from our products and services, it could have a material adverse effect on our financial position and results of operations.

Our business is dependent on the efficient and uninterrupted operation of computer network systems and data centers. Our ability to provide reliable service to customers and other network participants depends on the efficient and uninterrupted operation of our computer network systems and data centers as well as those of our retail distributors, network acceptance members and third-party processors. Our business involves movement of large sums of money, processing of large numbers of transactions and management of the data necessary to do both. Our success in our account programs, including our BaaS programs, as well as our processing and settlement services, depends upon the efficient and error-free handling of the money that is collected, remitted or deposited in connection with the provision of our products and services. We rely on the ability of our employees, systems and processes and those of the banks

that issue our cards, our retail distributors, tax refund preparation partners, our network acceptance members, other business partners and third-party processors to process and facilitate these transactions in an efficient, uninterrupted and error-free manner. Their failure to do so could materially and adversely impact our operating revenues and results of operations, particularly during the tax season, when we derive substantially all of operating revenues for our tax refund processing services and a significant portion of our other operating revenues.

Table of Contents

Our systems are susceptible to outages and interruptions due to fire, natural disaster, power loss, telecommunications failures, software or hardware defects, terrorist attacks and similar events. Furthermore, we currently utilize third-party data center hosting facilities located in the United States and other countries. Interruptions in our service may result for a number of reasons. For example, the data center hosting facilities that we use could be closed without adequate notice or suffer unanticipated problems resulting in lengthy interruptions in our service. Moreover, as we continue to add data centers and add capacity in our existing data centers, we could experience problems transferring customer accounts and data, impairing the delivery of our service. Any damage to, or failure of, our processes or systems generally, or those of our vendors (including as a result of disruptions at our third-party data center hosting facilities), or an improper action by our employees, agents or third-party vendors, could result in interruptions in our service, causing customers, retail distributors and other partners to become dissatisfied with our products and services or obligate us to issue credits or pay fines or other penalties to them. Sustained or repeated process or system failures could reduce the attractiveness of our products and services, including our BaaS platform, and result in contract terminations, thereby reducing operating revenue and harming our results of operations. Further, negative publicity arising from these types of disruptions could be damaging to our reputation and may adversely impact use of our products and services, including our BaaS platform, and adversely affect our ability to attract new customers and business partners. Additionally, some of our contracts with retail distributors, including our contract with Walmart, contain service level standards pertaining to the operation of our systems, and provide the retail distributor with the right to collect damages and potentially to terminate its contract with us for system downtime exceeding stated limits. If we face system interruptions or failures, our business interruption insurance may not be adequate to cover the losses or damages that we incur.

A data security breach could expose us to liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues.

We and our retail distributors, tax preparation partners, network acceptance members, third-party processors and the merchants that accept our cards receive, transmit and store confidential customer and other information in connection with the sale and use of our products and services. Our encryption software and the other technologies we use to provide security for storage, processing and transmission of confidential customer and other information may not be effective to protect against data security breaches by third parties. The risk of unauthorized circumvention of our security measures has been heightened by advances in computer capabilities and the increasing sophistication of hackers. Our retail distributors, tax preparation partners, network acceptance members, other business partners, third-party processors and the merchants that accept our cards also may experience similar security breaches involving the receipt, transmission and storage of our confidential customer and other information. Improper access to our or these third parties' systems or databases could result in the theft, publication, deletion or modification of confidential customer and other information.

A data security breach of the systems on which sensitive cardholder or other customer or end-customer data and account information are stored could lead to fraudulent activity involving our products and services, reputational damage and claims or regulatory actions against us. If we are sued in connection with any data security breach, we could be involved in protracted and costly litigation. If unsuccessful in defending that litigation, we might be forced to pay damages and/or change our business practices, any of which could have a material adverse effect on our operating revenues and profitability. We would also likely have to pay (or indemnify the banks that issue our cards for) fines, penalties and/or other assessments imposed by Visa or MasterCard as a result of any data security breach. Further, a significant data security breach could lead to additional regulation, which could impose new and costly compliance obligations. In addition, a data security breach at one of the third-party banks that issue our cards or at our retail distributors, tax preparation partners, network acceptance members, other business partners, third-party processors or the merchants that accept our cards could result in significant reputational harm to us and cause the use and acceptance of our cards or other products and services to decline, either of which could have a significant adverse impact on our operating revenues and future growth prospects. Moreover, it may require substantial financial resources to address and remediate any such breach, including additional costs for replacement cards, manufacturing, distribution, re-stocking fees, fraud monitoring and other added security measures, amongst others, which could have a significant adverse impact on our operating results.

Litigation or investigations could result in significant settlements, fines or penalties.

We are subject to regulatory oversight in the normal course of our business, and have been and from time to time may be subject to securities class actions and other litigation or regulatory or judicial proceedings or investigations. The outcome of litigation and regulatory or judicial proceedings or investigations is difficult to predict. Plaintiffs or regulatory agencies or authorities in these matters may seek recovery of very large or indeterminate amounts, seek to have aspects of our business suspended or modified or seek to impose sanctions, including significant monetary fines. The monetary and other impact of these actions, litigations, proceedings or investigations may remain unknown

Table of Contents

for substantial periods of time. The cost to defend, settle or otherwise resolve these matters may be significant. Further, an unfavorable resolution of litigation, proceedings or investigations against us could have a material adverse effect on our business, operating results, or financial condition. In this regard, such costs could make it more difficult to maintain the capital, leverage and other financial commitments at levels we have agreed to with the Federal Reserve Board and the Utah Department of Financial Institutions. If regulatory or judicial proceedings or investigations were to be initiated against us by private or governmental entities, adverse publicity that may be associated with these proceedings or investigations could negatively impact our relationships with retail distributors, tax preparation partners, network acceptance members, other business partners and card processors and decrease acceptance and use of, and loyalty to, our products and related services, and could impact the price of our Class A common stock. In addition, such proceedings or investigations could increase the risk that we will be involved in litigation. The outcome of any such litigation is difficult to predict and the cost to defend, settle or otherwise resolve these matters may be significant. For the foregoing reasons, if regulatory or judicial proceedings or investigations were to be initiated against us by private or governmental entities, our business, results of operations and financial condition could be adversely affected or our stock price could decline.

We must adequately protect our brand and our intellectual property rights related to our products and services and avoid infringing on the proprietary rights of others.

The Green Dot, GoBank, MoneyPak, TPG and other brands and marks are important to our business, and we utilize trademark registrations and other means to protect them. Our business would be harmed if we were unable to protect our brand against infringement and its value was to decrease as a result.

We rely on a combination of patent, trademark and copyright laws, trade secret protection and confidentiality and license agreements to protect the intellectual property rights related to our products and services. We currently have 11 issued patents and 14 patent applications pending. Although we generally seek patent protection for inventions and improvements that we anticipate will be incorporated into our products and services, there is always a chance that our patents or patent applications could be challenged, invalidated or circumvented, or that an issued patent will not adequately cover the scope of our inventions or improvements incorporated into our products or services.

Additionally, our patents could be circumvented by third-parties.

We may unknowingly violate the intellectual property or other proprietary rights of others and, thus, may be subject to claims by third parties. These assertions may increase over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the mobile technology field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its elements infringes or will infringe on the patent rights of others. Regardless of the merit of these claims, we may be required to devote significant time and resources to defending against these claims or to protecting and enforcing our own rights. We might also be required to develop a non-infringing technology or enter into license agreements and there can be no assurance that licenses will be available on acceptable terms and conditions, if at all. Some of our intellectual property rights may not be protected by intellectual property laws, particularly in foreign jurisdictions. The loss of our intellectual property or the inability to secure or enforce our intellectual property rights or to defend successfully against an infringement action could harm our business, results of operations, financial condition and prospects.

We are exposed to losses from customer accounts.

Fraudulent activity involving our products may lead to customer disputed transactions, for which we may be liable under banking regulations and payment network rules. Our fraud detection and risk control mechanisms may not prevent all fraudulent or illegal activity. To the extent we incur losses from disputed transactions, our business, results of operations and financial condition could be materially and adversely affected.

Additionally, our cardholders can incur charges in excess of the funds available in their accounts, and we may become liable for these overdrafts. While we decline authorization attempts for amounts that exceed the available balance in a cardholder's account, the application of card association rules, the timing of the settlement of transactions and the assessment of the card's monthly maintenance fee, among other things, can result in overdrawn accounts.

Maintenance fee assessment overdrafts occur as a result of our charging a cardholder, pursuant to the card's terms and conditions, the monthly maintenance fee at a time when he or she does not have sufficient funds in his or her account. Our remaining overdraft exposure arises primarily from late-posting. A late-post occurs when a merchant posts a transaction within a payment network-permitted timeframe but subsequent to our release of the authorization for that transaction, as permitted by card association rules. Under card association rules, we may be liable for the amount of the transaction even if the cardholder has made additional purchases in the intervening period and funds are no longer available on the card at the time the transaction is posted.

Table of Contents

We consider overdrawn account balances to be our receivables due from cardholders. We maintain reserves to cover the risk that we may not recover these receivables due from our cardholders, but our exposure may increase above these reserves for a variety of reasons, including our failure to predict the actual recovery rate accurately. To the extent we incur losses from overdrafts above our reserves or we determine that it is necessary to increase our reserves substantially, our business, results of operations and financial condition could be materially and adversely affected. An impairment charge of goodwill or other intangible assets could have a material adverse impact on our financial condition and results of operations.

Because we have grown in part through acquisitions, our net goodwill and intangible assets represent a significant portion of our consolidated assets. Our net goodwill and intangible assets were \$557.8 million as of September 30, 2018. Under accounting principles generally accepted in the United States, or U.S. GAAP, we are required to test the carrying value of goodwill and intangible assets at least annually or sooner if events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in a reporting unit's fair value, legal and regulatory factors, operating performance indicators, competition and other factors.

U.S. GAAP requires us to assign and then test goodwill at the reporting unit level. If over a sustained period of time we experience a decrease in our stock price and market capitalization, which may serve as an estimate of the fair value of our reporting unit, this may be an indication of impairment. If the fair value of our reporting unit is less than its net book value, we may be required to record goodwill impairment charges in the future. In addition, if the revenue and cash flows generated from any of our other intangible assets is not sufficient to support its net book value, we may be required to record an impairment charge. The amount of any impairment charge could be significant and could have a material adverse impact on our financial condition and results of operations for the period in which the charge is taken.

If we are unable to keep pace with the rapid technological developments in our industry and the larger electronic payments industry necessary to continue providing our network acceptance members and cardholders with new and innovative products and services, the use of our cards and other products and services could decline.

The electronic payments industry is subject to rapid and significant technological changes. We cannot predict the effect of technological changes on our business. We rely in part on third parties, including some of our competitors and potential competitors, for the development of, and access to, new technologies. We expect that new services and technologies applicable to our industry will continue to emerge, and these new services and technologies may be superior to, or render obsolete, the technologies we currently utilize in our products and services. Additionally, we may make future investments in, or enter into strategic alliances to develop, new technologies and services or to implement infrastructure change to further our strategic objectives, strengthen our existing businesses and remain competitive. However, our ability to transition to new services and technologies that we develop may be inhibited by a lack of industry-wide standards, by resistance from our retail distributors, network acceptance members, third-party processors or consumers to these changes, or by the intellectual property rights of third parties. Our future success will depend, in part, on our ability to develop new technologies and adapt to technological changes and evolving industry standards. These initiatives are inherently risky, and they may not be successful or may have an adverse effect on our business, financial condition and results of operations.

We face settlement risks from our distributors and banking partners, which may increase during an economic downturn.

The majority of our business is conducted through retail distributors that sell our products and services to consumers at their store locations. Our retail distributors collect funds from the consumers who purchase our products and services and then must remit these funds directly to accounts established for the benefit of these consumers at the banks that issue our cards. The remittance of these funds by the retail distributor takes on average two business days. If a retail distributor becomes insolvent, files for bankruptcy, commits fraud or otherwise fails to remit proceeds to our card issuing bank from the sales of our products and services, we are liable for any amounts owed to our customers. As of September 30, 2018, we had assets subject to settlement risk of \$291.1 million. Given the possibility of recurring volatility in global financial markets, the approaches we use to assess and monitor the creditworthiness of our retail distributors may be inadequate, and we may be unable to detect and take steps to mitigate an increased credit

risk in a timely manner.

Economic downturns could result in settlement losses, whether or not directly related to our business. We are not insured against these risks. Significant settlement losses could have a material adverse effect on our business, results of operations and financial condition.

54

Table of Contents

Economic, political and other conditions may adversely affect trends in consumer spending.

The electronic payments industry, including the prepaid financial services segment within that industry, depends heavily upon the overall level of consumer spending. If conditions in the United States become uncertain or deteriorate, we may experience a reduction in the number of our accounts that are purchased or reloaded, the number of transactions involving our cards and the use of our reload network and related services. A sustained reduction in the use of our products and related services, either as a result of a general reduction in consumer spending or as a result of a disproportionate reduction in the use of card-based payment systems, would materially harm our business, results of operations and financial condition.

We must be able to operate and scale our technology effectively.

Our ability to continue to provide our products and services to network participants, as well as to enhance our existing products and services and offer new products and services, is dependent on our information technology systems. If we are unable to manage and scale the technology associated with our business effectively, we could experience increased costs, reductions in system availability and losses of our network participants. Any failure of our systems in scalability and functionality would adversely impact our business, financial condition and results of operations.

Our future success depends on our ability to attract, integrate, retain and incentivize key personnel.

Our future success will depend, to a significant extent, on our ability to attract, integrate, retain and recognize key personnel, namely our management team and experienced sales, marketing and program and technology development personnel. Replacing departing key personnel can involve organizational disruption and uncertainty. We experience transitions among our executive officers from time to time. If we fail to manage any future transitions successfully, we could experience significant delays or difficulty in the achievement of our development and strategic objectives and our business, financial condition and results of operations could be materially and adversely harmed. We must retain and motivate existing personnel, and we must also attract, assimilate and motivate additional highly-qualified employees. We may experience difficulty in managing transitions and assimilating our newly-hired personnel, which may adversely affect our business. Competition for qualified management, sales, marketing and program and technology development personnel can be intense. Competitors have in the past and may in the future attempt to recruit our top management and employees. If we fail to attract, integrate, retain and incentivize key personnel, our ability to manage and grow our business could be harmed.

We might require additional capital to support our business in the future, and this capital might not be available on acceptable terms, or at all.

If our unrestricted cash and cash equivalents balances and any cash generated from operations are not sufficient to meet our future cash requirements, we will need to access additional capital to fund our operations. We may also need to raise additional capital to take advantage of new business or acquisition opportunities. We may seek to raise capital by, among other things:

- issuing additional shares of our Class A common stock or other equity securities;
- issuing convertible or other debt securities; and
- borrowing funds under a credit facility.

We may not be able to raise needed cash in a timely basis on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive or potentially dilutive to our stockholders. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our Class A common stock. In addition, if we were to raise cash through a debt financing, the terms of the financing might impose additional conditions or restrictions on our operations that could adversely affect our business. If we require new sources of financing but they are insufficient or unavailable, we would be required to modify our operating plans to take into account the limitations of available funding, which would harm our ability to maintain or grow our business.

The occurrence of catastrophic events could damage our facilities or the facilities of third parties on which we depend, which could force us to curtail our operations.

We and some of the third-party service providers on which we depend for various support functions, such as customer service and card processing, are vulnerable to damage from catastrophic events, such as power loss, natural disasters, terrorism and similar unforeseen events beyond our control. Our principal offices, for example, are situated in southern California near known earthquake fault zones. If any catastrophic event were to occur, our ability to operate

our business could be seriously impaired. In addition, we might not have adequate insurance to cover our losses resulting from catastrophic events or other significant business interruptions. Any significant losses that are not

55

Table of Contents

recoverable under our insurance policies, as well as the damage to, or interruption of, our infrastructure and processes, could seriously impair our business and financial condition.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired, which could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. If we are unable to maintain adequate internal control over financial reporting, we might be unable to report our financial information on a timely basis and might suffer adverse regulatory consequences or violate NYSE listing standards. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. We have in the past and may in the future discover areas of our internal financial and accounting controls and procedures that need improvement. Our internal control over financial reporting will not prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company will be detected. If we are unable to maintain proper and effective internal controls, we may not be able to produce accurate financial statements on a timely basis, which could adversely affect our ability to operate our business and could result in regulatory action, and could require us to restate, our financial statements. Any such restatement could result in a loss of public confidence in the reliability of our financial statements and sanctions imposed on us by the SEC.

Changes in accounting standards or inaccurate estimates or assumptions in the application of accounting policies could adversely affect our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the reported value of our assets or liabilities and results of operations and are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. If those assumptions, estimates or judgments were incorrectly made, we could be required to correct and restate prior period financial statements.

Accounting standard-setters and those who interpret the accounting standards (such as the Financial Accounting Standards Board, the SEC and banking regulators) may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the need to revise and republish prior period financial statements.

Our debt agreements contain restrictive covenants and financial ratio tests that restrict or prohibit our ability to engage in or enter into a variety of transactions. If we fail to comply with these covenants or tests, our indebtedness under these agreements could become accelerated, which could adversely affect us.

In October 2014 we entered into a \$225.0 million term credit agreement with Bank of America, N.A., as administrative agent, Wells Fargo Bank, National Association, and other lenders. This agreement contains various covenants that may have the effect of limiting, among other things, our ability and the ability of certain of our subsidiaries to: merge with other entities, enter into a transaction resulting in a change in control, create new liens, incur additional indebtedness, sell assets outside of the ordinary course of business, enter into transactions with affiliates (other than subsidiaries) or substantially change the general nature of our and our subsidiaries' business, taken as a whole, make certain investments, enter into restrictive agreements, or make certain dividends or other distributions. These restrictions could limit our ability to take advantage of financing, merger, acquisition or other opportunities, to fund our business operations or to fully implement our current and future operating strategies.

Under the agreement, we have agreed to maintain compliance with a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio of 1.75 and 1.25, respectively, at the end of any fiscal quarter. Our ability to meet these financial ratios and tests will be dependent upon our future performance and may be affected by

events beyond our control (including factors discussed in this "Risk Factors" section). If we fail to satisfy these requirements, our indebtedness under these agreements could become accelerated and payable at a time when we are unable to pay them. This would adversely affect our ability to implement our operating strategies and would have a material adverse effect on our financial condition.

Table of Contents

Risks Related to Ownership of Our Class A Common Stock

The price of our Class A common stock may be volatile.

In the recent past, stocks generally, and financial services company stocks in particular, have experienced high levels of volatility. The trading price of our Class A common stock has been highly volatile since our initial public offering and may continue to be subject to wide fluctuations. The trading price of our Class A common stock depends on a number of factors, including those described in this “Risk Factors” section, many of which are beyond our control and may not be related to our operating performance. Factors that could cause fluctuations in the trading price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market prices and trading volumes of financial services company stocks;
- actual or anticipated changes in our results of operations or fluctuations in our operating results;
- actual or anticipated changes in the expectations of investors or the recommendations of any securities analysts who follow our Class A common stock;
- actual or anticipated developments in our business or our competitors’ businesses or the competitive landscape generally;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- business disruptions and costs related to shareholder activism;
- litigation and investigations or proceedings involving us, our industry or both or investigations by regulators into our operations or those of our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- general economic conditions;
- changes to the indices in which our Class A common stock is included;
- and
- sales of shares of our Class A common stock by us or our stockholders.

In the past, many companies that have experienced volatility in the market price of their stock have become subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could seriously harm our business.

Our charter documents, Delaware law and our status as bank holding company could discourage, delay or prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our certificate of incorporation and bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to nominate directors for election to our board of directors and take other corporate actions. These provisions, among other things:

- provide for non-cumulative voting in the election of directors;
- authorize our board of directors, without stockholder approval, to issue preferred stock with terms determined by our board of directors and to issue additional shares of our Class A common stock;
- limit the voting power of a holder, or group of affiliated holders, of more than 24.9% of our common stock to 14.9%;
- provide that only our board of directors may set the number of directors constituting our board of directors or fill vacant directorships;
- prohibit stockholder action by written consent and limit who may call a special meeting of stockholders; and
- require advance notification of stockholder nominations for election to our board of directors and of stockholder proposals.

These and other provisions in our certificate of incorporation and bylaws, as well as provisions under Delaware law, could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future

Table of Contents

for shares of our Class A common stock and result in the trading price of our Class A common stock being lower than it otherwise would be.

In addition to the foregoing, under the BHC Act and the Change in Bank Control Act, and their respective implementing regulations, Federal Reserve Board approval is necessary prior to any person or company acquiring control of a bank or bank holding company, subject to certain exceptions. Control, among other considerations, exists if an individual or company acquires 25% or more of any class of voting securities, and may be presumed to exist if a person acquires 10% or more of any class of voting securities. These restrictions could affect the willingness or ability of a third party to acquire control of us for so long as we are a bank holding company.

If securities analysts do not continue to publish research or reports about our business or if they publish negative evaluations of our Class A common stock, the trading price of our Class A common stock could decline.

We expect that the trading price for our Class A common stock will be affected by any research or reports that securities analysts publish about us or our business. If one or more of the analysts who currently cover us or our business downgrade their evaluations of our Class A common stock, the price of our Class A common stock would likely decline. If one or more of these analysts cease coverage of our company, we could lose visibility in the market for our Class A common stock, which in turn could cause our stock price to decline.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 5. Other Information

None

Table of Contents

ITEM 6. Exhibits

The following documents are filed as exhibits to this report:

Exhibit Number	Description of Exhibits
10.1†	<u>Amendment to the Processing Services Agreement dated as of September 10, 2018 by and among the Registrant and MasterCard International Incorporated.</u>
31.1	<u>Certification of Steven W. Streit, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Mark Shifke, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Steven W. Streit, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Mark Shifke, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

Confidential treatment has been requested with regard to certain portions of this document. Such portions were filed separately with the Commission.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Green Dot Corporation

Date: November 8, 2018 By: /s/ Mark Shifke

Name: Mark Shifke

Title: Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)