GREEN DOT CORP
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission file number 001-34819

GREEN DOT CORPORATION
(Exact name of Registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 37,355,439 shares of Class A common stock, par value $.001 per share (which number does not include 6,859,000 shares of Class A common stock issuable upon conversion of Series A Convertible Junior Participating Non-Cumulative Perpetual Preferred Stock) as of October 31, 2013.

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

	September 30, 2013	December 31, 2012
	(Unaudited)	
Assets	(In thousands, except par value)	
Current assets:		
Unrestricted cash and cash equivalents	$328,879	$293,590
Federal funds sold	922	3,001
Investment securities available-for-sale, at fair value	138,407	115,244
Settlement assets	38,400	36,127
Accounts receivable, net	48,208	40,441
Prepaid expenses and other assets	26,310	31,952
Income tax receivable	3,590	7,386
Net deferred tax assets	2,338	2,478
Total current assets	587,054	530,219
Restricted cash	667	634
Investment securities, available-for-sale, at fair value	97,779	68,543
Accounts receivable, net	4,844	10,931
Loans to bank customers, net of allowance for loan losses of $464 and $475 as of September 30, 2013 and December 31, 2012, respectively	6,522	7,552
Prepaid expenses and other assets	1,496	1,530
Property and equipment, net	62,599	58,376
Deferred expenses	6,946	12,510
Net deferred tax assets	4,558	4,629
Goodwill and intangible assets	30,708	30,804
Total assets	$803,173	$725,728
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$21,047	$31,411
Deposits	189,261	198,451
Obligations to customers	56,871	46,156
Settlement obligations	10,206	3,639
Amounts due to card issuing banks for overdrawn accounts	52,260	50,724
Other accrued liabilities	27,172	29,469
Deferred revenue	13,663	19,557
Total current liabilities	370,480	379,407
Other accrued liabilities	41,545	18,557
Deferred revenue	325	—
Total liabilities	412,350	397,964
Stockholders' equity:		
Convertible Series A preferred stock, $0.001 par value: 10 shares authorized and 7 shares issued and outstanding as of September 30, 2013 and December 31, 2012	7	7
Class A common stock, $0.001 par value; 100,000 shares authorized as of September 30, 2013 and December 31, 2012; 37,340 and 31,798 shares issued and outstanding as of September 30, 2013 and December 31, 2012,	37	31

respectively		
Class B convertible common stock, $0.001 par value, 0 and 100,000 shares authorized as of September 30, 2013 and December 31, 2012, respectively; 0 and 4,197 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	—	4
Additional paid-in capital	188,804	158,656
Retained earnings	201,964	168,960
Accumulated other comprehensive income	11	106
Total stockholders’ equity	390,823	327,764
Total liabilities and stockholders’ equity	$803,173	$725,728

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Operating revenues:				
Card revenues and other fees	$51,066	$52,548	$170,762	$171,632
Cash transfer revenues	47,193	41,832	137,161	121,721
Interchange revenues	40,872	39,581	129,541	122,615
Stock-based retailer incentive compensation	(2,587)	(1,202)	(6,163)	(6,985)
Total operating revenues	136,544	132,759	431,301	408,983
Operating expenses:				
Sales and marketing expenses	52,042	51,930	159,899	157,516
Compensation and benefits expenses	32,343	29,041	95,297	83,074
Processing expenses	22,231	18,802	64,178	58,668
Other general and administrative expenses	21,954	18,109	63,259	52,075
Total operating expenses	128,570	117,882	382,633	351,333
Operating income	7,974	14,877	48,668	57,650
Interest income	800	983	2,474	3,127
Interest expense	(22)	(21)	(55)	(62)
Income before income taxes	8,752	15,839	51,087	60,715
Income tax expense	2,638	6,227	18,083	23,866
Net income	6,114	9,612	33,004	36,849
Income attributable to preferred stock	(958)	(1,543)	(5,232)	(5,938)
Net income allocated to common stockholders	$5,156	$8,069	$27,772	$30,911
Basic earnings per common share:				
Class A common stock	$0.14	$0.23	$0.76	$0.87
Class B common stock	$0.14	$0.23	$0.76	$0.87
Basic weighted-average common shares issued and outstanding:				
Class A common stock	33,716	30,067	32,054	29,502
Class B common stock	2,447	4,585	3,481	4,884
Diluted earnings per common share:				
Class A common stock	$0.13	$0.22	$0.74	$0.84
Class B common stock	$0.13	$0.22	$0.74	$0.84
Diluted weighted-average common shares issued and outstanding:				
Class A common stock	37,771	35,826	36,844	35,901
Class B common stock	2,447	5,732	3,481	6,346

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$6,114	$9,612	$33,004	$36,849
Other comprehensive income (loss)				
Unrealized holding gains (losses), net of tax	44	60	(95)	80
Comprehensive income	$6,158	$9,672	$32,909	$36,929

See notes to unaudited consolidated financial statements

GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Operating activities		
Net income	$33,004	$36,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,906	12,564
Provision for uncollectible overdrawn accounts	38,164	46,683
Employee stock-based compensation	10,674	9,041
Stock-based retailer incentive compensation	6,163	6,985
Amortization of premium on available-for-sale investment securities	456	954
Realized gains on investment securities	(8)	(8)
Recovery of uncollectible trade receivables	(12)	(420)
Impairment of capitalized software	1,856	912
Deferred income tax expense	271	(32)
Excess tax benefits from exercise of options	(3,749)	(2,665)
Changes in operating assets and liabilities:		
Accounts receivable, net	(39,832)	(51,405)
Prepaid expenses and other assets	5,676	(11,022)
Deferred expenses	5,564	5,681
Accounts payable and other accrued liabilities	11,350	21,809
Amounts due issuing bank for overdrawn accounts	1,536	12,984
Deferred revenue	(5,569)	(10,523)
Income tax receivable	7,543	4,929
Net cash provided by operating activities	92,993	83,316
Investing activities		
Purchases of available-for-sale investment securities	(214,638)	(200,755)
Proceeds from maturities of available-for-sale securities	114,975	29,708
Proceeds from sales of available-for-sale securities	46,663	55,855
(Increase) decrease in restricted cash	(33)	142
Payments for acquisition of property and equipment	(26,912)	(23,312)
Net principal collections on loans	1,030	2,348
Acquisitions, net of cash acquired	—	(33,401)
Net cash used in investing activities	(78,915)	(169,415)
Financing activities		
Proceeds from exercise of options	9,564	2,710
Excess tax benefits from exercise of options	3,749	2,665
Net decrease in deposits	(9,190)	(428)
Net increase in obligations to customers	15,009	23,137
Net cash provided by financing activities	19,132	28,084
Net increase (decrease) in unrestricted cash, cash equivalents, and federal funds sold	33,210	(58,015)

Unrestricted cash, cash equivalents, and federal funds sold, beginning of year	296,591	225,433
Unrestricted cash, cash equivalents, and federal funds sold, end of period	$329,801	$167,418
Cash paid for interest	7	72
Cash paid for income taxes	10,266	23,012

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1—Organization
Green Dot Corporation ("we," "us" and "our" refer to Green Dot Corporation and its wholly-owned subsidiaries, Next Estate Communications, Inc.; Green Dot Bank; and Loopt, LLC) is a bank holding company with a mission to reinvent personal banking for the masses. Our prepaid products and services are available in more than 80,000 retail stores nationwide and online at Greendot.com. Our products include: Green Dot MasterCard and Visa-branded prepaid debit cards and several co-branded reloadable prepaid card programs, collectively referred to as our GPR cards; Visa-branded gift cards; our MoneyPak and swipe reload proprietary products, collectively referred to as our cash transfer products, which enable cash loading and transfer services through our Green Dot Network; and GoBank, an innovative checking account developed for distribution and use via mobile phones. GoBank is available online at GoBank.com and via the Apple App Store and Google Play. The Green Dot Network enables consumers to use cash to reload our prepaid debit cards or to transfer cash to any of our Green Dot Network acceptance members, including competing prepaid card programs and other online accounts.
We market our products and services to banked, underbanked and unbanked consumers in the United States using distribution channels other than traditional bank branches, such as third-party retailer locations nationwide and the Internet. Our prepaid debit cards are issued by Green Dot Bank and third-party issuing banks including GE Capital Retail Bank, The Bancorp Bank, Sunrise Banks, N.A., and prior to November 2012, Columbus Bank and Trust Company, a division of Synovus Bank. We also have multi-year distribution arrangements with many large and medium-sized retailers, such as Walmart, Walgreens, CVS, Rite Aid, 7-Eleven, Kroger, Kmart, and Radio Shack, and with various industry resellers, such as Blackhawk Network, Inc. and Incomm. We refer to participating retailers collectively as our "retail distributors."
Acquisitions
In March 2012, we acquired Loopt, Inc., or Loopt, for approximately $33.6 million in cash in exchange for all of its outstanding shares. Loopt's results of operations are included in our consolidated results of operations following the acquisition date. We committed to pay $9.8 million in retention-based incentives for employees we hired in connection with the acquisition of Loopt. In December 2012, we converted Loopt from a corporation to a limited liability company.
Note 2—Summary of Significant Accounting Policies
Basis of Presentation
We have prepared the accompanying unaudited consolidated financial statements in accordance with generally accepted accounting principles in the United States of America, or GAAP. We consolidated our wholly-owned subsidiaries and eliminated all significant intercompany balances and transactions.
We have also prepared the accompanying unaudited consolidated financial statements in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X and, consequently, they do not include all of the annual disclosures required by GAAP. Reference is made to our Annual Report on Form 10-K for the year ended December 31, 2012, for additional disclosures, including a summary of our significant accounting policies. There have been no changes to our significant accounting policies during the nine months ended September 30, 2013.
In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal and recurring items, except as otherwise noted, necessary for the fair presentation of our financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for the nine months ended September 30, 2013 are not necessarily indicative of future results.
Recent Accounting Pronouncements
Recently Adopted Standards
In February 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2013-02, Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires companies to report, in one place, information about significant reclassifications out of accumulated other comprehensive income, or AOCI, and disclose more information about

changes in AOCI balances. We adopted this ASU in the first quarter of 2013. The adoption of this standard did not have a significant impact on our consolidated financial statements.

Recently Issued Standards

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance for the financial

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

Note 2—Summary of Significant Accounting Policies (continued)
statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We will adopt the standard effective January 1, 2014. Our adoption of this ASU is not expected to have a material impact on our consolidated financial statements.
Note 3 — Investment Securities
Our available-for-sale investment securities were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
September 30, 2013	(In thousands)			
Corporate bonds	$67,191	$40	$(17)	$67,214
Commercial paper	82,091	19	(1)	82,109
Negotiable certificate of deposit	4,400	5	—	4,405
U.S. Treasury notes	11,360	11	—	11,371
Agency securities	29,510	20	—	29,530
Mortgage-backed securities	2,668	—	(62)	2,606
Municipal bonds	19,843	24	(13)	19,854
Asset-backed securities	19,105	6	(14)	19,097
Total investment securities	$236,168	$125	$(107)	$236,186
December 31, 2012				
Corporate bonds	$37,320	$39	$(2)	$37,357
Commercial paper	55,733	17	(2)	55,748
Negotiable certificate of deposit	4,400	14	—	4,414
U.S. Treasury notes	22,258	9	—	22,267
Agency securities	25,845	23	(1)	25,867
Municipal bonds	11,528	43	(3)	11,568
Asset-backed securities	26,533	33	—	26,566
Total investment securities	$183,617	$178	$(8)	$183,787

As of September 30, 2013 and December 31, 2012, 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		
September 30, 2013	(In thousands)					
Corporate bonds	$28,421	$(17)	$—	$—	$28,421	$(17)
Commercial paper	8,592	(1)	—	—	8,592	(1)
Agency securities	—	—	—	—	—	—
Mortgage-backed securities	2,606	(62)	—	—	2,606	(62)
Municipal bonds	7,899	(13)	—	—	7,899	(13)
Asset-backed securities	9,035	(14)	—	—	$9,035	$(14)
Total investment securities	$56,553	$(107)	$—	$—	$56,553	$(107)
December 31, 2012						
Corporate bonds	$6,138	$(2)	$—	$—	$6,138	$(2)
Commercial paper	6,390	(2)	—	—	6,390	(2)

Agency securities	6,302	(1)	—	—	6,302	(1)
Municipal bonds	1,602	(3)	—	—	1,602	(3)
Total investment securities	$20,432	$(8)	$—	$—	$20,432	$(8)

Note 3 — Investment Securities (continued)

We did not record any other-than-temporary impairment losses during the three and nine-month periods ended September 30, 2013 or 2012 on our available-for-sale investment securities. We do not intend to sell these investments or 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, 2013, 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	$138,359	$138,407
Due after one year through five years	74,692	74,733
Due after five years through ten years	1,047	1,051
Due after ten years	500	496
Mortgage and asset-backed securities	21,570	21,499
Total investment securities	$236,168	$236,186

The expected payments on mortgage-backed and asset-backed securities may not coincide with their contractual maturities because the issuers have the right to call or prepay certain obligations.

Note 4—Accounts Receivable

Accounts receivable, net consisted of the following:

	September 30, 2013	December 31, 2012
	(In thousands)	
Overdrawn account balances due from cardholders	$15,597	$24,328
Reserve for uncollectible overdrawn accounts	(10,653)	(15,677)
Net overdrawn account balances due from cardholders	4,944	8,651
Trade receivables	4,401	5,686
Reserve for uncollectible trade receivables	(56)	(69)
Net trade receivables	4,345	5,617
Receivables due from card issuing banks	41,942	33,729
Other receivables	1,821	3,375
Accounts receivable, net	$53,052	$51,372

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance, beginning of period	$13,249	$15,722	$15,677	$15,309
Provision for uncollectible overdrawn accounts:				
Fees	9,240	15,473	36,396	29,113
Purchase transactions	369	670	1,768	1,480
Charge-offs	(12,205)	(13,906)	(43,188)	(27,943)
Balance, end of period	$10,653	$17,959	$10,653	$17,959

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(UNAUDITED)

Note 5—Loans to Bank Customers
The following table presents total outstanding loans, gross of the related allowance for loan losses, and a summary of the related payment status:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current or Less Than 30 Days Past Due	Total Outstanding
September 30, 2013	(In thousands)					
Real estate	$—	$—	$7	$7	$3,305	$3,312
Commercial	3	—	—	3	1,292	1,295
Installment	—	1	4	5	2,374	2,379
Total loans	$3	$1	$11	$15	$6,971	$6,986
Percentage of outstanding	0.04 %	0.01 %	0.16 %	0.21 %	99.79 %	100.00 %
December 31, 2012						
Real estate	$91	$—	$—	$91	$3,465	$3,556
Commercial	77	—	—	77	1,102	1,179
Installment	22	3	—	25	3,267	3,292
Total loans	$190	$3	$—	$193	$7,834	$8,027
Percentage of outstanding	2.37 %	0.04 %	— %	2.40 %	97.60 %	100.00 %

Nonperforming Loans
The following table presents our nonperforming loans, including impaired 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, 2012 for further information on the criteria for classification as nonperforming.

	September 30, 2013	December 31, 2012
	(In thousands)	
Real estate	$73	$8
Commercial	126	244
Installment	209	135
Total loans	$408	$387

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 our primary credit quality indicators related to our loan portfolio:

	September 30, 2013		December 31, 2012	
	Non-Classified	Classified	Non-Classified	Classified
	(In thousands)			
Real estate	$2,992	$320	$3,360	$196
Commercial	1,235	60	930	249
Installment	2,293	86	3,000	292

Total loans	$6,520	$466	$7,290	$737

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Note 5—Loans to Bank Customers (continued)

Impaired Loans and Troubled Debt Restructurings

When, for economic or legal reasons related to a borrower's financial difficulties, we grant a concession for other than an insignificant period of time to a borrower that we would not otherwise consider, the related loan is classified as a Troubled Debt Restructuring, or TDR. The following table presents key information regarding loans that we modified in TDRs as of September 30, 2013 and December 31, 2012. Our TDR modifications related to extensions of the maturity dates at a stated interest rate lower than the current market rate for new debt with similar risk:

	September 30, 2013		December 31, 2012	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
	(In thousands)			
Real estate	$123	$73	$194	$96
Commercial	364	126	280	136
Installment	471	209	403	173

Allowance for Loan Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance, beginning of period	$460	$310	$475	$—
Provision for loans	—	39	—	349
Loans charged off	—	(51)	(25)	(51)
Recoveries of loans previously charged off	$4	$—	$14	$—
Balance, end of period	$464	$298	$464	$298

Note 6—Employee Stock-Based Compensation

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

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

	Nine Months Ended September 30,	
	2013	2012
	(In thousands, except per share data)	
Stock options granted	1,708	1,101
Weighted-average exercise price	$16.89	$27.83
Weighted-average grant-date fair value	$5.97	$12.70
Restricted stock units granted	503	53
Weighted-average grant-date fair value	$16.57	$28.70

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
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Note 6—Employee Stock-Based Compensation (continued)
We estimated the fair value of each stock option grant on the date of grant using the following weighted-average assumptions:

	Nine Months Ended September 30,			
	2013		2012	
Risk-free interest rate	1.00	%	1.22	%
Expected term (life) of options (in years)	5.68		6.49	
Expected dividends	—		—	
Expected volatility	43.61	%	45.46	%

The total stock-based compensation expense recognized was $10.7 million and $9.0 million for the nine-month periods ended September 30, 2013 and 2012, respectively. Total stock-based compensation expense includes amounts related to awards of stock options and restricted stock units and purchases under our 2010 Employee Stock Purchase Plan.
Note 7—Income Taxes
Income tax expense for the nine-month periods ended September 30, 2013 and 2012 varied from the amount computed by applying the federal statutory income tax rate to income before income taxes. A reconciliation between the expected federal income tax expense using the federal statutory tax rate and our actual income tax expense is shown in the following:

	Nine Months Ended September 30,			
	2013		2012	
U.S. federal statutory tax rate	35.0	%	35.0	%
State income taxes, net of federal benefit	1.8		1.8	
General business credits	(3.2	)	—	
Employee stock-based compensation	1.6		1.9	
Other	0.2		0.6	
Effective tax rate	35.4	%	39.3	%

The effective tax rates for the periods above generally differ from the expected federal statutory tax rate of 35% primarily due to state income taxes, net of the federal tax benefit, and non-deductible employee stock based compensation. The effective tax rate for nine months ended September 30, 2013 was favorably impacted by our recognition of general business credits related to 2012 and 2013 of $0.8 million and $1.0 million, respectively. Excluding the impact of the discrete items related to 2012, our effective tax rate in the nine months ended September 30, 2013 would have been 37.0%.
We are subject to examination by the Internal Revenue Service, or IRS, and various state tax authorities. Our consolidated federal income tax return for the year ended July 31, 2008 has been examined by the IRS, and there were no material changes in our tax liabilities for that year. Our consolidated federal income tax returns for the year ended July 31, 2009, the five-months ended December 31, 2009 and the years ended December 31, 2010 and 2011 are currently under examination by the IRS. We remain subject to examination of our federal income tax returns for the year ended December 31, 2012. We generally remain subject to examination of our various state income tax returns for a period of four to five years from the respective dates the returns were filed.

Note 7—Income Taxes (continued)
We continuously evaluate income tax positions that we have taken or anticipate taking in a tax return. We recognize and measure the related income tax benefit in accordance with the guidance related to uncertainty in income taxes. The reconciliation of the beginning unrecognized tax benefits balance to the ending balance is as follows:

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Beginning balance	$1,481	$—
Increases related to positions taken during prior years	500	—
Increases related to positions taken during the current year	866	—
Ending balance	$2,847	$—
The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	$2,847	$—

Note 8—Earnings per Common Share
In August 2013, the issued and outstanding shares of our Class B Common Stock declined to less than 10% of the aggregate number of issued and outstanding shares of our Class A Common Stock and Class B Common Stock. Pursuant to the terms of Article V of our Certificate of Incorporation, the issued and outstanding shares of our Class B common stock automatically converted into shares of our Class A common stock. Following this automatic conversion, there is now only a single class of our common stock outstanding. As Class B common stock was outstanding for a portion of the year, we continue to disclose earnings per common share, or EPS, for both classes of common stock.
The calculation of basic and diluted EPS was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Basic earnings per Class A common share				
Net income	$6,114	$9,612	$33,004	$36,849
Income attributable to preferred stock	(958)	(1,543)	(5,232)	(5,938)
Income attributable to other classes of common stock	(449)	(1,303)	(3,324)	(5,370)
Net income allocated to Class A common stockholders	$4,707	$6,766	$24,448	$25,541
Weighted-average Class A shares issued and outstanding	33,716	30,067	32,054	29,502
Basic earnings per Class A common share	$0.14	$0.23	$0.76	$0.87
Diluted earnings per Class A common share				
Net income allocated to Class A common stockholders	$4,707	$6,766	$24,448	$25,541
Re-allocated earnings	379	1,082	2,827	4,471
Diluted net income allocated to Class A common stockholders	5,086	7,848	27,275	30,012
Weighted-average Class A shares issued and outstanding	33,716	30,067	32,054	29,502

Dilutive potential common shares:				
Class B common stock	2,447	5,732	3,481	6,346
Stock options	1,333	—	1,104	—
Restricted stock units	254	—	195	4
Employee stock purchase plan	21	27	10	49
Diluted weighted-average Class A shares issued and outstanding	37,771	35,826	36,844	35,901
Diluted earnings per Class A common share	$0.13	$0.22	$0.74	$0.84

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Note 8—Earnings per Common Share (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Basic earnings per Class B common share				
Net income	$6,114	$9,612	$33,004	$36,849
Income attributable to preferred stock	(958)	(1,543)	(5,232)	(5,938)
Income attributable to other classes of common stock	(4,815)	(7,036)	(25,118)	(26,683)
Net income allocated to Class B common stockholders	$341	$1,033	$2,654	$4,228
Weighted-average Class B shares issued and outstanding	2,447	4,585	3,481	4,884
Basic earnings per Class B common share	$0.14	$0.23	$0.76	$0.87
Diluted earnings per Class B common share				
Net income allocated to Class B common stockholders	$341	$1,033	$2,654	$4,228
Re-allocated earnings	(12)	224	(78)	1,077
Diluted net income allocated to Class B common stockholders	$329	$1,257	$2,576	$5,305
Weighted-average Class B shares issued and outstanding	2,447	4,585	3,481	4,884
Dilutive potential common shares:				
Stock options	—	1,147	—	1,462
Diluted weighted-average Class B shares issued and outstanding	2,447	5,732	3,481	6,346
Diluted earnings per Class B common share	$0.13	$0.22	$0.74	$0.84

As of September 30, 2013, 699,342 shares of Class A common stock issued to Walmart were subject to our repurchase right. Basic and diluted EPS for these shares were the same as basic and diluted EPS for our Class A common stock for the three and nine-month periods ended September 30, 2013 and September 30, 2012.

We excluded from the computation of basic EPS all shares issuable under an unvested warrant to purchase 4,283,456 shares of our Class A common stock, as the related performance conditions had not been satisfied.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Class A common stock	(In thousands)			
Options to purchase Class A common stock	351	2,153	975	1,143
Restricted stock units	—	43	15	19
Conversion of convertible preferred stock	6,859	6,859	6,859	6,859
	7,210	9,055	7,849	8,021

Total options, restricted stock units and convertible preferred stock				
Class B common stock				
Options to purchase Class B common stock	—	403	—	67
Total options	—	403	—	67

Note 9—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, 2012.

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Note 9—Fair Value Measurements (continued)
As of September 30, 2013 and December 31, 2012, our assets carried at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2013	(In thousands)			
Corporate bonds	$—	$67,214	$—	$67,214
Commercial paper	—	82,109	—	82,109
Negotiable certificate of deposit	—	4,405	—	4,405
U.S. Treasury notes	—	11,371	—	11,371
Agency securities	—	29,530	—	29,530
Mortgage-backed securities	—	2,606	—	2,606
Municipal bonds	—	19,854	—	19,854
Asset-backed securities	—	19,097	—	19,097
Total	$—	$236,186	$—	$236,186
December 31, 2012				
Corporate bonds	$—	$37,357	$—	$37,357
Commercial paper	—	55,748	—	55,748
Negotiable certificate of deposit	—	4,414	—	4,414
U.S. treasury notes	—	22,267	—	22,267
Agency securities	—	25,867	—	25,867
Municipal bonds	—	11,568	—	11,568
Asset-backed securities	—	26,566	—	26,566
Total	$—	$183,787	$—	$183,787

We based the fair value of our fixed income securities held as of September 30, 2013 and December 31, 2012 on quoted prices in active markets for similar assets. We had no transfers between Level 1, Level 2 or Level 3 assets during the nine month period ended September 30, 2013 or the year ended December 31, 2012.

Note 10—Fair Value of Financial Instruments

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

Short-term Financial Instruments

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

Investment Securities

The fair values of investment securities have been derived using methodologies referenced in Note 2–Summary of Significant Accounting Policies to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2012. 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.

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Note 10—Fair Value of Financial Instruments (continued)
Deposits
The fair value of demand and interest checking deposits and savings deposits is the amount payable on demand at the reporting date. We determined the fair value of time deposits by discounting expected future cash flows using market-derived rates based on our market yields on certificates of deposit, by maturity, at the measurement date. Under the fair value hierarchy, our deposits are classified as Level 2.
Fair Value of Financial Instruments
The carrying values and fair values of certain financial instruments that were not carried at fair value, excluding short-term financial instruments for which the carrying value approximates fair value, at September 30, 2013 and December 31, 2012 are presented in the table below.

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial Assets				
Loans to bank customers, net of allowance	$6,522	$5,887	$7,552	$5,719
Financial Liabilities				
Deposits	$189,261	$189,206	$198,451	$198,369

Note 11—Commitments and Contingencies
We monitor the laws of all 50 states to identify state laws or regulations that apply to prepaid debit cards and other stored value products. Many state laws do not specifically address stored value products and what, if any, legal or regulatory requirements (including licensing) apply to the sale of these products. We have obtained money transmitter licenses (or similar such licenses) where applicable, based on advice of counsel or when we have been requested to do so. If we were found to be in violation of any laws and regulations governing banking, money transmitters, electronic fund transfers, or money laundering in the United States or abroad, we could be subject to penalties or could be forced to change our business practices.
In the ordinary course of business, we are a party to various legal proceedings. We review these actions on an ongoing basis to determine whether it is probable that a loss has occurred and use that information when making accrual and disclosure decisions. We have not established reserves or possible ranges of losses related to these proceedings because, at this time in the proceedings, the matters do not relate to a probable loss and/or the amounts are not reasonably estimable.
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 third-party claims that our products infringe a patent, copyright, or other intellectual property right claims arising from our acts, omissions, or violation of law.
Generally, a maximum obligation under these contracts is not explicitly stated. Because the obligated amounts associated with these types of agreements are not explicitly stated, the overall maximum amount of the obligation cannot be reasonably estimated. With the exception of overdrafts on cardholders' accounts, historically, we have not been required to make payments under these and similar contingent obligations, and no liabilities have been recorded for these obligations in our consolidated balance sheets.
For additional information regarding overdrafts on cardholders' accounts, refer to Note 4 — Accounts Receivable.

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Note 12—Significant Customer Concentration
A credit concentration may exist if customers are involved in similar industries, economic sectors, and geographic regions. Our retail distributors operate in similar economic sectors but diverse domestic geographic regions. The loss of a significant retail distributor could have a material adverse effect upon our card sales, profitability, and revenue growth.
Revenues derived from our products sold at our four largest retail distributors represented the following percentages of our total operating revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Walmart	62%	62%	65%	63%
Three other largest retail distributors, as a group	22%	20%	22%	21%

Excluding stock-based retailer incentive compensation of $2.6 million and $1.2 million for the three-month periods ended September 30, 2013 and 2012, respectively, and $6.2 million and $7.0 million for the nine-month periods ended September 30, 2013 and 2012, respectively, revenues derived from our products sold at our four largest retail distributors represented the following percentages of our total operating revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Walmart	63%	63%	65%	64%
Three other largest retail distributors, as a group	22%	20%	21%	20%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Concentration of GPR cards activated (in units)	83%	88%	85%	88%
Concentration of sales of cash transfer products (in units)	87%	89%	87%	88%

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

	September 30, 2013	December 31, 2012
Walmart	29%	35%
Three other largest retail distributors, as a group	36%	38%

At September 30, 2013 and December 31, 2012, the customer funds underlying the Walmart co-branded GPR cards were held by GE Capital Retail Bank. These funds are held in trust for the benefit of the customers, and we have no legal rights to the customer funds. Additionally, we have receivables due from GE Capital Retail Bank that are included in accounts receivable, net, on our consolidated balance sheets. The failure of this entity could result in significant business disruption, a potential material adverse effect on our ability to service our customers, potential contingent obligations by us to customers and material write-offs of uncollectible receivables. We are in the process of obtaining regulatory approval for the proposed transition of these customer funds to our subsidiary bank.

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

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

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

Overview

Green Dot Corporation is a technology-centric, pro-consumer Bank Holding Company with a mission to reinvent personal banking for the masses. Our products and brands include Green Dot-brand reloadable prepaid debit cards, the Green Dot Reload Network, the Green Dot MoneyPak and GoBank. Green Dot Corporation products are available to consumers at more than 80,000 retailers nationwide, online and via the leading app stores.

Financial Results and Trends

Total operating revenues for the three and nine-month periods ended September 30, 2013 were $136.5 million and $431.3 million, respectively, compared to $132.8 million and $409.0 million for the three and nine-month periods ended September 30, 2012, respectively. Total operating revenues for these periods were favorably impacted by increases in other revenues, a component of card revenues and other fees, and increases in cash transfer revenues and interchange revenues. Other revenues increased primarily due to period-over-period growth in our gift card program and cash transfer and interchange revenues increased primarily due to period-over-period growth in the number of cash transfers and purchase volume, respectively, which are described below. Total operating revenues for these periods were adversely impacted by declines in monthly maintenance fees, new card fees and ATM fees, all components of card revenues and other fees. Monthly maintenance fees declined primarily due to an increase in fee waivers earned by cardholders. New card fees declined as a result of a period-over-period decline in card sales, driven by increased competition and the implementation of enhanced risk controls, as discussed further below. ATM fees declined as a result of higher usage of our fee-free ATM network.

Total operating expenses for the three and nine-month periods ended September 30, 2013 were $128.6 million and $382.6 million, respectively, compared to $117.9 million and $351.3 million for the three and nine-month periods ended September 30, 2012, respectively. Total operating expenses for these periods were adversely impacted by increases in compensation and benefits expenses, processing expenses and other general and administrative expenses. Compensation and benefits expenses increased primarily due to our efforts to attract and retain technology development personnel. Processing expenses increased primarily due to period-over-period growth in purchase volume. Other general and administrative expenses increased primarily due to increases in depreciation and amortization of property and equipment as we invested in technology to support our new product launches and improve our core infrastructure and increases in transaction losses, primarily associated with customer disputed transactions.

Income tax expense for the three and nine-month periods ended September 30, 2013 were $2.6 million and $18.1 million, respectively, compared to $6.2 million and $23.9 million for the three and nine-month periods ended September 30, 2012, respectively. Income tax expense for these periods declined primarily as a result of our recognition of general business credits related to 2012 and 2013 throughout the year and a decline in income before income taxes. Although we expect to recognize general business credits in the fourth quarter of 2013 and beyond, we believe our effective tax rate for the foreseeable future will be higher than our effective tax rate for three months ended September 30, 2013.

Since the second half of 2012, we have experienced increased competition at most of our largest retail distributors. Although we cannot accurately measure the precise effect of increased competition on our results of operations, we believe that it negatively impacted our total operating revenues for the first three quarters of 2013. In addition, the number of active cards in our portfolio and the number of cash transfers were negatively impacted during the first three quarters of 2013 by enhanced risk controls we began voluntarily implementing in 2012. For example, during the first nine months of 2013, we declined 10-20% more new card activations than the comparable period in 2012. We believe the increased competition and enhanced risk controls will continue to have an adverse effect on our business, results of operations, and financial condition in the fourth quarter of 2013 and the foreseeable future.

As previously announced, we are expanding our distribution channel by more than 27,000 new retail locations, such as The Home Depot, Family Dollar, Dollar General and Dollar Tree, and expanding our product offerings at Walmart stores. Consequently, we expect to incur additional sales and marketing expenses during the fourth quarter of 2013 related primarily to costs of materials as we roll out products to the stores of these new retail distributors, existing retail distributors, new check cashing partners and to support our new GoBank partnerships.

Key Metrics

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

Number of Cash Transfers — represents the total number of MoneyPak and POS swipe reload transactions that we sell through our retail distributors in a specified period. We sold 11.43 million and 10.52 million MoneyPak and POS swipe reload transactions in the three-month periods ended September 30, 2013 and 2012, respectively, and 34.00 million and 30.75 million MoneyPak and POS swipe reload transactions in the nine-month periods ended September 30, 2013 and 2012, respectively.

Number of Active Cards — represents the total number of GPR cards in our portfolio that had a purchase, reload or ATM withdrawal transaction during the previous 90-day period. We had 4.41 million and 4.42 million active cards outstanding as of September 30, 2013 and 2012, respectively.

Gross Dollar Volume — represents the total dollar volume of funds loaded to our GPR card and reload products. Our gross dollar volume was $4.4 billion and $4.1 billion for the three-month periods ended September 30, 2013 and 2012, respectively, and $13.9 billion and $12.9 billion for the nine-month periods ended September 30, 2013 and 2012, respectively. While we continue to view our gross dollar volume as a key metric, we review this metric in conjunction with purchase volume and give greater weight to our purchase volume when assessing our operating performance because we believe it is a better indicator of interchange revenue performance.

Purchase Volume — represents the total dollar volume of purchase transactions made by customers using our GPR and gift card products. This metric excludes the dollar volume of ATM withdrawals. Our purchase volume was $3.3 billion and $3.0 billion for the three-month periods ended September 30, 2013 and 2012, respectively, and $10.1 billion and $9.4 billion for the nine-month periods ended September 30, 2013 and 2012, respectively.

Key components of our results of operations

Operating Revenues

We classify our operating revenues into the following four categories:

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

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

Green Dot-branded and co-branded active cards in our portfolio and the extent to which cardholders enroll in our VIP program, which has no ATM fees, or conduct ATM transactions on our fee-free ATM network, consisting of more than 23,000 nationwide ATMs as of December 2012. Our aggregate new card fee revenues vary based upon the number of GPR cards activated and the average new card fee. The average new card fee depends primarily upon the mix of products that we sell since there are variations in new card fees between Green Dot-branded and co-branded products and between GPR cards and gift cards.

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

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

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

Operating Expenses

We classify our operating expenses into the following four categories:

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

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

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

Other General and Administrative Expenses — Other general and administrative expenses consist primarily of professional service fees, telephone and communication costs, depreciation and amortization of our property and equipment, 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 cards in our portfolio, as do losses from customer disputed transactions, unrecovered customer purchase transaction overdrafts and fraud. Costs associated with professional services, depreciation and amortization of our property and equipment, and 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.

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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. Since the majority of our operations are based in California, most of our state taxes are paid to that state.

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, 2012. There have been no changes to our critical accounting policies and estimates during the nine months ended September 30, 2013.

Recent Accounting Pronouncements

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

Comparison of Three-Month Periods Ended September 30, 2013 and 2012

Operating Revenues

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

	Three Months Ended September 30,			
	2013		2012	
	Amount	% of Total Operating Revenues	Amount	% of Total Operating Revenues
	(In thousands, except percentages)			
Operating revenues:				
Card revenues and other fees	$51,066	37.4 %	$52,548	39.6 %
Cash transfer revenues	47,193	34.6	41,832	31.5
Interchange revenues	40,872	29.9	39,581	29.8
Stock-based retailer incentive compensation	(2,587)	(1.9)	(1,202)	(0.9)
Total operating revenues	$136,544	100.0 %	$132,759	100.0 %

Card Revenues and Other Fees — Card revenues and other fees totaled $51.1 million for the three months ended September 30, 2013, a decrease of $1.4 million, or 3%, from the comparable period in 2012. The decrease was primarily the result of a decline in monthly maintenance fees due to an increase in fee waivers earned by cardholders. The decrease in card revenues and other fees was also due to a decline in new card fees as a result of a period-over-period decline in new card sales and a decline in ATM fees as a result of higher usage of our fee-free ATM network. The decreases in monthly maintenance fees, new card fees and ATM fees were partially offset by period-over-period growth in our gift card program.

Cash Transfer Revenues — Cash transfer revenues totaled $47.2 million for the three months ended September 30, 2013, an increase of $5.4 million, or 13%, from the comparable period in 2012. The increase was primarily the result of period-over-period growth of 9% in the number of cash transfers sold. The increase in cash transfer volume was driven primarily by growth in cash transfer volume from third-party programs participating in our network, which increased by approximately four percentage points as compared to the comparable period in 2012.

Interchange Revenues — Interchange revenues totaled $40.9 million for the three months ended September 30, 2013, an increase of $1.3 million, or 3%, from the comparable period in 2012. The increase was primarily the result of period-over-period growth of 10% in purchase volume, partially offset by a slight decline in the effective interchange rate we earn on purchase volume. This rate decline was the result of a shift in the mix of payment networks and payment types. We expect to experience a seasonal pattern in our interchange revenues during 2013 similar to that which we experienced in 2012, as we expect purchase volume will be higher during the first half of 2013, as compared to the remainder of 2013.

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Stock-based Retailer Incentive Compensation — Our right to repurchase lapsed as to 110,430 shares issued to Walmart during the three months ended September 30, 2013. We recognized the fair value of the shares using the then-current fair market value of our Class A common stock, resulting in $2.6 million of stock-based retailer incentive compensation, an increase of $1.4 million, or 117%, from the comparable period in 2012. The increase was the result of a higher stock price in the three months ended September 30, 2013 compared with the corresponding period in 2012. Our stock price reached its all-time low in the second half of 2012. While we cannot assure you that our stock price will not decline, we expect our stock-based retailer incentive compensation expense to be significantly higher in the second half of 2013, as compared to the second half of 2012, as a result of the appreciation of our stock price in recent periods.

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,					
	2013			2012		
	Amount	% of Total Operating Revenues		Amount	% of Total Operating Revenues	
	(In thousands, except percentages)					
Operating expenses:						
Sales and marketing expenses	$52,042	38.1	%	$51,930	39.1	%
Compensation and benefits expenses	32,343	23.7		29,041	21.9	
Processing expenses	22,231	16.3		18,802	14.2	
Other general and administrative expenses	21,954	16.1		18,109	13.6	
Total operating expenses	$128,570	88.7	%	$117,882	85.9	%

Sales and Marketing Expenses — Sales and marketing expenses totaled $52.0 million for the three months ended September 30, 2013, an increase of $0.1 million, or 0% from the comparable period in 2012. This slight increase was primarily the result of an increase in the sales commissions, driven by period-over-period growth of 9% in the number of cash transfers sold and an increase in the sales commission rate we pay to Walmart for the MoneyCard program, which increased in May 2013 by approximately four percentage points. This increase was offset by a decrease in advertising and marketing expenses as we reduced the level of our television and online advertising. We expect to incur additional sales and marketing expenses during the remainder of 2013, as discussed under "Financial Results and Trends."

Compensation and Benefits Expenses — Compensation and benefits expenses totaled $32.3 million for the three months ended September 30, 2013, an increase of $3.3 million or 11%, from the comparable period in 2012. This increase was primarily the result of a $4.4 million increase in employee compensation and benefits, including a $1.7 million increase in stock-based compensation expense. The period-over-period growth in employee compensation and benefits is primarily related to our efforts to attract and retain technology development personnel. The increase in compensation and benefits expenses was partially offset by a $1.1 million decline in third-party contractor expenses.

Processing Expenses — Processing expenses totaled $22.2 million for the three months ended September 30, 2013, an increase of $3.4 million, or 18% from the comparable period in 2012. The increase was primarily the result of period-over-period growth of 10% in purchase volume, a decline in volume incentives from payment networks and higher usage of our fee-free ATM network. Processing expenses were partially offset by a reduction in third-party issuing bank fees as we transitioned our card issuing program with Synovus Bank to our subsidiary bank in November 2012.

Other General and Administrative Expenses — Other general and administrative expenses totaled $22.0 million for the three months ended September 30, 2013, an increase of $3.9 million, or 22%, from the comparable period in 2012. This increase was primarily the result of a $2.1 million increase in depreciation and amortization of property and equipment associated with our investment in technology to support our new product launches and improve our core infrastructure and a $1.4 million increase in transaction losses, primarily associated with customer disputed transactions.

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Income Tax Expense

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

	Three Months Ended September 30,	
	2013	2012
U.S. federal statutory tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	1.8	2.2
General business credits	(6.2)	—
Employee stock-based compensation	(0.4)	1.9
Other	0.2	0.2
Effective tax rate	30.4 %	39.3 %

Our income tax expense decreased by $3.6 million to $2.6 million in the three months ended September 30, 2013 from the comparable period in 2012 due to a decrease in our effective tax rate by approximately 9 percentage points from 39.3% to 30.4%, primarily due to general business credits we recognized in the third quarter of 2013 related to California's enterprise zone program, and a decrease in income before income taxes over those same periods. Although we expect to recognize general business credits in the fourth quarter of 2013 and beyond, we believe our effective tax rate for the foreseeable future will be higher than our effective tax rate for three months ended September 30, 2013.

Comparison of Nine-Month Periods Ended September 30, 2013 and 2012

Operating Revenues

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

	Nine Months Ended September 30,			
	2013		2012	
	Amount	% of Total Operating Revenues	Amount	% of Total Operating Revenues
	(In thousands, except percentages)			
Operating revenues:				
Card revenues and other fees	$170,762	39.6 %	$171,632	42.0 %
Cash transfer revenues	137,161	31.8	121,721	29.8
Interchange revenues	129,541	30.0	122,615	30.0
Stock-based retailer incentive compensation	(6,163)	(1.4)	(6,985)	(1.7)
Total operating revenues	$431,301	100.0 %	$408,983	100.0 %

Card Revenues and Other Fees — Card revenues and other fees totaled $170.8 million for the nine months ended September 30, 2013, a decrease of $0.8 million, or less than 1%, from the comparable period in 2012. This decline was driven by the factors discussed above under “Comparison of Three-Month Periods Ended September 30, 2013 and 2012—Operating Revenues—Card Revenues and Other Fees."

Cash Transfer Revenues — Cash transfer revenues totaled $137.2 million for the nine months ended September 30, 2013, an increase of $15.5 million, or 13%, from the comparable period in 2012. The increase was primarily the result of period-over-period growth of 11% in the number of cash transfers sold. The increase in cash transfer volume was driven primarily by growth in cash transfer volume from third-party programs participating in our network. The proportion of total cash transfer revenues represented by third party programs increased by approximately six percentage points as compared to the comparable period in 2012.

Interchange Revenues — Interchange revenues totaled $129.5 million for the nine months ended September 30, 2013, an increase of $6.9 million, or 6%, from the comparable period in 2012. The increase was primarily the result of period-over-period growth of 7% in purchase volume.

Stock-based Retailer Incentive Compensation — Our right to repurchase lapsed as to 331,290 shares issued to Walmart during the nine months ended September 30, 2013. We recognized the fair value of the shares using the then-current fair market value of our Class A common stock, resulting in $6.2 million of stock-based retailer incentive compensation, a decrease of