GREEN DOT CORP
Form 10-Q
November 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission file number 001-34819

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 95-4766827<br>(IRS Employer Identification No.) |
| 3465 E. Foothill Blvd.<br>Pasadena, California 91107<br>(Address of principal executive offices, including zip code) | (626) 765-2000<br>(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 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | þ | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | o |
| Emerging growth company | o | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

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

| | September 30, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| Assets | (In thousands, except par value) | |
| 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 |

| | | |
|---|---|---|
| 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

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GREEN 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

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended 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

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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) |

| | | |
|---|---|---|
| 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

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Organization

Green Dot Corporation ("we," "our," or "us" refer to Green Dot Corporation and its consolidated subsidiaries), is a 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

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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 s tep 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.

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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.

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.

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.

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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 | |
|---|---|---|---|---|
| | Account Services | Processing and Settlement Services | Account Services | Processing and 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.

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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.

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 |

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GREEN DOT CORPORATION
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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.

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Note 6—Accounts Receivable
Accounts receivable, net consisted of the following:

| | September 30, 2018 | December 31, 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, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 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 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 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 % |

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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 |
|---|---|---|
| | (In thousands) | |
| Residential | $ 422 | $ 502 |
| Installment | 175 | 191 |
| Total loans | $ 597 | $ 693 |

Credit Quality Indicators

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

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 |
| | (In thousands) | | | |
| 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 |

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 | Carrying Value |

| | | | | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Residential | $422 | $ 344 | $ 516 | $ 452 |
| Installment | 209 | 60 | 262 | 120 |

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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, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Balance, beginning of period | $1,173 | $319 | $ 291 | |