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GDOT - Q2 2014 Green Dot Corp Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Green Dot Corp second-quarter 2014 earnings conference call and webcast.

(Operator Instructions)

Please note this event is being recorded. I would now like to turn the conference over to Mr. Steve Streit, Chief Executive Officer. Mr. Streit, please go ahead.

Chris Mammone - *Green Dot Corporation - VP of IR*

Thank you and good afternoon, everyone.

On today's call Steve Streit, our Chairman and Chief Executive Officer; and Grace Wang, our Chief Financial Officer will discuss 2014 second-quarter performance and updated thoughts regarding our 2014 outlook. Following these remarks, we will open the call for questions.

For those of you that have not yet accessed the earnings press release that accompanies this call and webcast, it can be found at ir.greendot.com. Additional operational data have been provided in the supplemental table within our press release.

As a reminder, our comments include forward-looking statements about, among other things, our expectations regarding future results and performance. Please refer to the cautionary language in the earnings release and in Green Dot's filings with the SEC, including the Q1 form 10-Q we filed on May 12, 2014, for additional information concerning factors that could cause actual results to differ materially from the forward-looking statements.

During the call, we will make reference to financial measures that do not conform to generally accepted accounting principles. This information may be calculated differently than similar non-GAAP data presented by other companies. Reconciliations of those non-GAAP financial measures to the most comparable GAAP measures are included as supplemental tables in today's earnings release, and are also available at ir.greendot.com.

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(Operator Instructions)

Now I'd like to turn the call over to Steve.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Okay, thank you, Chris, and welcome, everyone. Also with me on today's call, as Chris said, is our Chief Financial Officer, Grace Wang.

A lot of information and we'll start with a financial review of the quarter. The high-level summary of the quarter in the first half in general is that Green Dot is way ahead on adjusted EBITDA and will continue to far outpace our initial guidance range for the year. And as a result, we are significantly raising full-year adjusted EBITDA guidance today. Grace will provide the new upward guidance shortly.

On the revenue side, we're pacing about 1% to 2% softer than we expected through the first half of the year. However, we have a number of catalysts for the revenue growth in the second half of the year that we think can make up for the delta.

So for now, our full-year guidance range of $640 million to $650 million still feels about right. And then we'll see how we're pacing at the end of Q3.

So, let's get into some of the financial details. Non-GAAP revenue for the second quarter came in at $149 million, representing a year-over-year growth rate of 5%. Adjusted EBITDA came in at $36 million, which represents a year-over-year growth rate of 23%, and calculates as an adjusted EBITDA margin of 24%. Non-GAAP diluted earnings per share were $0.41, representing year-over-year growth of 24%.

Of course we are pleased with such strong results, but even better is that we believe these improved margins are the result of real and sustainable factors in the business. In general, there are three main drivers of the out- performance. First, active cards are up 7% year-over-year, making this the fifth consecutive quarter of accelerated active card growth. Plus the KPIs for that active card portfolio continue to improve with higher load volume and transactional usage.

Of course it doesn't cost us any more money to sell a card that becomes a reloading active card than it does to sell a card that is used once and then thrown away. So the more cards sold that ultimately become reloading active cards and the more revenue-generating activity that happens through those active cards, the greater the margin of that incremental revenue.

Second our Green Dot branded active card portfolio for the past year has been growing at a very high rate, achieving among the highest growth rates in our Company's history. In fact, for the midway point of the year, our Green Dot brand active cards are up 33% year over year.

Part of this growth in the Green Dot brand portfolio is the large number of new retail stores that we added last year and our recent entry into the check-cashing store vertical. But we were also seeing very strong active card growth from our long-standing Green Dot retailers, as well. Having a higher concentration of Green Dot brand cards as a percentage of our overall total active card portfolio is a benefit to overall Company margins because the Green Dot brand portfolio contributes higher margins than our non-Green Dot branded programs.

Lastly we continue to make significant strides in our efforts towards improving operational efficiency. Long-term investments are starting to really pay off in many areas of the Company's infrastructure. For example, new technology now powers smarter risk decisioning, leading to better customer onboarding rates and lower losses from charge-offs. Smarter supply chain processes are allowing us to reduce waste, saving us millions of dollars by not overstocking low-selling stores and instead diverting that money into insuring better in-stock rates at high-selling stores.

Our new agile organizational structure across all of our technology facilities in the US, along with the addition of our new China technology development center in Shanghai, is facilitating more prolific technology output at a lower-cost. And of course, the investments we've made in our subsidiary bank, Green Dot Bank, and the fact that we now issue all of our own card accounts has significantly lowered our operating cost base, as well.

We're still investing heavily in new technology capabilities, in particular in the areas of risk, mobile banking transaction processing and advanced data analytics systems, that we expect will generate many more millions of dollars in cost savings and new revenue opportunities in the coming years. So not only is Green Dot the largest Company in our industry, but we believe we are also the lowest cost provider in the industry, with one of the most efficient operating ecosystems in all of financial services. This focus on vertical integration and operational efficiency allows us to deliver profitable growth for investors and low-cost high-value products for consumers.

Okay, now I'd like to show some updates on our Walmart business. Let's start with news of three new business initiatives at Walmart. First, we're pleased to announce that Green Dot and Walmart extended our long-standing open-loop gift card contract for another multi-year term. This renewed contract calls for Green Dot to continue to provide and manage the large Visa gift card category at Walmart.

Next, Green Dot and Walmart have entered into a new agreement to provide credit card bill pay services right at the register. We believe many millions of Americans have the need to pay their monthly credit card bill with cash. This new and innovative service gives consumers the ability to make same-day and next-day credit card payments quickly and safely, by paying via cash or PIN debit right at the register.

Next, in the last week of June, Green Dot and Walmart partnered together to lower the upfront purchase price for the MoneyCard Basic, Plus and Preferred Card products. Upfront purchase prices were reduced by $1 to $2, depending on the product.

The upfront purchase fee represents a very small part of the card's total economics to Green Dot and yet can act as a nice way to generate additional interest in purchase intent. For example, just for the sake of illustration, let's say an average card sold generates around $60 in lifetime revenue. So lowering the upfront price by $1 brings lifetime revenue down to $59. At a 20% margin to Green Dot, EBITDA on that card goes from, say, $12 to $11.80. In exchange for that small 20-penny adjustment, even a tiny increase in unit sales becomes highly accretive.

As a real-world example, when Green Dot recently lowered our upfront price from $4.95 down to $2.95 at one of our top three pharmacy chains, unit sales increased by at least 20%, helping to generate some of that strong revenue and increased margin from our Green Dot branded business that you're seeing today. So we see this price reduction as a highly efficient way to increase trial and adoption of these products while increasing overall economic returns.

And last, but certainly not least, we are extremely pleased and proud to announce that Walmart has begun selling our Green Dot brand Everyday prepaid card at all 4,200 Walmart stores nationwide. Green Dot brand Everyday went on sale at Walmart stores late in June, and in just the last four weeks with only a portion of the store fully merchandised, the product so far is selling at rates well above our full chain expectations.

Green Dot brand Everyday is the largest selling prepaid debit card brand in America. And we are very proud to now be able to offer Green Dot brand products right alongside our Walmart MoneyCard branded suite of products. We're eternally grateful to Walmart for their support of our brand and our Company and we are deeply honored to be able to offer Walmart customers such a wide variety of high-quality and high-value prepaid card choices.

Next on the topic of the Walmart, as you'll be able to see in our upcoming 10-Q filing, revenue concentration from our Walmart business is now down to 55%, which is materially lower than history. I'd like to provide some color on that topic.

First when we launched the new suite of Walmart MoneyCard products late last year, the fee schedules were designed with a number of financial incentives to promote higher customer satisfaction, usage and retention, with the thought being that it's more important to increase lifetime revenue and customer satisfaction than it is to drive revenue in any one period. That strategy seems to be having some traction. For example in the first half, adoption of the usage-based fee waiver plan is up dramatically year over year, meaning more customers are qualifying for the fee waiver. And usage of our free ATM network increased significantly, as well.

In return, active MoneyCard customers are rewarding us with large year-over-year increases in purchase volume, reload volume, and direct deposit volume. So a key reason for the lower revenue in this part of our business is that we have cut the cost of ownership for MoneyCard cardholders based on customers qualifying for the fee incentive.

While so far the fee incentives have been a negative from a revenue perspective in the first half, we believe it's been quite positive from a customer experience and usage perspective, and that the overall portfolio's financial metrics can swing higher if in the second half the increase usage on the portfolio compounds over time, which we believe it can. We also believe we have some real opportunities to increase active cards dramatically in the second half on the Walmart portfolio, through deployment of new more robust merchandising efforts, combined with the more attractive upfront purchase pricing that I mentioned earlier.

The reason I mentioned merchandising is because one of the biggest challenges we've historically had at all of our retailers is maintaining an acceptable in-stock rate. These cards sell fast and shelf space is limited. You only have so many on the rack, so keeping them in stock sounds a lot easier than it is in reality.

Merchandising improvements are set to be rolled out at Walmart in the second half. And we think better in-stock performance can have a very positive impact on performance in the second half. The cool thing about having the honor to sell products in Walmart is that something like 140 million Americans, most of who are squarely within our customer segment, will shop at Walmart every week. The canvas upon which we can paint by having our products sold in Walmart is simply unparalleled. Given the sheer size of the shopper base, even slight changes in pricing strategy or merchandising processes can facilitate large swings in performance over time.

So, time will tell how all this balances out, as we work to gain more active customers and as the portfolio's increase in usage develops over time. But what we do know is that these cards are absolutely the best value in prepaid and that Walmart is absolutely achieving their mission to help Americans save money and live better.

Next I'd like to update you on our progress in the financial services center channel, also known as the check cashing channel. We are extremely pleased with how things are going in this new channel for us.

We now have around 1,500 high-quality check cashers selling our products and services with nearly 1,200 new locations added in just this past quarter alone. Even better than the rapid increase in store count is that reload rates and lifetime revenue metrics are materially better than many of our traditional retail channel cards, and average retention per card has more than doubled the length of cards via our traditional retail channel.

The high-level summary here is that this new channel appears to be a home run for us. So why are we doing so well? The answer is we have the most trusted and most preferred brand in the industry and we sell our cards for the lowest prices in the industry. So why would anyone buy RC Cola for $1 a bottle when they could buy a bottle of Coca-Cola for $0.35. It's as simple as that.

My congratulations to our FCS sales and management team. We're also deeply grateful to our top-quality as FSC partners who care deeply for their customers and want them to have the best for less. We are certainly proud to be a partnered with you all and we appreciate the support of the entire FSC industry.

Now a quick update on GoBank. The portfolio of active accounts has become big enough where we are pleased to share some early data for you on America's coolest checking account.

GoBank is still a small contributor to revenue relative to all of Green Dot, and we're still in the early days of customer adoption. But things are progressing quite well, and our belief is that GoBank has the potential to become a meaningful contributor for us in the coming years.

So with that said, here are some early stats that you may find interesting. Around 75% of new account holders that make an initial deposit will make a second deposit. The most popular methods of depositing money are direct deposit, cell phone check deposit, ACH transfer from another bank account and cash deposited at a retailer in that order. Nearly 60% of active account holders say that GoBank is their primary checking account. GoBank active customers deposit an average of $1,000 per month to their account and that amount grows each month.

23% of these customers use GoBank to electronically pay bills. And even more use the P2P payment feature. GoBank customers are heavy users of the GoBank debit card, racking up approximately 19 transactions per month and around $600 of monthly debit card spend. And this metric has grown more than 12% in just the last 60 days. More than half of GoBank customers are under 34 years old and reported being highly satisfied with their account.

Okay, so now let's talk about the art of the possible, in terms of modeling potential revenue and profit from this product. Today our average GoBank account holder active longer than 90 days is delivering around $11 per month in revenue, which has been growing month over month at the cohort's age.

What's more interesting is that once you get past that 90-day mark, retention looks very encouraging. We're seeing only a small amount of attrition in more mature cohorts. And based on that, it may well be that we find retention rates as high as three years or more on these accounts.

So as this plays out, it's possible that a GoBank account could deliver say $300 to $400 in revenue over its lifetime at a 20% or so margin. This is why we think that at scale GoBank could provide a very meaningful expansion of our Company's financial outlook.

The summary here is, one, GoBank is clearly attracting Millennials with more than half of customers under the age of 34. Two, GoBank's metrics clearly show that people are using it as their primary checking account, with retention characteristics akin to a traditional checking account.

Three, even with free retail cash deposits at retailers and the voluntary monthly fee plan, GoBank is generating meaningful revenue that's comparable to our Company's prepaid accounts. And four, with the right distribution strategy, GoBank could be a very big product for Green Dot. So now achieving scale is the focus of our GoBank leadership team. And we think if we achieve scale, we could be onto something really good here.

Finally today, I'd like to address what we believe to be the three key overhangs in our market value, based on conversations with investors and equity analysts who cover the stock. Number one is potential impact from competition. Overhang number two is possible price compression as a result of competitive pricing. And overhang three would be, of course, the pending 2015 Walmart renewal.

So first, let's talk about competition. Competitive concerns are certainly understandable with so many strong competitors in recent years all aiming their guns directly at Green Dot: Chase Liquid, American Express, US Bank, BB&T, Regions Bank, Western Union, MoneyGram, NetSpend, Vanilla Visa, the Susan Orman card, the Magic Johnson card, and the PayPal brand repaid cards just to name a fall small few.

All of the brands I just mentioned, and perhaps over 1,000 other prepaid programs I haven't mentioned, have all worked hard to secure distribution and/or achieve notoriety within their marketing segment. But not one, literally not one, has gained traction against Green Dot.

Chase Liquid is no longer visible at Chase branches and Chase publicly announced their exit from most of their prepaid businesses earlier this year. And we believe all those other big bangs combined don't issue the number of cards in a year that Green Dot issues in any given week. Western Union and MoneyGram have failed, with Western Union dissolving the in-house management of their own card program and giving the remnants to NetSpend to manage, while MoneyGram doesn't even seem to offer a product at all anymore at MoneyGram locations we checked.

NetSpend spells both their NetSpend-branded card and their PayPal-branded card right alongside Green Dot brand cards in most of our same retailers coast to coast. And yet despite a much higher fee schedule, last year both NetSpend and PayPal cards combined generated only perhaps 10% of what Green Dot generated in those same stores. The Suze Orman and Magic Johnson cards, both were recently closed down by their respective operators.

But what about American Express and their Serve Prepaid card? We have always been deeply respectful of the American Express brand within its consumer segment. And we believe Serve is certainly a very good product.

The American Express Serve products, which is essentially free, has now been on sale for quite a long time at nearly all Green Dot retailers, most recently launching in Walmart stores in April of this year. Not only has the American Express Serve Prepaid card been on sale side by side our Green Dot products at nearly all of our retailers coast to coast, but Serve has benefited from the full support of the American Express marketing machine, with millions and millions of dollars spent on television and other media, in-store promotions, cash giveaways and more. They even spent millions of dollars producing a Serve documentary by a famous Hollywood director that was shown at various film festivals and the like.

Despite all of this, I'm pleased to let you know that Serve has seemingly had no material impact on Green Dot's business. In fact, while our Green Dot brand business is soaring with large double-digit growth in just about every metric, third-party independent retail sales data indicates Serve sales are actually slowing off an already low level in one major retailer, and sales are flat at a low level at another major retailer, despite all the millions of marketing and free pricing. In fact, in the most recent independent third-party sales data that we received, Green Dot sales lead over Serve is now widening, where Green Dot products now out sell Serve by as much as 17 to 1 at one of our top five retailers where we both compete.

To be fair, we only have visibility into Serve's performance in the retail channel. We don't have any reliable reporting on how Serve is performing online or through their mobile Walmart partnerships and that type of thing. But I think the evidence is clear that at least in the retail channel, American Express Serve has not achieved any material traction with consumers and may actually be losing ground, while the Green Dot brand has emerged stronger than ever.

To be sure, Green Dot is certainly not invincible and we never take our success for granted. But while we may be small compared to the likes of American Express, we are focused, disciplined and mission driven, and we have treated our customers like Kings and Queens for 14 years. American Express may have deep pockets, but when it comes to choosing the Green Dot brand, our customers would appear to have deep loyalty.

Next I'd like to address investor concerns around the topic of potential price compression due to Green Dot having to respond to lower-priced competitors. This may be the easiest question to answer because all I need to do is point to the history and facts.

Case number one: Western Union comes out with a GPR prepaid card in 2010 distributed at 50,000 Western Union locations and thousands of retailers in the US. The product has practically no fees and is dubbed by the then-Western Union prepaid chief as the Green Dot killer. You know where that program is today.

Case number two: Chase Liquid debuts at all Chase bank branches nationwide with a multi-million dollar mass marketing campaign; prime time television, outdoor media, radio and multimedia marketing on the screens of Chase ATMs nationwide and more. The message of the advertising was clear as they attempted to discredit Green Dot by name. With Chase liquid, says the ads, pay no upfront fee, no reload fee and no monthly fee with direct deposit. It was a great product at a very good price, but you know where that program is today.

Case number three: The American Express Prepaid card debuts at retailers coast to coast and fails. It is then replaced by the new American Express Serve Prepaid card, with a seemingly endless promotional budget and nearly free pricing. Of course you now know how that trend is going. In May by the way, Serve's head of sales and business development resigns from AmEx and joins Green Dot as SVP of sales and business development.

Case number four: in June of this year Green Dot launches Green Dot Everyday at Walmart. The Green Dot product is the highest-priced product on the Walmart prepaid rack, with a monthly fee schedule almost double any other card on the display. Yet within the first four weeks the card has already become one of the highest-selling prepaid cards on the entire rack.

The bottom line on pricing is that, just like you and the brands that you like, prepaid customers want what they want and like what they like. We believe prepaid customers don't just want a low price in absolute terms, they demand the best value absolutely. Like Kellogg's in cereal, Coke in Colas and Tide in detergent, Green Dot's brand power and the values our brand represents, allows us to command a fair price even if that fair price isn't always the lowest price.

Lastly the third overhang we receive many questions on is the 2015 Walmart renewal of the MoneyCard program agreement. We work incredibly hard to please Walmart and earn their business every day. In addition to the three new business initiatives we announced on this call today, we have several agreements with Walmart, including the agreement to issue and manage the Walmart MoneyCard program that is the topic of this particular investor concern. We are respectful of the fact that there are many capable competitors in our industry and that we will need to work hard to secure a new agreement.

Beyond that there's not a lot I can say, except that we will let you know how things develop in the coming months. But I will say this: one of the comments we hear all the time, should we be lucky enough to secure a renewal of this agreement, is that Walmart will quote, crush our margins.

Many of the reports I read on this topic often make assertions along the lines that Walmart is well known for bullying their suppliers. So I do want to comment on that. In Green Dot's seven years of working side by side Walmart, my experience is that it's just not true.

We have been partners with Walmart since 2007 and over those years we have signed many agreements and a number of renewals. Without exception Walmart has always been professional, logical, and fair in their economic proposals. They do however, demand the best products at the best prices for Walmart customers, but there is absolutely nothing wrong with that.

In closing today, I'd like to help our investors better understand Green Dot's broader mission and our place in the financial services universe. Nearly 15 years ago, Green Dot invented the prepaid industry. But over the past few years since our IPO, we have thoughtfully, deliberately and strategically embarked on a path to craft ourselves into something much larger and much more important than just being America's largest and best prepaid Company.

Today, of some 14,000 banks and credit unions in America, only one bank of national size and scale is obsessed with serving America's low- and moderate-income families, and that's Green Dot Bank. Serving the new America, the other 99%. This is Green Dot's place in the financial services universe.

We are a new-age, asset-light, technology-centric, data-driven modern bank holding Company. We are a high-growth Company with an iron clad balance sheet, award-winning financial technology and rich data on as many as 25 million current and past Green Dot customers, that you simply can't easily find at any traditional credit bureau.

We're a well-known and deeply trusted national brand name, with massive distribution at 92,000 technology-enabled retailer locations from Seattle, Washington to Key West, Florida and practically every city block in between. And we're a national financial services platform where prepaid is only the beginning.

It is my belief that Green Dot's journey isn't one that will ultimately be judged by whether we over-achieved a penny in this quarter or under-achieved by a penny in that quarter. Ours is a journey that will ultimately be judged by how we completely change the way low- and moderate-income Americans consume financial services.

We love this market segment as a business because it's large, growing, and extremely under-served by traditional banks. And we love our customers as people, because they form the heart and lungs of America's working class and they deserve to have a bank to call their own. Green Dot's mission is to reinvent personal banking for the masses and we are just getting started.

Before I turn it over to Grace, I want to take a moment to thank the entire Green Dot team for their hard work and focus in delivering another solid result for our partners, our investors, and most of all our customers. We have the best team in prepaid and banking, and they are responsible for every ounce of our success.

So thanks to all of you and now I'll hand the microphone over to Grace. Grace?

Grace Wang - *Green Dot Corporation - CFO*

Thank you, Steve.

I'll cover two primary topics in my prepared remarks today, the strong cash dynamics of our business and our updated outlook for 2014. First we continue to generate strong cash flows in Q2 and maintain a very strong balance sheet.

We had cash flow from operations of $25 million in the quarter, which helped us increase our total cash and investment securities to a total of $850 million, an amount that's nearly 50% higher than this time last year. Our unencumbered cash position at the end of the quarter is approximately $204 million. We define unencumbered cash as the cash and investment securities held at the holding Company and not required to maintain regulatory capital ratios or liquidity requirements.

Next, as Steve mentioned, today we are raising our full-year adjusted EBITDA guidance. We now expect our adjusted EBITDA in the range of $128 million to $132 million for the full year. At the midpoint, our new adjusted EBITDA guidance is 12% higher than our initial guidance, and on a full-year basis would represent annual adjusted EBITDA growth of 26% year over year.

This revised guidance implies lower expected second-half adjusted EBITDA margins than our first-half results. The reasons for this expected difference are the first-half adjusted EBITDA margins were favorably impacted by a one-time $6 million benefit in Q1, which will not be repeated in the second half. And that we have a number of new growth-oriented activities that we expect will require incremental resources in the second half. Nevertheless, our revised guidance implies significant adjusted EBITDA growth in the second half on a year-on-year basis, with the midpoint of our revised guidance reflecting growth of 43% year over year and margin expansion of more than 300 basis points versus adjusted EBITDA generation during the second half of 2013.

Now let's talk about non-GAAP total operating revenues. As Steve said in his remarks, we ended the first half a few points softer than expected. Having said that, we are holding non-GAAP revenue guidance steady at the $640 million to $650 million range, because we have a number of revenue catalysts that we believe can be an incremental positive to our second-half plan and can help us hit that range for the full year.

Some of these catalysts include a better than expected number of active cards on the non-Walmart side of the house and higher revenue generating usage on all our active cards that we think can help us incrementally grow revenue in the second half. We're also doing a better job of ensuring in-stocks at our best-selling stores and all our chains, which will help increase card sales and active cards over the coming months. And we have a number of new growth-oriented initiatives that we believe can launch in time to benefit the second half.

Lastly, growth in the FSC channel continues to be better than expected, leading to incremental revenue growth from that channel, as well. So bottom line is, guidance is up on adjusted EBITDA for the year and non-GAAP revenue guidance is holding steady.

With that, we'll open the phones for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ramsey El-Assal, Jefferies.

Ryan Cary - *Jefferies & Company - Analyst*

Hey, guys. This is Ryan Cary for Ramsey. Just a quick question.

Is there any pull forward in the metric from 1Q? I know bad weather was a headwind. I was hoping you could speak either quantitatively or qualitatively to any impact in the second quarter.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Impact. I'm not sure I understand what you mean. You mean when you say pull forward, you mean any bad weather impacts in the second quarter?

Ryan Cary - *Jefferies & Company - Analyst*

It seemed like in the second quarter we had much better weather across the country. So I was just thinking that maybe because of all those days that the weather was, we had bad weather in the first quarter, that maybe --

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Steve Streit - *Green Dot Corporation - Chairman & CEO*

Oh, I see what you mean.

Ryan Cary - *Jefferies & Company - Analyst*

-- where it gets better in the second. It's a little bit of acceleration there.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

It's hard to know. We think Q2 was pretty much, in terms of weather and customer behavior, fairly typical quarter. So it's hard to know if there was pent-up demand and if so, how that would impact sales for active cards.

Kind of a difficult metric to get at. But I don't think there was anything unusual about Q2, I guess.

Ryan Cary - *Jefferies & Company - Analyst*

Okay. And then is there any update in terms of getting some reduced processing costs by either negotiating a different contract with [TS] or some other provider? Or taking the function in-house? Is there any movement on that decision-making process?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yes, quite a bit in fact. You may have heard in the discussion we had about operating expenses, that one of the things where we continue to invest is processing capabilities.

So we expect that there'll be significant savings, if you will, on processing coming up starting next year. And without going into further details, I guess it's fair to say that we feel really good about our prospects in reducing the processing costs and having better technology, too, there as well.

Ryan Cary - *Jefferies & Company - Analyst*

Great. Thanks so much for the answers.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Thank you.

Operator

Sanjay Sakhani, KBW.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Hi, Sanjay.

Steven Kwok - *KBW - Analyst*

Hi. This is Steven Kwok filling in for Sunday.

Just had two quick questions. The first one was around the revenue. Can you talk a little bit about the expected trajectory around revenues?

Should we expect like sequential improvements heading into the end of the year? Or is it going to be a step function up and then it'll remain that way? Wanted to see if you could provide any clarity around that.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yes, you should see steady improvement as the quarters build. And we're seeing that if you look at Q4 of last year, Q1 and Q2. And it's our goal and plan to have that in Q3 and Q4 as well.

I forget where the conference was, Chris. I remember being in New York and I remember being at a hotel. (laughter)

Chris Mammone - *Green Dot Corporation - VP of IR*

I think it Steven's; it was a KBW function.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

KBW, there you go, my apologies. And we showed a deck that had the ramp of what we expect quarter over quarter as more active cards build. And that is what you're seeing.

The difference is we're slightly softer than where we thought we'd be. But the trajectory is the same and the storyline is the same.

So as we have all these active cards continue to build and throw off revenue, and as a portfolios and cohorts mature of cards we've been issuing since January, you should continue to see three and four increase to make the year. That's right.

Steven Kwok - *KBW - Analyst*

Got it. And then on expenses, can you talk about -- relative to expectations it seems like expenses came in below our expectations.

I was wondering, is there anything that driving that? Given that you are expecting expenses to build up again in the second half of the year? Anything you could point out for this quarter?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yes, let's talk about expenses, because we have such a fabulous result, none of which is accidental. We've really worked quite hard at it. And when we built our full-year guidance and announced it, you know what you have in the plan. You know what you think you can achieve. But being that we're somewhat chicken, we never squeeze the lemon all the way to the maximum, if you will, when we look at savings.

But as it turns out, certain line items, especially in-processing with Green Dot Bank issuing our card accounts, the fabulous job that our technology leadership has done, Kuan and Steve and Dave and all the folks who run Green Dot's technology stacks around the world and around the country, have really over-delivered where all these fabulous plans are coming together. So you've seen costs come down materially.

Risk management. What an amazing job that Eric Inkrott has done in leading our risk team. Or Leigh Boghoussian in our supply chain team. We're now using better technology, better processes, more thoughtful plans as we spend money more wisely.

But to spend the money more wisely, you have to have the technology behind it to better predict certain curves and trends and we're doing just a very good job at it. So that's all come together really quite well and that's why you're seeing the saves increase.

We also did a good job with comp and benefits and SG&A and those other things as well. But I think those areas of risk and supply chain and technology have been key contributors that expansion.

Steven Kwok - *KBW - Analyst*

Got it. And as a follow-up, in terms of when we look out into the third and fourth quarter, what are the areas that are sustainable heading. Is the processing expense level sustainable?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yes. All the operational stuff is sustainable, both at scale and at a unit basis. So we feel good about that. We left ourselves a little bit of room, if you notice the difference between first-half actual returns and second-half margin or the implied margins based on our revised guidance.

There's about a $12 million gap. And the reason is we wanted to save that $12 million in second half, because we know we're doing additional merchandising. We mentioned some of the new merchandising processes to get more cards, and especially the best-selling cards at the shelf at all of our retailers nationwide, and maintaining a certain goal for in-stock rates. So that costs money.

We know we have more production runs than we had scheduled because, especially on the Green Dot brand, we're just selling so many cards. So what happens is, for those of you who's familiar with supply chain, we have this huge process around demand planning.

If you exceed demand you have to go back to the drawing board and then do make-up stock runs and that's what we're doing there. That's a good thing. In other words, I'll take that problem every day of the week. But nevertheless it does have an impact to your expenses in a given period.

And then we have some growth initiatives that we're not able to announce today. But ones that require a little bit of investment. So we sort of gave ourselves a $12 million margin, I guess, of spending opportunity in second half that's different from the first half. And that's why you're seeing that delta.

Steven Kwok - *KBW - Analyst*

Got it, great. Thanks for taking my questions.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

You bet.

By the way, I do want to point out, because this is something fascinating that Chris pointed out when we were doing the review of all the metrics. Even though we're forecasting second-half margins to be a little bit more compressed than what we achieved in first half, it's still, even at the implied -- what is the implied range? Like 18% or 19% at the mid range? We actually did 23% in real life in the first half.

But when you look at that, even with that lower implied guidance range, 43% higher year over year and 300 basis points better than last year over the same period. So even though we're being conservative and giving ourselves that $12 million of room to make sure we can afford all the new initiatives and everything at second half, it still is massively better over the same period for last year. I think, to your question, that points out some of the confidence we have in the other parts of our business continuing to perform quite well.

Steven Kwok - *KBW - Analyst*

Great. Thanks for taking my questions.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Sure.

Operator

Glenn Fodor, Autonomous Research.

Glenn Fodor - *Autonomous Research - Analyst*

Thanks for taking my call. I was hoping you would mention the Justin Bieber card and the Kardashian card in your list of casualties. (laughter)

I saw some talk online about GoBank now being available in perhaps select Walmart locations. Could you talk about that a little bit? I think it might tie in well to your comment on scale and ramping up GoBank. Thank you.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well that was a surprise. It's very rare that I'm surprised in earnings calls. But you have a very astute eyeball, Mr. Fodor.

So, we've not made any announcement about that, although I think you just did a little bit. But the answer is that we are in pilot in 20 Walmart stores only in the state of Texas.

And literally those just rolled out Monday. What's today? Thursday. So they rolled out four days ago.

And so the only thing really, Glenn, all kidding aside, I can confirm is that we are in a small number of Walmart stores in Texas on a pilot basis with a productized version of GoBank. And we'll see how that goes, no pun intended.

Glenn Fodor - *Autonomous Research - Analyst*

Okay. I just found it on that small little ecosystem called twitter. So it's out there somewhere.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

You can imagine, as a CEO, I have long since canceled my twitter account. But we've been outed more than a few times on twitter so maybe I should renew my membership.

Glenn Fodor - *Autonomous Research - Analyst*

Secondly, if you don't mind, the back end of Walmart you were talking about more usage and you'll take a little pain now for more usage and more revenues later. Is it safe to say that as we think about the revenue guidance for second half, that includes very, I don't want to put words in your mouth, but does it include very little lift from incremental benefits on the back half? Or have you assumed some acceleration in Walmart-related spending growth?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

I'm trying to think how I want to answer it. The answer is a lot goes into the guidance and a lot goes into the full-year projection. And you always have moving parts that goes into that process.

You're never exact. Historically we'll guess higher and some are lower than others and it evens out and that's the way it goes. So we probably are assuming that the Walmart portfolios are steady run rate through the second half. But we recognized internally that there's an opportunity for that upside if the extra usage behavior compounds over time.

But their new cohorts, right? These are nine new SKUs, three new Walmart MoneyCard products specifically, that have only been on the shelf now, call it eight months as of the second half of the year -- seven months as of the second half of the year.

So the cohorts are young; the behavior is young. So we believe that the usage, which was up materially as we pointed out in the prepared remarks, is up and that's a great sign. Consumers are paying less, using the card more exactly as designed. So that's a good thing.

What that will contribute in terms of actual dollars and cents is a little bit more mysterious. We don't really put a lot of that in to the second half.

But we do think as it relates to Walmart in particular, that the smarter merchandising that we're beginning to do there, and they've been wonderful partners and driving us to work harder and to work smarter at that. And some of the new upfront pricing initiatives that we made, that I discussed in the prepared remarks, we think all that can come together to increase a more robust result in the second half.

Glenn Fodor - *Autonomous Research - Analyst*

Thanks, Steve. Appreciate it.

Operator

[Dane Huckles], Piper Jaffray.

Dane Huckles - *Piper Jaffray - Analyst*

Hi, guys. Thanks for taking my questions. I'm on for Mike today. Just a couple questions.

I was curious, I noticed in the metrics that the active cards grew about 7% year over year, but the cash transfers grew a little bit slower rate, that 3%. I'm curious, will we see a pick-up in those cash transfers as all these new cards that you're adding end of season?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yes. We should.

What happens is when you are selling so many new card accounts and acquiring and issuing so many card accounts in a small period of time, the half-life is only 90 days old. So if you look at the first half of the year as a cohort, let's say, the average half-life of those cards is three months.

That means that they've really only had a chance to contribute a small part of their activity in revenue. In some ways they're dilutive to the average metrics, okay?

So if you have a swimming pool with X parts of chlorine per gallon, and you dump in a ton of fresh water overnight, your chlorine particles per gallon -- this is a weird analogy -- would go down just by a mathematical average. But the same is really true with a pool of active cards.

When you have a group of active cards, some are older than six months, some are brand-new, and you start acquiring more and more new cards, your average metrics will be watered down a little bit -- I keep expanding on that analogy -- just because you have so many new customers who haven't yet had enough life in the card account existence to contribute at the rate of an older cardholder.

We think a lot of that is more an artifact of selling and issuing a lot of new cards in a small period of time. So we would expect that cash transfer revenue to be consistent with the growth over time.

Dane Huckles - *Piper Jaffray - Analyst*

Okay, so you think it ramps probably more steeply into 2015? Or is it late part of 2014?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well, the active portfolio has never stopped ramping in theory. If you go back even 12 years, I suppose, and look at our business.

But yes. It should ramp. I think historically, I'll go out on a limb, because I don't have our of FP&A guys in the room, but historically reloads lag new cards issued by approximately 3 months. That's typically the rule of thumb.

Dane Huckles - *Piper Jaffray - Analyst*

Okay. And then just one other quick one. It looks like the check-cashing effort's gone well with 1,200 stores added during the quarter.

How many cities is that in? And how much bigger do think that opportunity can get as far as location is concerned?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

I'm not sure how many cities, to be honest with you. I would guess it's pretty well dispersed. I'm going to say, I'll take a guess and say 20 states, but I couldn't tell you how many cities. But it's fairly well dispersed, number one.

And number two, we think it can get a whole lot bigger. We're really very early in that game and the sales funnel has been robust where we have a team of about 15 people within Green Dot on the FSC staff, we call it, that does nothing but onboard new clients.

So it's a very rapid process and we've been very well received. So we think there's a lot of upside there still to go.

Dane Huckles - *Piper Jaffray - Analyst*

Great. Thank you.

Operator

Stephanie Davis, JPMorgan.

Reggie Smith - *JPMorgan - Analyst*

Hey, guys. This is actually Reggie filling in for Stephanie. (laughter)

Steve Streit - *Green Dot Corporation - Chairman & CEO*

This is like the -- I feel like, remember he old days on the Johnny Carson show when you always had a fill-in host? But Reggie, it's always good to hear from you.

Reggie Smith - *JPMorgan - Analyst*

Thanks. I guess a few quick questions. I

think my rough math, I was looking at the Walmart concentration, I believe revenues are probably down in the low double-digit range.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Right.

Reggie Smith - *JPMorgan - Analyst*

And I was just curious. I know you called out some pricing differences or revenue per card. Is like a fair approximation of what the active card base is has been trending like in the Walmart segment?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yes, it's a fair guess. We don't break those out in terms of divisional reporting or anything of that nature, but the implied math, and you're very good at math, is what it is. So I think that's a fair mathematical calculation.

As I mentioned on the prepared remarks, and I'm happy to talk a little bit more about it, there's really two reasons. One is we've traded longer lifetime revenue per active cardholder for some smaller revenue in the period. And when you have millions of active cards, that can be a material amount of money in the course of a quarter.

So that's one reason, and that's not a bad reason. That's something that we actually feel good about, if in fact, the portfolios age and compound like we think they might. But we don't want to predict the future, but that's sort of the theory. We'll know more next quarter. But that's one.

The other one is that we are a little bit softer in active cards that we should be just because our merchandising efforts need to be better. Retailing is a very difficult task. I don't care if it's Walmart or any retailer you want to pick. It's difficult.

You have a lot of facilities, a lot of inventory, a lot of hands touching supply chain. And we need to get better at it and do better at it.

As we do merchandising runs and as we learn new tricks to how to keep the right selling SKUs in stock better, you see sales spike. And that has a direct correlation back to the card.

I think that we've done a lot of things right with the new portfolio. And we have some areas of improvement, to be fair, in the new portfolio. But life is dynamic and that's why I said in the prepared remarks that you have so many people and so many locations.

And one of the things we love about Walmart is that that means you always have a fluid chance to improve on what you're doing. So we have a lot of upside and a lot of opportunity. We've done well, but I think we can do better still to improve that active card count as well.

Reggie Smith - *JPMorgan - Analyst*

Got it. And I guess just to make sure I'm hearing this correctly, is it safe to assume, when you talk about a higher lifetime value for the account, are people opting into some of your more premium cards that have higher activation fees and lower ongoing fees? Is that the conclusion that should be drawn?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

I can't really comment on that because we don't give SKU level data. That's really Walmart's proprietary information. So I feel wrong in sharing that.

But I think if you look at the portfolio in aggregate, without regard to which particular SKU a customers buying, all the SKUs were designed to better appeal to the customer who's self-selecting into the product, if you well. So our ultimate goal would be to see aggregate retention and aggregate lifetime revenue increase.

The only way we'll know if that happens is we have to just watch the clock tick and see how that all turns out. But that's the theory, exactly right.

Reggie Smith - *JPMorgan - Analyst*

Got it and if I could sneak one more in. On the cash transfer side, just curious, is the 3% growth rate this quarter, is that similar for both Green Dot and third party? Or is there a divergence in growth patterns between the two?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well, so they're different. That's an average. Hang on, I'm looking for a piece of paper here. Unless, Chris, you have it.

What was the, for example on the Green Dot brand, we had cash transfers that were up what?

Chris Mammone - *Green Dot Corporation - VP of IR*

33% on the Green Dot brand, yes.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

It was in the release, I think. The press release. So it gives you a sense that we are a Company of a lot of portfolios.

We're a well-diversified Company. We're in 92,000 retailers; we're in check-cashing locations; we're online; we're in the app stores. And so the averages sometimes can help or hurt investors' and analysts' understanding of what's happening in any particular part of the Company.

But if you look at the Green Dot brand year-over-year growth, you'll see the cash transfers mimics closely the growth in active cards. But when you average it altogether, it has a lower number. We think as active cards build, if we do our jobs properly on the Walmart side of the house, and if Green Dot is able to continue to grow, you'll see all those metrics improve over time.

Reggie Smith - *JPMorgan - Analyst*

Got it, okay. I guess we can follow-up afterwards. Thanks for taking the questions.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

You bet, Reggie, thank you.

Operator

Tulu Yunus, Nomura Securities.

Tulu Yunus - *Nomura Securities Intl - Analyst*

Yes, thanks, guys, for taking my question and congrats on the great margin result and getting it, too, in front of the full year margin, which is something that you had aspired to. With that, I wanted to dig into the check-cashing channel once more.

Is the ramp in this channel going to look like the retail ramp that you laid out at the conference earlier this year? Is it different?

Can you give us an idea of how to think about that? Because, if I'm not mistaken, the economics from that particular slide I'm referring to, referred just to the 27,000 retailers that you added last year, not the check-cashers.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Right. Well the answer is the formulaic mathematical theory would be the same. In other words you sell a new card, it contributes its lifetime revenue over X number of months.

So as the portfolio grows and the cohorts age, you have a, ever-increasingly highly producing portfolio. So that is the same without regard to what channel you're in.

The absolute dollars in check-cashing will be lower because there's just so many fewer outlets. If you think about what we did in Q4 of last year. Oh my gosh, it was 22,000 Dollar Stores or something, if my memory is correct. But then we also added Home Depot and a number of other locations as well.

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You had a whole lot more number of buildings and more customers and more units, because that size of the add was so much bigger. The same concept is true in check cashing, but as well behaved as those cardholders are, they really do contribute much more per unit. The total number of units available in the check-cashing channel will never match the total number of units available in the retail channel. But it can be material.

And it's a nice add and it becomes a nice contributor to the Company overall. So the answer is yes, the tail is the same that the scale is lower, just based on the number of accounts issued. Does that answer the question?

Tulu Yunus - *Nomura Securities Intl - Analyst*

Yes, it gives me good color on it. Related to that channel again, as far as -- because it is a brand-new one, I just want to spend a little bit of time on it. How are the incentive structures different with your partners there?

Because I understand the usage behavior of these cards are quite different. A lot more direct deposit behavior. In terms of how do you incentivize them, via commissions, et cetera, on these cards versus your retail cards?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well, I don't know that I can get into specifics, because as you can imagine, it's competitive, so I wouldn't want to get too specific. But in general it's not too different than what we do in the retail channel. It may be structured slightly differently.

Retailers have other needs and expenses and types of things that they look for in their overall package, if you will. Our partners in the FSC channel have different needs and different goals.

But if you look at the margins of those cards, they certainly have the opportunity to be the same, or maybe better if those usage characteristics stay true, than our retail cards. For the purposes of the overall model, I wouldn't bake in anything more in terms of margin, good or bad.

Tulu Yunus - *Nomura Securities Intl - Analyst*

Great. Thank you and great job again.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Thank you very much.

Operator

David Scharf, JMP Securities.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Hi, David.

David Scharf - *JMP Securities - Analyst*

Hi, good afternoon.

Steve, I guess in the ongoing quest to try to get a handle on what we ought to be thinking about as quote-unquote, normalized margins, I want to dig in to that $12 million gap between first and second half. In particular, understanding how much of it is truly variable, just the cost of growing your business. And how much of it is more one-time in nature or associated with specific new initiatives.

Because it sounds like things such as additional merchandising, more production runs, that sounds more like the cost of doing business, if you will. Can you give us a little handle on how much of that $12 million you would characterize as more one time or very program specific in nature?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Sure. Happy to help best I can.

If I had to give you a good high-level, I would say maybe $4 million to $5 million of it is more timing-based. In other words, if the invoice had arrived differently or if the merchandising run had been hit a month earlier, it could have been in a different quarter. Let's say it could have been this quarter.

So some of it is just as those invoices come in, as you cost printing and manufacturing to happen, and as you ship it. On the Green Dot side, we have a new initiative on having a better in-stocks at all those locations, which is really hard. I can't overstate that, because my supply chain team would be angry if I did. It's hard.

You're looking at -- if you say you have 4,200 Walmarts and 92,000 locations, so think about that. 88,000 free-standing buildings with parking lots and locations and everything else, that you have to make sure your products are on the shelf. And that's hard.

So we've done a way better job of super servicing our high-selling locations, if you will, under-servicing our low-selling locations, and trying to find that right balance. That means we're making a lot more packages than we were. And so we do have some of that that's about timing and catch-up that could hit somewhere.

So you're right, it's a normal course of doing business. But the timing is that it's second half this particular time. In another year it could have been in first half. So you're right, that's sort of the normalized cost of running your business.

I think the remaining, call it $7 million, is about specific merchandising efforts and specific growth-oriented activities that we believe will be incremental and one-time in nature, as we launch a new initiative here or there. So we were saving that for dry powder.

Now it could be that we don't use it, or something else, and we end the year better, we don't know. But generally we've been pretty good at estimating those kinds of costs and we're getting better at it all the time.

So I wouldn't guess much beyond our range. I think we've guided appropriately. And I do think we'll end up spending that money for this initiative or that initiative.

David Scharf - *JMP Securities - Analyst*

Got it. Fair enough.

And maybe as a follow-up, switching back to Walmart. A couple things. One, can you talk a little bit about what their rationale was for introducing one of your branded cards? And particularly one that's at a higher price point?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Right. I think that I can, and in fact Walmart has talked about this publicly, as well. And that is, they really want to have the best products and the best variety of products for the customer.

If you like to use their cereal analogy in their cereal aisle, if you like Post raisin bran better than Kellogg's raisin bran, they should have both there. Because overall your overall raisin bran sales should rise. I know that may be a silly analogy, but it's actually the right analogy to have.

I think that Walmart realized that the Green Dot brand was a big seller at our other retailers. And the feeling is, look, we have a fabulous house-branded portfolio in the Walmart MoneyCard. And people who want it are buying it. But let's also make sure that if they want to buy a Green Dot card, given that they see it on TV and they see it marketed. We should have that brand as well.

And as you know, they also have the Serve brand from American Express. And AmEx has invested in that. And they may well put on other card brands as well, to build out that category. To me that's perfectly fine and legitimate.

So that's really why. I think you're right that in the old days there was a view maybe that they only want to sell the house brand or this or that. As Walmart themselves has announced many times in their earnings calls and other public forums, they really want the best variety for their customer base and the best assortment. I think adding the Green Dot brand is part of that strategy.

David Scharf - *JMP Securities - Analyst*

is the initial placement on the prepaid rack displacing one of the MoneyCard products? Or is it additional? Are they looking at growing the entire category?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

No, it replaced -- I'm not sure what it replaced. The folks in the room are saying it replaced our AARP SKU. So if that's the case, so be it. I don't know, to be honest with you.

But it did not replace any of the what Walmart-branded SKUs. It would have replaced another Green Dot bank-issued SKU.

David Scharf - *JMP Securities - Analyst*

Got it.

And this is maybe more a nuanced reporting issue. As we think about Walmart revenue per se in future reporting, would sales of Green Dot-branded products inside Walmarts be reported as Walmart revenue, I assume it would be.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

I think it is, yes. I think we do -- well the short answer is yes.

I think anything we sell inside of a Walmart, without regard to the brand, comes from Walmart. And therefore, under our reporting rigor, would be reported as Walmart revenue.

David Scharf - *JMP Securities - Analyst*

Got it.

And lastly, Steve, cutting to the chase at the end of the year, another five, six months of seasoning of the newer SKUs at Walmart, are you anticipating exiting the year with year-over-year revenue growth for Walmart?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Well, I don't know that I can answer it. Not because I don't know or I don't believe in it. It's just a model question that I don't have in front of me and I'd hate to say something on a public forum that, after I got off the air, someone tells me is inaccurate.

I think we clearly have a view that we'll exit the year at higher revenue year over year for the Company. And we're a Company with a lot of different retailers and a lot of different products.

So I feel confident about that, and that's why we're guiding the way we're guiding. Whether or not that revenue growth comes from Walmart versus Rite Aid versus Walgreens versus Dollar General, I'm probably less inclined to comment on.

David Scharf - *JMP Securities - Analyst*

Got it. Great. Thank you.

Operator

Smitti Srethapoamote, Morgan Stanley

Rasta Gobel - *Morgan Stanley - Analyst*

Thanks for taking the question. This is [Rasta Gobel] for Smitti.

Just a quickly a modeling question first. Can you help us think about what line items the expenses related to the new growth initiatives will hit? Will it mostly be sales and marketing?

Steve Streit - *Green Dot Corporation - Chairman & CEO*

It would be. Is that where merchandising -- yes. The answer is the accounting team says you are correct.

Rasta Gobel - *Morgan Stanley - Analyst*

All right. Great.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

You may be filling in for Smitti but you are a fabulous fill-in.

Rasta Gobel - *Morgan Stanley - Analyst*

Great. That's awesome.

And then can you -- nobody else asked you about it, so maybe I'll do that. Can you talk about the reload at the register program that you're rolling out at your retailers? Help us with how far you're rolled out already. And help us also think about any revenue impact or cost savings that you might be realizing from that.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Yes, happy to talk about it. The question was about reload at the register, which is a new SWIT technology, Swipe Interface Technology, SWIT, that we've installed in most of all of our retailers nationwide, and will have installed at all retailers by the end of the year.

That will facilitate our ability to sunset the MoneyPak product, which maybe many of you have read about and have heard about. And MoneyPak will be gone by early first quarter next year and fully replaced by the ability to reload your cards by swiping it at the cast register without having to buy a paper chit or scratch off for a PIN number, or do anything else.

The benefit of getting rid of money pack is two-fold. Number one, reloading at the register by swiping your card is a more intuitive customer behavior. Easier to teach for the new customer; easier to train for the cashier. And it really completely eliminates the opportunity for this third-party victim- assisted fraud, which I'm sure you've read about in the news quite a bit.

It has been a real challenge for us with that MoneyPak product. Which is a shame because it's a teeny tiny, if you look at the nefarious, what I called nefarious use of the MoneyPak product, it's a tiny piece of that product. Maybe less than 1% or 0.50% of all transactions.

But in terms of -- its a big product, we sell a lot of them. So in terms of the numbers of human beings that are impacted, it's just too much to deal with. So the answer is get rid of the product, get rid of that fraud, and push all reload to strictly swipe.

Today we're predominately swipe anyhow, that's already the majority of how all of our reloads get done. And then we'll come up with some other technology to facilitate, for example PayPal cash reloads and other things that we do with that MoneyPak today that are not related to reloading of cards.

SWIT rolled out first at Walmart about a year ago. And the MoneyPak's already been gone from Walmart, Dollar General and some other retailers, Dollar Tree, for some time. And then you'll see that product continue to go away, giving way to the swipe technology exclusively.

There are, to your question, good advantages to that. You're not printing a zillion MoneyPak packages. You get rid of all that third-party fraud opportunity, which is really -- we don't think clearly has helped our brand name. Because every time you turn on the news, you hear about something like that.

We think it's going to be a good thing for the Company. It'll save expenses; it will cut down a lot of refunds and other things we've done to try to make customers whole. It'll protect our brand and our brand image, and will also facilitate a way easier and more logical method of reloading for our pre-paid cardholder.

So we think at the end of the day it's a win. So that's the story of reload at the register and MoneyPak. I hope I've answered that. Did that all make sense the way I described it?

Rasta Gobel - *Morgan Stanley - Analyst*

It did, yes. Thanks very much.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

Okay, you bet.

Operator

Thank you. This does conclude our question-and-answer session. So at this time I would like to turn the call back over to management for any closing comments.

Steve Streit - *Green Dot Corporation - Chairman & CEO*

No, that was a fast hour. Thank you all for listening. We appreciate your help. And I'm sure we will see you at conferences coming up as Chris advertises. We appreciate you listening in today.

Operator

Thank you the conference is now concluded. Thanks for attending today's presentation. You may now disconnect. Have a nice day.