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GDOT - Q2 2015 Green Dot Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2015 / 9:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day and welcome to the Green Dot Corporation second-quarter 2015 earnings conference call

(Operator Instructions)

Please note that the contents of this call are being recorded. I would now like to turn the conference over to Mr. Christopher Mammone, Vice President of Investor Relations for Green Dot. Please go ahead sir.

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

Thank you and good afternoon everyone. On today's call we will discuss 2015 second-quarter performance and updated thoughts regarding our 2015 outlook. Following these remarks we will open the call for questions. For those of you that have not yet accessed the earnings press release and the slide presentation that accompanies this call and webcast, they can be found at www.ir.greendot.com. Additional operational data have been provided in a 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 Securities and Exchange Commission, including the most recent form 10-Q we filed on May 11, 2015, 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. Quantitative reconciliations of our non-GAAP financial information to their most correctly comparable GAAP financial information, appears in today's press release and in the appendix of the presentation that accompanies this call. The content of this call is property of Green Dot Corporation and subject to copyright protection. Now, I'd like to turn the call over to Steve.

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

Thanks, Chris. Green Dot posted a solid quarter with revenue growing 15% year over year to $171 million, with that growth being driven primarily by acquisitions. Adjusted EBITDA was $34.2 million, representing a margin of 20%. Non-GAAP EPS was $0.28 per share. These results exceeded our stated expectations for the quarter and Mark Shifke will discuss the Q2 financial details during his portion of today's call.

As expected, the discontinuation of MoneyPak contributed to year-over-year revenue declines in our legacy prepaid businesses. We do see some signs that the MoneyPak associated declines described on prior calls seems to be leveling off, and so we expect to see the portfolio begin to stabilize going forward. But there's still some uncertainty that how all this will ultimately impact the top and bottom line over time. Having said that, I am proud of the way we have navigated through the first half of the year amidst all of these headwinds, and Mark will have more details about the relevant numbers in his section.

I'd like to share with you some interesting effects, good and bad, of MoneyPak's discontinuation thus far. The bad is obviously the loss of revenue and to a lesser extent, the loss of the associated adjusted EBITDA, as we have lost many good customers who relied on MoneyPak to facilitate their legitimate use cases. But there are really some good things going on as well that I want to share with you. First and most importantly, we believe we have succeeded in routing out much of the potential for our products to be used for nefarious purposes.

Second, customers who now buy and use our products appear to be of higher quality, based on GDV, spend, and the various buckets of revenue generated per active customer through the first half of the year. Today's Green Dot customer appears to be a more committed customer who uses the product as is intended to be used. So, we are seeing higher revenue and higher margins on a per card basis, which has been a nice offset to the year over year legacy portfolio headwinds. For example on the legacy portfolio, total actives were down 9% year over year in the period, but excluding cash transfer revenue, revenue per active card was up 14%.

Looking past the challenges in our legacy business, the prepaid card related acquisitions we made late last year and early this year have helped us more than offset the contraction of our legacy business lines, resulting in a very healthy year over year prepaid business result overall. For example, inclusive of the acquisitions, GDV in the quarter was up 11%, interchange revenue was up 12%, and revenue from fees, ATMs and the like was up 37%, with 64% of all prepaid account GDV now being delivered through direct deposit.

In addition to acquisitions, another reason for a positive year-over-year revenue result is a success we continue to enjoy in the FSC or check-cashing channel. Our FSC team, led by Diane Piccolo, signed or launched another 416 check-cashing store locations in Q2 alone, bring our total FSC channel distribution footprint to approximately 3,800 locations and growing, from zero just two years ago. Looking at our processing business line, our tax refund processing business TPG, generated $12.7 million in revenue for the quarter.

Now would like to provide an update on GoBank, our mobile checking account product. Although GoBank's revenue is still small relative to all of Green Dot, we are pleased to report that all key account metrics are up triple digits year over year in the quarter, and 60% of all GoBank customers more than 60 days old are now enrolled in direct deposit. Perhaps most importantly, is that revenue per GoBank account is up 35% on a year over year basis, indicating that once a customer opens a GoBank account, they like it is more overtime and deposit more money into the account over time, which generates more revenue primarily through interchange and the monthly membership fee. We have great hopes for GoBank and we're currently working on deploying some important GoBank distribution partnerships that we should be able to share details about later in the year.

So the summary for the quarter is that we are encouraged to finish ahead of plan, but we're not please with the legacy portfolio contraction. We know we have work to do to turn that around once all the MoneyPak dust settles, and we are implementing specific plans to do just that.

With a total active customer base approaching 5 million prepaid customers at the end of the quarter, over $5 billion in deposits, nearly 10 million reload sales on behalf of more than 100 programs processed through our network in the quarter, more than 10 million tax refund transactions processed in the first half, once of the fastest-growing and most honored technology-forward checking accounts in banking, and nearly 100,000 retail locations, the internet and the leading app stores distributing our products and services, Green dot has become a large technology-centric and increasingly diversified branchless bank.

With a loyal, sticky and increasingly high-quality customer base. So we feel good about where we are as a Company and we feel optimistic about the long-term prospects for our business. With that I'll turn the call over to Mark Shifke. Mark?

Mark Shifke - *Green Dot Corporation - Acting CFO*

Thanks, Steve. An overview of the growth rates and our main revenue sources, as well as our key operating metrics in the quarter are set forth on pages 4 to 6 in the investor deck accompanying this earnings release. To start, we're very pleased with the performance to the businesses we acquired over the past year. Those acquisitions helped us to grow past a $16 million decline in cash transfer revenue, and declines in our legacy prepaid business attributable to the discontinuation of MoneyPak in Q2. And yet still grow our consolidated non-GAAP total operating revenue by 15%.

While our revenue was up on a consolidated basis, our adjusted EBITDA margin was down year over year from 24% to 20%. The overall margin decline in the quarter is attributable primarily to the fact that our legacy business generated $15 million lower net revenue year over year, off of a similar cost base. Additionally, we absorbed two months worth of the new Walmart commission rates in the quarter.

These headwinds to adjusted EBITDA margin were partially offset by the large margin contribution of our acquired businesses. Resulting in a net 4 point year-over-year margin decline. Non-GAAP EPS in Q2, while more than 10% greater than our expectations, where nevertheless down year over year from $0.41 to $0.28. The primary drivers for that $0.13 differential were first, we had approximately 7.9 million more fully diluted shares year over year, attributable primarily to recent acquisitions, which accounts for roughly $0.06.

Second, we had around $2.2 million of lower adjusted EBITDA in the quarter which accounts for about $0.03 per share. Third, we had a year-over-year increase in depreciation and amortization on property and equipment, mainly as a consequence of last year's increased capitalization rate of internal use software development. Which accounts for about $0.02 per share. And the remaining $0.02 per share is attributable to higher net interest expense and an increase in our effective tax rate versus last year. This EPS result and the underlying math are all in line with our previously communicated guidance for the quarter.

One of the interesting positive aspects of the new post MoneyPak era is the impact on our proactive metrics that Steve told you about. Our legacy prepaid business lines generated a 14% year-over-year increase in combined card and interchange revenue per 90 day active customer during Q2. When combined with our acquisitions of prepaid businesses, this growth for active customer on a consolidated basis is 24% year over year. This increase in revenue per card has been a benefit to the performance this year and we believe it will be a catalyst for revenue growth in future years, once all the dust for MoneyPak settles.

Now lets look at the remainder of the year. Over the past four weeks or so we have seen stabilizing trends related to unit sales of cash transfers, unit sales of new cards and card retention rates all flowing out of the discontinuation of MoneyPak. While the trends are becoming more predictable, they're indicating lower results than we had modeled in our Q1 re-forecast.

On the Walmart contract renewal call in June, we mentioned that we could end up 1 to 2 percentage points below the low end of our revenue range, depending on how certain key metrics played out. Additionally, an initiative we had planned to launch in the back half of the year has now been delayed until Q1 of next year and won't benefit this year as we had expected. Taking everything into account, we now estimate that our full-year non-GAAP total operating revenue for 2015 will be between $700 million and $720 million.

Despite our revenue being a bit of a moving target, we continue to have a better handle on our adjusted EBITDA and non-GAAP EPS performance, more specifically, we have been tracking above the middle of the original ranges on adjusted EBITDA and non-GAAP EPS, prior to the new Walmart agreement. But with the new Walmart commission rates impacting eight months of the year, and the new lower run rate on our legacy business resulting from the MoneyPak discontinuation, we are narrowing those ranges today.

For 2015 we now expect to generate between $150 million to $160 million in adjusted EBITDA, and between $1.24 to $1.35 in non-GAAP EPS. Based on the foregoing, our expectations for Q3 are as follows. We expect non-GAAP total operating revenue of around $148 million, adjusted EBITDA of around $18 million and non-GAAP EPS of about $0.07 per share. First half margins came in at 29%. You'll notice that second half implied margins are approximately 17 percentage points lower than our first-half results. And that on a year-over-year basis, our forecast implies second half margins this year to be about 7 percentage points lower than second half last year. Here is why.

First, our second half margins are typically lower than first half on a seasonal basis. Given the large TPG contribution in Q1, that first half, second half margin difference and our model, now in going forward will be even more pronounced. Second, this year we are absorbing six full months of TPG's SG&A in second half, whereas last year we closed in late October and absorbed only a little over two months worth of that expense.

Third, the second half this year will contain six full months of the new Walmart commission rates versus only two months worth in the first half of this year and nothing in the second half of last year. So the additional expenses associated with TPG and Walmart, combined with the usual seasonality of our business model, are the reasons for the second half implied adjusted EBITDA margin of only 12%.

Yielding a full year implied adjusted EBITDA margin of nearly 22% at the midpoint, which is still a bit better than our original full-year margin forecast communicated in January. With that, we will open the phones for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Sanjay Sakhrani, KBW.

Sanjay Sakhrani - *Keefe, Bruyette & Woods, Inc. - Analyst*

Thank you. Good afternoon. I was wondering if you could just break down what the $20 million lower in revenues is coming from? Is it all of -- is it mainly related to MoneyPak or is it -- how much of it is related to MoneyPak versus the deferral of that, the marketing of a new product? Thanks.

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

The $20 million, Sanjay, revenue in the guidance, the lower guidance, Mark had addressed that. It is really just the new calculations as we input them into the model based on our run rate. And Mark, you can tell them about the metrics you are looking at and what we are seeing that are causing that.

Mark Shifke - *Green Dot Corporation - Acting CFO*

That's exactly right. What we have done is we have been looking at a combination of the cash transfer revenues themselves and then the impact on our card portfolio. And I think, recently, we have been seeing trends stabilizing so for the last, for July for example, the early reads are cash transfer revenue is coming in pretty much where we thought it would and consistent with where we saw things in May and June.

So as we look forward, we are now projecting where our cash transfer revenue will be and where we think a combination of both our legacy and acquired businesses will play out. And that's giving us comfort of being in that $700 million to $720 million range. But the loss of revenue is really on a combination of lost revenue from card sales from a smaller portfolio from cash transfers.

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

Talking about MoneyPak, and so we tracking the middle of the range at $710 million and so we can do better than that, but we're trying to give ourselves enough room here because sizing the revenue has been extraordinarily difficult, and we literally look at trends, Sanjay, week over week to see if we see stabilization.

The good news is, we are not seeing stabilization, that does not mean that something can't go haywire here going forward. But we've seen enough weeks now, we're saying okay, given that we delayed a particular initiative until Q1 and that benefit has gone, and that we are now running raw. Where do we think we will likely end up and the answer was 1% or 2% below where we were on the previous guidance so we thought it safe to bring it down to something that we knew we could hit.

Sanjay Sakhrani - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, so that initiative that you are mentioning, that -- you had assumed some kind of revenue benefit related to that initiative, or was that a cost?

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

Not a cost, it would have been all upside so that will be delayed. It's still there, just not going to hit in time to benefit Q4.

Sanjay Sakhrani - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Then when we think about -- you guys had mentioned the regulatory approval around the repurchase program in the Walmart announcement, can you just talk about where you guys are with that in the regulatory process?

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

Yes, we are in good shape in terms of having submitted the documentation required in the right procedural processes, if you will. And the regulators are taking a look at all that and we hope to hear something shortly, but I hate to predict with any kind of certainty the regulatory process. But our regulators have the information they need, we've had a number of conversations about it and we hope to hear something shortly.

Sanjay Sakhrani - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, great. Thank you.

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

You bet.

Operator

Ramsey El-Assal, Jefferies.

Ramsey El-Assal - *Jefferies LLC - Analyst*

Sure. So I hate to beat a dead horse, but I'm trying to better understand. So on your June call you saw better than expected MoneyPak results. You beat on the quarter but you're sort of anticipating some further deterioration, is the deterioration directly related to sort of, is it second derivative kind of impacts from fewer MoneyPak customers? Or I'm trying to reconcile the deterioration you are seeing, has it shown up recently or why are you expecting things to come in worse later than they have in the past three months?

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

When we did the re-forecast on the Q1 call we talked about the fact that we're doing much better than we thought and we had a fabulous quarter, we had a good quarter in Q2. But that our belief is that the backend impacts, forget the ripple effects or we had a better word for it, the ecosystem, thank you, I knew there was a better word than ripple. The ecosystem effects could come up and rear their ugly heads because we started decays in active card counts, which you don't see the revenue for right way but come later in the year.

So the comment that I made is, listen, we are being more cautious now on lowering guidance because we think in the second half there could be another wave of pain to be had based on what we're seeing in the ecosystem effects. So that's what's happened. We thought the bottom would be $720 million, maybe now it is closer to $710 million so we moved the range down for an implied middle of $710 million. We were close, but as we have seen, the number has now stabilized for a few weeks in a row, three or four weeks in a row and in some cases a couple months in a row.

Now what we are saying, okay the good news is it doesn't seem to be getting worse, the bad news is it doesn't seem to be getting better. If you take that other revenue initiative unrelated MoneyPak, if you just take that and move it now into Q1, where does that leave us and the answer is 1 or 2 points below the low end of the range. And that's why you are seeing the top line being adjusted down, but EBITDA staying where it is.

Mark Shifke - *Green Dot Corporation - Acting CFO*

Just further to Steve's point, what we said is in Q2 year over year, our organic portfolio is down roughly 10% and that behavior is what we are anticipating for the remainder of the year rather than a continuing decline.

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

In retrospect, not that we could have done much better because nobody's ever taken a product like this away and it has been with us since we've entered the Company. But the cash transfer revenue we overestimated and then we underestimated, if you will, sort of the ecosystem impacts and, but the good news is those have stabilized, so I think we have it right, but no question revenue has been difficult. EBITDA better because with all the noise around MoneyPak, as we predicted when we got rid of the product, the EBITDA has actually been fairly easy to digest because you are saving so much money on all the noise that it was generating. But the revenue has been difficult to size, no question about that.

Ramsey El-Assal - *Jefferies LLC - Analyst*

Okay. So the lower number of active cards at quarter end versus last quarter is primarily an ecosystem related impact of MoneyPak or is there anything else in there, is it more tax business from TPG?

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

No. The difference in the modeling is exclusively in the card portfolio and most for that matter on the Green Dot card portfolio with the loss of MoneyPak. And the reason is, is that MoneyPak was a way to load cards. But there also legitimate use cases around MoneyPak where you'd buy the money -- in other words the actual Green Dot prepaid card. Small businesses would use them, let's say you sold tupperware, you'd have a Green Dot card and people would put MoneyPaks on them if they are paying their fees to have the multilevel marketer.

There are all kinds of uses, sending money to a kid in college. That's part of that legitimate use case. There was also, that's rather nefarious uselage as well, in other words that was the whole use case that you really couldn't tell what was real and what was not real or what was legitimate and illegitimate. So that part was harder to size for sure.

So yes, the loss of MoneyPak clearly affects cash transfer revenue, that's maybe the easier part to calculate. What's less easy is customer behavior, what people learn how to swipe especially if you've been using the MoneyPak for a decade. Will retail cashiers know how to swipe, will they send the person away, then you also have people leaving the brand who frankly were things that the product wasn't designed for. So you're seeing all of that said aloud and that's been I think the hardest part for us to really predict and understand.

Ramsey El-Assal - *Jefferies LLC - Analyst*

All right, great, thanks.

Operator

David Scharf, JMP.

David Scharf - *JMP Securities - Analyst*

Thanks for taken my questions. Maybe staying on the act of account topic. Wanted to make sure I heard correctly, was inherent in the second half expectations when you reran the model for the latest MoneyPak degradation, is the 10% year-over-year decline in active accounts what I heard you suggest, similar to the Q2 fall off?

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

So the active card count on the legacy portfolio is 9% year over year and that a -- and revenues were down 10%, that would include the MoneyPak cash transfer revenues in there. So the part that is maybe a bit worse is that we thought we'd settle out to negative 5% or negative 6% or something in active cards, and we settled out at negative 9%, so that's an incremental $10 million below what we thought our low was. And that's why we are bringing the middle of the range down to $710 million. So that's the part that we thought it settle down but hadn't and that's sort of the new information. And we are not seeing that get worse and we're not seeing that get worse now for sometime. So that's why we believe that's the new normal if you will, and that pain has now been given.

David Scharf - *JMP Securities - Analyst*

Got it. So just so I understand the calculations correctly. I guess if I take the legacy portfolio down about 10%, from last year's second half, that gets me to about 4.2 million active, can you remind me with the count was on the acquired business since then? It sounds like the second half we're going to be looking at something like 4.2 million legacy plus

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

That sounds about right. Total consolidated card count in the quarter was almost 5 million, 4.9 something, 4.8 million in the quarter. And that includes, that's consolidated so that's Green Dot, WalMart and the acquisitions which are not huge, but all that --

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David Scharf - *JMP Securities - Analyst*

Can you remind us what the acquisitions were, roughly card count? Just trying to get a sense of how much I should add to about 10% down versus last year?

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

Not huge, but I'm trying to see. Have we disclosed that previously?

Mark Shifke - *Green Dot Corporation - Acting CFO*

We disclosed revenues for the year but not active

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

I can tell you, David it wasn't a material number, the vast majority of our active cards are from the Green Dot and Walmart portfolios. The acquisitions were clearly helpful, but not material and, I don't know if it's a big deal disclosing, so maybe we can. Can you figure it out from there? I don't know. We looking at an internal piece of data. The answer is not huge and not a big story, but let us figure out what we can disclose or not. I don't want to do it on the fly because everyone is looking at me with different facial expressions. The answer is that the acquired companies, as you know, were fairly small and the total active cards together would be, I'm going to guess, less than 10% of Green Dot and WalMart combined. That gives you some guidance.

David Scharf - *JMP Securities - Analyst*

Got it. That's helpful. Okay. There was an impairment charge in quarter round $5 million?

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

There is, that was for software that -- part of it was for software developed for a large retail partner that ultimately didn't get rolled out, and part of it the majority of it was for a software that was built for process or integration internally that, no longer became needed when we decided to go to MasterCard IPS for our processing solution. Which we announced previously and so that software won't be needed.

David Scharf - *JMP Securities - Analyst*

Okay. Was that part of the developments to ultimately bring the processing in-house?

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

Yes, that's good way to phrase it, not exactly but close enough.

David Scharf - *JMP Securities - Analyst*

Got it. Steve, on the MoneyPak transition, where are you now in terms of third-party reloads? I believe in the old days you got up to about a third of reload volume were actually coming from users of non-Green Dot cards. Has the -- is getting rid of MoneyPak pretty much gotten rid of that entire segment of business?

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

No. It has cut it somewhat, so 20% now comes from third parties and prior it used to be 31%. So about a third of it has gone away, but again that's also the use case where 100% of the nefarious use lived, so you just don't know if you got rid of -- here's how it went, David. As Green Dot as an issuer, we have two sides of the business lets say on the card business, you are an issuer and you have a reload network that serves everybody in the industry.

As Green Dot tightened its risk controls, as you remember, we started doing that in 2013, bad guys may have stopped buying our cards, but still bought the MoneyPaks to go to other brands of cards and use the MoneyPak. And we had a lot of programs, still do. So when you see that drop off from 31% to 20% for third-party, 100% of that 20% now swipes.

So 100% of that is good quality straightforward honest business of somebody loading money to their bank account. Doesn't mean that the 11% or 30% we lost, the 11 points were all crooks. But part of them clearly were and that's the whole ecosystem that we've cleaned up.

David Scharf - *JMP Securities - Analyst*

Got it. When we look at the patterns of the remaining cardholders, this lower smaller portfolio, I think you said when you X out cash transfers, just based on interchange and card revs, it was up mid-teens maybe?

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

It is really amazing when you look at the quality of the customer, not so much -- the customers themselves are of higher quality, it is just when you get rid of people who are coming in out of the system for not real uses, you have real customers left. Before we had, if we've 9% of our active base in the quarter, what were we last year guys in the quarter?

Mark Shifke - *Green Dot Corporation - Acting CFO*

4.8?

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

4.8 this quarter but I'm saying last year? Chris will find out. Let's say we lost -- let's say we lost about 300,000, 400,000 customers terms of active cards last year to this year. But if you look at the percentage of behavior, total revenues up 14% on our legacy portfolio. Card revenues per active up 17%, interchange up 10%. Purchase volume up 5% per active.

GDB from direct deposit up to 58%, and so you are seeing all of those quality metrics really pick up dramatically because what you are left behind with are customers who are using the product as their bank account. Which is why it exists. What you are not seeing are the people coming in and doing one and done things, closing accounts, opening accounts and all that wacky behavior that I described as the white noise of MoneyPak. So it is a slightly tighter portfolio by about 9%, but on such a large portfolio those kinds of increases are fairly material.

David Scharf - *JMP Securities - Analyst*

Right. So when we think about the second half, it sounds like around a 10% attrition year over year in the legacy portfolio, when you run your metrics through your revised model, what kind of non-cash transfer growth per card are you assuming? Are you assuming in the second half you maintain this 14% to 15% organic revenue rise?

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

Yes, we are not continuing to grow that on top of each other but what we are saying is that the real metrics, as they are in real life today is what we're using to run through the end of the year. So we're not saying they get better or worse, we are saying they stay the same. And that's what we've done, which is why we sort of, we cut more than we should have cut in the first half. So that's why we performed better because we didn't assume we'd have these kinds of revenue improvements. On a per card basis, and we did, and that was a nice offset to some of the losses.

David Scharf - *JMP Securities - Analyst*

Got it, thank you.

Operator

Bob Napoli, William Blair.

Bob Napoli - *William Blair & Company - Analyst*

Hi, good afternoon Steve, how are you? I guess I think it was announced that net spend, just they said on their call that they were just put into the money centers at Walmart. Are you seeing that have an effect on your business or were they in there -- you do see that affect the second quarter, was that part of the decline?

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

No. Our understanding is there have been Green Dot, WalMart and the MoneyCard have been in the money center I thought for some time, and we checked that out with the Walmart team and we didn't think that was a new development, but it may have been. But in our world that's been for some time and it is a strip that's in some certain money centers, so I don't think that's material good, bad or different for us, or net spend, but I could be wrong. But we are not seeing that as a driver either way good or bad.

Bob Napoli - *William Blair & Company - Analyst*

Okay. And then, your marketing spend was down year over year just -- even though you had higher commission rates with WalMart, what do you expect out of marketing in the back half of year? Have you pulled back as you are going through the MoneyPak issue and have you pulled back on the marketing side of the business until you get a better handle on the run rate?

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

There's been no specific pullback in marketing. We are not generally a huge spender on marketing. We do what we do very well and then we rely on the brand to drive our sales and that's worked well for us for a long time. So we still do all the national TV which you may see, Steve Harvey of course is our national brand ambassador and we do a lot of Family Feud and the Steve Harvey talk show and we are still doing all the normal things, but that's the normal course. We have not cut back in marketing but we haven't stepped up. There's no reason to step up and we're generally pleased with the continued preference for the brand and the retail acquisition. But there's no question the MoneyPak noise is real, so we've got to get through that to get to a normalized rate and go from there.

Mark Shifke - *Green Dot Corporation - Acting CFO*

I'm just going to add it was actually lower supply chain costs that were driving the lower sales and marketing number.

Bob Napoli - *William Blair & Company - Analyst*

Great. On the active accounts, it looks like if your organic is down 9% then the acquisitions would have about 500,000 accounts. I just wondered if they were growing?

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

That could be right, I guess about 10% of the Walmart, Green Dot, so that would be about right. The acquisitions continue to perform as we hoped they would and no surprises there. They've been highly accretive, really great acquisitions for us and we are glad we did them for sure. Without the acquisitions it would've been an ugly story. Say it again?

Bob Napoli - *William Blair & Company - Analyst*

Are they driving up the revenue per active account, are those acquisitions driving up that revenue per account?

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

Both. The acquisitions are driving up for example if -- I gave the active card revenues per active on the organic legacy portfolio is up 17% year over year. If you throw in the consolidated, we're up 35% year over year. So the answer is, we're up either way, but they are generally higher fees in the portfolios we acquired so that helps drive it up even higher, so we are up and up more but we are up either way.

Bob Napoli - *William Blair & Company - Analyst*

How confident are you that those fees are sustainable?

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

Highly confident. Green Dot has for years been one of the lowest price cards on the rack and we are one of the lowest prices in the industry. But that doesn't mean that there are not other higher-priced products out there that do different things or have different segments. And we have no intention of adjusting those pricing schedules, consumers like them and they get value out of them. None of our products, including those that we bought AccountNow and the others, have overdraft fees so it is aligned with what our policies and procedures are and so we think they are very sustainable pricing schedules.

Bob Napoli - *William Blair & Company - Analyst*

Thank you. Last question on GoBank, how many accounts do you have in GoBank and your goal I think was to get to 1 million accounts? By the end of the year -- count number?

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

So what I said was that I wanted to get a run rate of 1 million accounts by the end of the year, which would be about 90,000 new accounts per month. I think with some of the partnerships we have we can get there. We're not there today which I indicated on the last call, and simply the retail distribution. So we haven't given active account number for GoBank, but it is going very nicely and people who get it love it, but we need to issue more, that's the best way to say it.

It doesn't sell the same rate of our prepaids, it retains about 10 times longer than our prepaid cards in terms of the number of dollars spent and usage and all that. But we need to get more accounts out the door and we are working to better define the value proposition for the customer so they understand it is a checking account, which is a new concept to sell off the rack. And then we're going to rely on some of our new partnerships to drive the acquisition rates. So not sure if we'll get to that 90,000 month by the end of year, but we have a number of initiatives to help push us towards that direction.

Bob Napoli - *William Blair & Company - Analyst*

Thank you.

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

You bet, thank you.

Operator

Mike Grondahl, Piper Jaffray.

Michael Grondahl - *Piper Jaffray & Co. - Analyst*

Steve, on the expense side or operating expenses in general, you have been making some progress. If you are looking at a baseball game, what inning are you in, in getting those expenses in to where you want them to be?

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

What a great question. I will let you in the room opine. I'm going to say we are in the sixth inning and the reason I say that is we've rolled out the new call center staff which saves a lot. Supply-chain is getting better.

Risk has gotten way, way better with all the new technology there, but we still have a lot of the integration to go on the acquisitions and there's a lot of meat on the bone there and we also have our new processing system that will kick in. It's already being migrated now and that will kick in fully by the middle of next year and that's a fairly material save. And so I think between processing and integration of our acquisitions, I'm going to say we are in the sixth inning.

Michael Grondahl - *Piper Jaffray & Co. - Analyst*

Okay. Then on the initiative that was delayed into the first quarter of 2016, what was the reason for the delay?

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

We wanted some more consumer research and some better data and we wanted to give our technology and product teams a little bit longer to make it just so. We didn't feel that it was urgent to run it out, rush it out and then have it wrong. But it is a good initiative and materially one so we feel good about it but there is no reason to rush it into Q4.

Michael Grondahl - *Piper Jaffray & Co. - Analyst*

Can I ask, does it really to the secured card offering or can you say what it relates to?

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

No, I would rather not because our competitors listen to the calls as well as everybody else, but no. It is a good one and we have a number of cool things for 2016 and that's all shaping up nicely and that was one of them. But given that, it's definitely not going to be in the year, we took it out of the guidance.

Michael Grondahl - *Piper Jaffray & Co. - Analyst*

Got it, okay.

Operator

(Operator Instructions)

Tien-tsin Huang, JPMorgan.

Tien-tsin Huang - *JPMorgan - Analyst*

Thanks, good afternoon. On the Walmart side it seems like it's stabilized a little bit, I has that bottomed out and how does that come in versus plan and how do you feel about the outlook?

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

Yes, the Walmart side of the house is doing better. It was about 48% of our revenue including all of our products that we sell at Walmart. But against a larger revenue base in the quarter.

If you see where we were down in terms of revenue, it was about a 1% switch and that's quite a good result based on how that portfolio had been tumbling there for a while. So we think we've hit a stable run rate and we hope that's it. Also now that we have been able to get that contract signed, we are actually able to work with our partners at Walmart to grow the category and to come up with things that we want to do and need to do to make the products more appealing and to make the racks easier to look at and to please customers the way we all want to do.

So we have a lot of good opportunities to increase those numbers and get them back to the directions of the past and we are excited to get started and we already have.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay. So better life there. And my follow-up, I know a lot of questions and discussion on MoneyPak, but when all is said and done, what is the full-year expected hit, I think it was $40 million, seems like it is now in the $60 millions zone, did I hear that right or calculate that right?

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

Paul, where are we at? Was it $55 million?

Paul Farina - *Green Dot Corporation - VP of FP&A*

$55 million is what we're projecting

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

$55 million is what Paul, Paul Farina who runs our FP&A is where we are at, at the current run rate. Certainly a way more material number than we thought it would've been on the revenue side. I think what's amazing to us is that the EBITDA has performed so well despite that, that's a lot of gravy coming off the top, without seeing a massive impact to the bottom-line.

And I think all the cost saves as part of MoneyPak, the packaging, the risk expenses, the customer refunds, help to even that out somewhat. So we've got lucky on the EBITDA which we thought would happened, we thought that white noise effect would pay off, and that we were right on. But we clearly underestimated initially the impact of that leaving the ecosystem.

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

One correction, on the last call, update on MoneyPak was a total impact of $60 million to $65 million and Paul is saying we are actually still in that range, $60 million to $65 million.

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

I'm sorry, very good. Thank you for that Chris. $65 million.

Operator

This concludes our question and answer session. I'd like to turn the conference back over to Mr. Steve Streit for any closing remarks.

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

Thank you, operator, thank you all for listening. We will be back with you again, have a great day everybody.
