GREEN DOT CORP
Form 10-Q
November 03, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to

Commission file number 001-34819

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

Delaware **(State or other jurisdiction of incorporation or organization)**	**95-4766827** **(IRS Employer Identification No.)**
605 E. Huntington Drive, Suite 205 **Monrovia, California** **(Address of principal executive offices)**	**91016** **(Zip Code)**

Registrant s telephone number, including area code: (626) 775-3400

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

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

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

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

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

There were 7,588,887 shares of Class A common stock, par value $.001 per share, and 33,289,370 shares of Class B common stock, par value $.001 per share, outstanding as of October 31, 2010.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

GREEN DOT CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009
	(in thousands, except par value)	
Assets		
Current assets:		
Unrestricted cash and cash equivalents	**$ 135,581**	$ 56,303
Settlement assets	**11,784**	42,569
Accounts receivable, net	**23,985**	29,157
Prepaid expenses and other assets	**6,776**	7,262
Income taxes receivable		5,452
Net deferred tax assets	**4,335**	4,634
Total current assets	**182,461**	145,377
Restricted cash	**5,163**	15,381
Accounts receivable, net	**3,175**	1,130
Prepaid expenses and other assets	**641**	1,047
Property and equipment, net	**16,045**	11,973
Deferred expenses	**5,894**	8,200
Total assets	**$ 213,379**	$ 183,108
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 11,331**	$ 9,777
Settlement obligations	**11,784**	42,569
Amounts due to card issuing banks for overdrawn accounts	**33,181**	23,422
Other accrued liabilities	**14,071**	13,916
Deferred revenue	**11,227**	15,048
Income tax payable	**2,986**	
Total current liabilities	**84,580**	104,732
Other accrued liabilities	**4,398**	2,761
Deferred revenue	**50**	97
Net deferred tax liabilities	**3,886**	4,154
Total liabilities	**92,914**	111,744
Stockholders equity:		
		31,322

Convertible preferred stock, $0.001 par value: 5,000 shares authorized as of September 30, 2010, 25,554 shares authorized as of December 31, 2009; no shares issued and outstanding as of September 30, 2010, 24,942 shares issued and outstanding as of December 31, 2009; liquidation preference of $0 and $31,322 as of September 30, 2010 and December 31, 2009, respectively		
Class A common stock, $0.001 par value; 100,000 shares authorized as of September 30, 2010, no shares authorized as of December 31, 2009; 7,589 shares issued and outstanding as of September 30, 2010, no shares issued and outstanding as of December 31, 2009	**5**	
Class B convertible common stock, $0.001 par value, 100,000 shares authorized as of September 30, 2010, 50,000 shares authorized as of December 31, 2009; 33,269 and 12,860 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively	**34**	13
Additional paid-in capital	**58,706**	12,603
Retained earnings	**61,720**	27,426
Total stockholders equity	**120,465**	71,364
Total liabilities and stockholders equity	**$ 213,379**	$ 183,108

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands except per share data)			
Operating revenues:				
Card revenues	**$ 40,592**	$ 30,849	**$ 124,978**	$ 93,011
Cash transfer revenues	**26,484**	17,256	**73,630**	49,383
Interchange revenues	**27,044**	17,213	**81,106**	46,554
Stock-based retailer incentive compensation	**(5,216)**		**(7,673)**	
Total operating revenues	**88,904**	65,318	**272,041**	188,948
Operating expenses:				
Sales and marketing expenses	**30,305**	17,182	**87,777**	52,430
Compensation and benefits expenses	**17,621**	12,666	**50,474**	32,827
Processing expenses	**14,579**	9,951	**43,131**	27,092
Other general and administrative expenses	**10,976**	7,587	**33,997**	18,721
Total operating expenses	**73,481**	47,386	**215,379**	131,070
Operating income	**15,423**	17,932	**56,662**	57,878
Interest income	**111**	64	**269**	179
Interest expense	**(23)**	(3)	**(48)**	(3)
Income before income taxes	**15,511**	17,993	**56,883**	58,054
Income tax expense	**6,540**	7,522	**22,589**	24,344
Net income	**8,971**	10,471	**34,294**	33,710
Dividends, accretion, and allocated earnings of preferred stock	**(1,255)**	(7,060)	**(16,094)**	(22,886)
Net income allocated to common stockholders	**$ 7,716**	$ 3,411	**$ 18,200**	$ 10,824
Basic earnings per common share:				
Class A common stock	**$ 0.22**	$	**$ 0.87**	$
Class B common stock	**$ 0.22**	$ 0.28	**$ 0.87**	$ 0.90
Basic weighted-average common shares issued and outstanding				
Class A common stock	**4,266**		**1,442**	

Class B common stock	**28,627**	12,051	**18,232**	12,046
Diluted earnings per common share:				
Class A common stock	**$ 0.20**	$	**$ 0.81**	$
Class B common stock	**$ 0.20**	$ 0.22	**$ 0.81**	$ 0.70
Diluted weighted-average common shares issued and outstanding				
Class A common stock	**36,132**		**22,884**	
Class B common stock	**31,862**	15,262	**21,441**	15,545

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2010	**2009**
	(in thousands)	
Operating activities		
Net income	**$ 34,294**	$ 33,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,405**	3,552
Provision for uncollectible overdrawn accounts	**34,912**	18,089
Stock-based compensation	**5,246**	1,983
Stock-based retailer incentive compensation	**7,673**	
Provision (benefit) for uncollectible trade receivables	**(24)**	112
Impairment of capitalized software	**388**	315
Deferred income tax expense (benefit)	**31**	(1,731)
Change in operating assets and liabilities:		
Settlement assets	**30,785**	3,289
Accounts receivable	**(31,761)**	(19,668)
Prepaid expenses and other assets	**817**	(3,105)
Deferred expenses	**2,306**	3,568
Accounts payable and accrued liabilities	**3,877**	2,544
Settlement obligations	**(30,785)**	(3,289)
Amounts due to card issuing banks for overdrawn accounts	**9,759**	4,996
Deferred revenue	**(3,868)**	(4,988)
Income taxes payable	**8,438**	2,238
Net cash provided by operating activities	**77,493**	41,614
Investing activities		
Decrease (increase) in restricted cash	**10,218**	(13,028)
Purchases of property and equipment, including internal-use software	**(10,321)**	(5,547)
Net cash used in investing activities	**(103)**	(18,575)
Financing activities		
Repayments on line of credit		(77)
Borrowings on line of credit		77
Proceeds from exercise of warrants and options	**1,888**	162
Exercise of call option on warrant		(1,958)
Redemption of preferred and common shares		(617)
Net cash provided by (used in) financing activities	**1,888**	(2,413)
Net increase in unrestricted cash and cash equivalents	**79,278**	20,626
Unrestricted cash and cash equivalents, beginning of year	**56,303**	16,692

Unrestricted cash and cash equivalents, end of period	**$ 135,581**	$ 37,318
Cash paid for interest	**$ 40**	$ 42
Cash paid for income taxes	**$ 14,215**	$ 24,009

See notes to unaudited consolidated financial statements

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 1 Organization

Green Dot Corporation (we, us and our refer to Green Dot Corporation and its wholly-owned subsidiaries, Next Estate Communications, Inc. and Green Dot Acquisition Corp.) is one of the leading providers of general purpose reloadable prepaid debit cards and cash loading and transfer services in the United States. Our products include Green Dot MasterCard and Visa-branded prepaid debit cards and several co-branded reloadable prepaid card programs, collectively referred to as our GPR cards; Visa-branded gift cards; and our MoneyPak and swipe reload proprietary products, collectively referred to as our cash transfer products, which enable cash loading and transfer services through our Green Dot Network. The Green Dot Network enables consumers to use cash to reload our prepaid debit cards or to transfer cash to any of our Green Dot Network acceptance members, including competing prepaid card programs and other online accounts.

We market our cards and financial services to banked, underbanked and unbanked consumers in the United States using distribution channels other than traditional bank branches, such as third-party retailer locations nationwide and the Internet. Our prepaid debit cards are issued by third-party issuing banks, and we have relationships with several card issuers, including GE Money Bank and Columbus Bank and Trust Company, a division of Synovus Bank. We also have distribution arrangements with many large and medium-sized retailers, such as Walmart, Walgreens, CVS, Rite Aid, 7-Eleven, Kroger, Kmart, Meijer and Radio Shack, and with various industry resellers, such as Incomm and PaySpot. We refer to participating retailers collectively as our retail distributors.

Initial Public Offering

On July 27, 2010, we completed an initial public offering of 5,241,758 shares of our Class A common stock at an initial public offering price of $36.00 per share, all of which were sold by existing stockholders. We did not receive any proceeds from the sale of shares of our Class A common stock in the offering. Concurrent with the completion of the initial public offering, certain selling stockholders exercised a warrant to purchase 283,786 shares of Series C-1 preferred stock at an exercise price of $1.41 per share and vested options to purchase 377,840 shares of Class B common stock with a weighted-average exercise price of $2.63 in order to sell the underlying shares of Class A common stock in the offering. We received aggregate proceeds of $1.4 million from these exercises. Additionally, all of our outstanding shares of convertible preferred stock were automatically converted to 24,941,421 shares of our Class B common stock, and all shares of our Class B common stock sold in the offering were automatically converted into a like number of Class A common stock.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States, or GAAP. We have eliminated all significant intercompany balances and transactions in consolidation.

We consider an operating segment to be any component of our business whose operating results are regularly reviewed by our chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance based on discrete financial information. Our Chief Executive Officer, our chief operating decision-maker, reviews our operating results on an aggregate basis and manages our operations and the allocation of resources as a single operating segment prepaid cards and related services.

We have evaluated subsequent events through the date that the financial statements were issued, based on the accounting guidance for subsequent events. Based on our evaluation, we did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the consolidated financial statements.

Unaudited Interim Financial Statements

The accompanying unaudited September 30, 2010 consolidated balance sheet, the consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009, the consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009, and the related interim information contained within the notes to the consolidated financial statements have been prepared in accordance with GAAP and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and the notes required by GAAP for complete financial statements. In our opinion, the unaudited interim consolidated financial statements reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of our financial position at September 30, 2010, the results of our operations for the three and nine months ended September 30, 2010 and 2009, and our cash flows for the nine months ended September 30, 2010 and 2009. Our results of operations for the three and nine months ended September 30, 2010 and 2009 are not necessarily indicative of future results.

Accounts Receivable, Net

Accounts receivable is comprised principally of receivables due from card issuing banks, overdrawn account balances due from cardholders, trade accounts receivable and other receivables. We record accounts receivable net of reserves for estimated uncollectible accounts. Receivables due from card issuing banks primarily represent revenue-related funds collected by the card issuing banks from our retail distributors, merchant banks and cardholders that have yet to be remitted to us. These receivables are generally collected within a short period of time based on the remittance terms in our agreements with the card issuing banks.

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

Overdrawn Account Balances Due from Cardholders and Reserve for Uncollectible Overdrawn Accounts

Cardholder account overdrafts may arise from maintenance fee assessments on our GPR cards or from purchase transactions that we honor on GPR or gift cards, in each case in excess of the funds in a cardholder s account. We are exposed to losses from unrecovered cardholder account overdrafts. We establish a reserve for uncollectible overdrawn accounts. We classify overdrawn accounts into age groups based on the number of days that have elapsed since an account has had activity, such as a purchase, ATM transaction or maintenance fee assessment. We calculate a reserve factor for each age group based on the average recovery rate for the most recent six months. These factors are applied to these age groups to estimate our overall reserve. When more than 90 days have passed without activity in an account, we consider recovery to be remote and write off the full amount of the overdrawn account balance. We include our provision for uncollectible overdrawn accounts related to maintenance fees as an offset to card revenues in the accompanying consolidated statements of operations. We include our provision for uncollectible overdrawn accounts related to purchase transactions in other general and administrative expenses in the accompanying consolidated statements of operations.

Revenue Recognition

Our operating revenues consist of card revenues, cash transfer revenues and interchange revenues. We recognize revenue when the price is fixed or determinable, persuasive evidence of an arrangement exists, the product is sold or the service is performed, and collectibility of the resulting receivable is reasonably assured.

Card revenues consist of new card fees, monthly maintenance fees, ATM fees, and other revenues. We charge new card fees when a consumer purchases a new card in a retail store. We defer and recognize new card fee revenues on a straight-line basis over our average card lifetime, which is currently nine months for our GPR cards and six months for our gift cards. We determine the average card lifetime based on our recent historical data for comparable products. We measure card lifetime for our GPR cards as the period of time, inclusive of reload activity, between sale (or activation) of the card and the date of the last positive balance. We measure the card lifetime for our gift cards as the redemption period during which cardholders perform the substantial majority of their transactions. We reassess average card lifetime quarterly. We report the unearned portion of new card fees as a component of deferred revenue in our consolidated balance sheets. We charge maintenance fees on a monthly basis pursuant to the terms and conditions in the applicable cardholder agreements. We recognize monthly maintenance fees ratably over the month for which they are assessed. We charge ATM fees to cardholders when they withdraw money or conduct other transactions at certain ATMs in accordance with the terms and conditions in the applicable cardholder agreements. We recognize ATM fees when the withdrawal is made by the cardholder, which is the same time our service is completed and the fees are assessed. Other revenues consist of customer service fees, and fees associated with optional products or services, which we generally offer to consumers during the card activation process. We charge customer service fees pursuant to the terms and conditions in the applicable cardholder agreements and recognize them when the underlying services are completed. Optional products and services that generate other revenues include providing a second card for an account, expediting delivery of the personalized debit card that replaces the temporary card obtained at the retail store, and upgrading a cardholder account to one of our upgrade programs. We generally recognize revenue related to optional products and services when the underlying services are completed, but we treat revenues related to our upgrade programs in a manner similar to new card fees and monthly maintenance fees.

We generate cash transfer revenues when consumers purchase our cash transfer products (reload services) in a retail store. We recognize these revenues when the cash transfer transactions are completed, generally within three business days from the time of sale of these products.

We earn interchange revenues from fees remitted by the merchant s bank, which are based on rates established by Visa and MasterCard, when cardholders make purchase transactions using our cards. We recognize interchange revenues as these transactions occur.

We report our different types of revenues on a gross or net basis based on our assessment of whether we act as a principal or an agent in the transaction. To the extent we act as a principal in the transaction, we report revenues on a gross basis. In concluding whether or not we act as a principal or an agent, we evaluate whether we have the substantial risks and rewards under the terms of the revenue-generating arrangements, whether we are the party responsible for fulfillment of the services purchased by the cardholders, and other factors. For all of our significant revenue-generating arrangements, including GPR and gift cards, we record revenues on a gross basis.

Generally, customers have limited rights to a refund of a new card fee or a cash transfer fee. We have elected to recognize revenues prior to the expiration of the refund period, but reduce revenues by the amount of expected refunds, which we estimate based on actual historical refunds.

On occasion, we enter into incentive agreements with our retail distributors designed to increase product acceptance and sales volume. We record incentive payments, including the issuance of equity instruments, as a reduction of revenues and recognize them over the period the related revenues are recognized or as services are rendered, as applicable.

Employee Stock-Based Compensation

Effective August 1, 2006, we adopted a new accounting standard using the prospective transition method, which required compensation expense to be recognized on a prospective basis, and therefore prior period financial statements do not include the impact of our adoption of this standard. Compensation expense recognized relates to stock options granted, modified, repurchased, or cancelled on or after August 1, 2006 and stock purchases under our employee stock purchase plan, or ESPP. We record compensation expense using the fair value method of accounting. For stock options and stock purchases under our ESPP, we base compensation expense on fair values estimated at the grant date using the Black-Scholes option-pricing model. For stock awards, we base compensation expense on the estimated

GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

fair value of our common stock at the grant date. We recognize compensation expense for awards with only service conditions that have graded vesting schedules on a straight-line basis over the vesting period of the award. Vesting is based upon continued service to our company.

We continue to account for stock options granted to employees prior to August 1, 2006, using the intrinsic value method. Under the intrinsic value method, compensation associated with stock awards to employees was determined as the difference, if any, between the fair value of the underlying common stock on the grant date, and the price an employee must pay to exercise the award. We measure the fair value of equity instruments issued to non-employees as of the earlier of the date a performance commitment has been reached by the counterparty or the date performance is completed by the counterparty. We determine the fair value using the Black-Scholes option-pricing model or the fair value of our common stock, as applicable, and recognize related expense in the same periods that the goods or services are received.

Income Taxes

Our income tax expense is comprised of current and deferred income tax expense. Current income tax expense approximates taxes to be paid or refunded for the current period. Deferred income tax expense results from the changes in deferred tax assets and liabilities during the periods. These gross deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences between the bases of assets and liabilities as measured by tax laws and their bases as reported in our consolidated financial statements. We also recognize deferred tax assets for tax attributes such as net operating loss carryforwards and tax credit carryforwards. We record valuation allowances to reduce deferred tax assets to the amounts we conclude are more likely-than-not to be realized in the foreseeable future.

We recognize and measure income tax benefits based upon a two-step model: 1) a tax position must be more likely-than-not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. We accrue income tax related interest and penalties, if applicable, within income tax expense.

Earnings Per Common Share

We have multiple classes of common stock and our preferred stockholders, during the periods their shares were outstanding, were entitled to participate with common stockholders in the distributions of earnings through dividends. Therefore, we apply the two-class method in calculating earnings per common share, or EPS. The two-class method requires net income, after deduction of any preferred stock dividends, deemed dividends on preferred stock redemptions, and accretions in the carrying value on preferred stock, to be allocated between each class or series of common and preferred stockholders based on their respective rights to receive dividends, whether or not declared. Basic EPS is then calculated by dividing net income allocated to each class of common stockholders by the respective weighted-average common shares issued and outstanding.

In addition, for diluted EPS, the conversion of Class B common stock can affect net income allocated to Class A common stockholders. Where the effect of this conversion is dilutive, we adjust net income allocated to Class A common stockholders by the associated allocated earnings of the convertible securities. We divide adjusted net income for each class of common stock by the respective weighted-average number of the common shares issued and outstanding for each period plus amounts representing the dilutive effect of outstanding stock options and outstanding warrants, shares to be purchased under our employee stock purchase plan and the dilution resulting from the conversion of convertible securities, if applicable. We exclude the effects of convertible securities and outstanding warrants and stock options from the computation of diluted EPS in periods in which the effect would be antidilutive. We calculate dilutive potential common shares using the treasury stock method, if-converted method and the two-class method, as applicable.

Fair Values of Financial Instruments

Our financial instruments, including unrestricted cash and cash equivalents, restricted cash, settlement assets and obligations, accounts receivable, certain other assets, accounts payable, and other accrued liabilities, are short-term, and, accordingly, we believe their carrying amounts approximate their respective fair values.

Recent Accounting Pronouncements

In February 2010, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2010-09, *Subsequent Events Amendments to Certain Recognition and Disclosure Requirements,* which amends the disclosure requirements related to subsequent events. Effective immediately, the ASU retracts the requirement to disclose the date through which subsequent events have been evaluated for a Securities and Exchange Commission, or SEC, filer. We adopted this ASU in the first quarter of 2010.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements, including the accompanying notes. We base our estimates and assumptions on historical factors, current circumstances, and the experience and judgment of management. We evaluate our estimates and assumptions on an ongoing basis. Actual results could differ from those estimates.

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GREEN DOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	September 30, 2010 (Unaudited)	December 31, 2009
Overdrawn account balances due from cardholders	**$ 19,190**	$ 12,072
Reserve for uncollectible overdrawn accounts	**(13,545)**	(7,460)
Net overdrawn account balances due from cardholders	**5,645**	4,612
Trade receivables	**969**	647
Reserve for uncollectible trade receivables	**(4)**	(110)
Net trade receivables	**965**	537
Receivables due from card issuing banks	**20,347**	22,123
Payroll taxes due from related parties		2,417
Other receivables	**203**	598
Accounts receivable, net	**$ 27,160**	$ 30,287

At December 31, 2009, we had receivables of $2.3 million due from our Chief Executive Officer and $0.1 million due from our Chief Financial Officer. These receivables were related to federal and state payroll taxes arising from stock awards granted and stock options exercised that we were required to remit to the various taxing authorities. We collected these receivables in cash in January 2010.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Unaudited)			
Balance, beginning of the period	**$ 13,651**	$ 30,467	**$ 7,460**	$ 26,485
Provision for uncollectible overdrawn accounts:				
Fees	**11,632**	5,746	**32,982**	16,431
Purchase transactions	**641**	537	**1,931**	1,658
Charge-offs	**(12,379)**	(28,964)	**(28,828)**	(36,788)
Balance, end of period	**$ 13,545**	$ 7,786	**$ 13,545**	$ 7,786

Note 4 Income Taxes

Income tax expense for the nine months ended September 30, 2010 and 2009 varied from the amount computed by applying the federal statutory income tax rate to income before income taxes. A reconciliation between the expected federal income tax expense using the federal statutory tax rate of 35% and our actual income tax expense for the nine months ended September 30, 2010 and 2009 was as follows:

	Nine Months Ended September 30,	
	2010	**2009**
	(Unaudited)	
U.S. federal income tax	**35.0%**	35.0%
Non-deductible offering costs	**3.4**	
State income taxes, net of federal benefit	**3.6**	6.1
Change in state tax apportionment method	**(3.9)**	
Other	**1.6**	0.9
Income tax expense	**39.7%**	$42.0%