

BLACKHAWK NETWORK HOLDINGS, INC  
Form 10-K  
March 17, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 28, 2013**

**OR**

**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: 001-35882**

**BLACKHAWK NETWORK HOLDINGS, INC.**  
**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**  
**6220 Stoneridge Mall Road**  
**Pleasanton, CA**  
**(Address of Principal Executive Offices)**  
**(925) 226-9990**

**43-2099257**  
**(I.R.S. Employer**  
**Identification No.)**  
**94588**  
**(Zip Code)**

**(Registrant's Telephone Number, Including Area Code)**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>Class A Common Stock, par value \$0.001 per share</b>	<b>The NASDAQ Stock Market LLC</b>

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 15, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of voting stock held by non-affiliates of the registrant was \$351.5 million.

As of March 3, 2014, there were 12,338,433 shares of the Registrant's Class A common stock outstanding and 40,188,037 shares of the Registrant's Class B common stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA**

*This Annual Report on Form 10-K, which we refer to as this Annual Report, contains forward-looking statements that involve substantial risks and uncertainties. The statements contained in this Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as anticipate, believe, estimate, expect, intend, may, might, plan, project, will, would, should, could, can, predict, potential, continue, objective, or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included in this Annual Report. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. We qualify all of our forward-looking statements by these cautionary statements. In addition, the industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors including those described in the section entitled Risk Factors. These and other factors could cause our results to differ materially from those expressed in this Annual Report.*

*As used herein, Blackhawk, the Company, we, our, and similar terms refer to Blackhawk Network Holdings, Inc., unless the context indicates otherwise. The names Blackhawk, Cardpool, GiftCardMall, IntelliSpend, Retailo and other product or service names are trademarks or registered trademarks of entities owned by us.*

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

Blackhawk is a leading prepaid payment network utilizing proprietary technology to offer a broad range of prepaid gift, telecom and debit cards, in physical and electronic forms, as well as related prepaid products and payment services in the United States and 20 other countries. We believe our extensive network provides significant benefits to our key constituents: consumers who purchase or receive the products and services we offer; content providers who offer branded gift cards and other prepaid products that are redeemable for goods and services; distribution partners who sell those products; and business partners that distribute our products as incentives or rewards. For consumers, we provide convenience by offering a broad variety of quality brands and content through retail and online distribution locations or through loyalty, incentives and rewards programs offered by our business customers. For our content providers, we drive incremental sales by providing access to millions of consumers and creating new customer relationships. For our retail distribution partners, we provide a significant, high-growth and highly productive product category that drives incremental store traffic and customer loyalty. And for our business partners, we provide a wide array of prepaid products to enhance their customer incentives and employee rewards programs. Our technology platform allows us to efficiently and seamlessly connect our network participants and offer new products and services as payment technologies evolve. We believe the breadth of our distribution network and product content, combined with our consumer reach and technology platform, creates powerful network effects that enhance value for our constituents and drive growth in our business.

We are one of the largest third-party distributors of gift cards in the world based on the total value of funds loaded on the cards we distribute, which we refer to as load value. Our retail network connects to more than 650 content providers and over 180,000 active retail distribution locations, providing access to tens of millions of consumer visits per week. In addition, we sell physical and electronic gift cards to consumers through leading online distributors and our website, GiftCardMall.com. Through our acquisition of InteliSpend Prepaid Solutions, LLC (InteliSpend) in 2013, we also distribute prepaid products through approximately 2,000 business partners for their incentives, rewards and loyalty programs. In 2013, we processed a total load value of \$9.9 billion and over 240 million load transactions.

In April 2013, we completed our initial public offering (the Offering) for the sale of 11,500,000 shares of our Class A common stock, all of which shares were sold by existing stockholders, and we remained a subsidiary of Safeway Inc. (Safeway, or our Parent). In February 2014, Safeway announced its intention to distribute its remaining shares of our common stock to Safeway shareholders (the Spin-Off), which it expects to complete in mid-April 2014.

**Our Distribution**

Our retail distribution network consists of our retail distribution partners, our website GiftCardMall.com, and third-party online merchants.

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The following table illustrates selected examples of our distribution partners across various channels:

<b>Distribution Channel</b>	<b>Examples</b>
Grocery	Ahold, Albertsons, Giant Eagle, Kroger, Publix, Safeway
Specialty	Bed Bath & Beyond, Best Buy, The Home Depot, Lowe's, Michaels, Office Max, Staples, Toys R Us
Convenience	Kroger Convenience Stores, QuikTrip, Wawa
Other Retail	JCPenney, Kmart, Kohl's, Sears
Online	Amazon.com, eBay.com, GiftCardMall.com, Staples.com
International	Albert Heijn, Australia Post, Carrefour, Coles, Loblaws, Morrisons, Rewe, Sobeys, Tesco, Woolworths

In the United States, our retail distribution network principally consists of grocery, convenience, specialty and online retailers. Our distribution network includes nine of the top ten, and approximately 90% of the aggregate grocery store locations operated by the top 50, conventional grocery retailers in the United States (U.S.) and Canada as reported by Supermarket News on January 13, 2014. These supermarkets are especially well suited for selling a broad mix of prepaid products. Unlike mass big box retailers, they primarily sell groceries and do not view the consumer-branded gift cards as competitive with the merchandise they sell in their own stores. As of December 28, 2013, we had over 45,000 active retail distribution locations in the U.S. across approximately 175 distribution partners.

Outside the United States, we have followed a similar strategy of initially contracting with leading grocery chains and then growing our distribution network in other channels. We expanded our international presence through our 2013 acquisition of Retailo AG and its subsidiaries (collectively, Retailo), a leading third-party gift card distribution network in Germany, Austria and Switzerland. In certain countries including Japan, South Korea and South Africa, we distribute through sub-distributors that contract with in-country retailers for sale of our products. As of December 28, 2013, our products were sold in over 130,000 active retail distribution locations outside the U.S. across approximately 230 distribution partners. Revenue from international sales totaled 18.7%, 14.9% and 14.4% of our total operating revenues for 2013, 2012 and 2011, respectively, and 2.9%, 0.8% and 0.8% of our total long-lived *Property, equipment and technology, net* were in international locations at year-end 2013, 2012 and 2011, respectively.

During each of the last three fiscal years, three distribution partners activated prepaid products or purchased telecom handsets that generated more than ten percent of our total worldwide operating revenues. Kroger, Giant Eagle and Safeway generated 15.1%, 10.7% and 10.5% of our total operating revenues, respectively, in 2013; 15.1%, 12.6% and 12.2% of our total operating revenues, respectively, in 2012; and 13.2%, 14.4% and 14.5% of our total operating revenues, respectively, in 2011. The reduction of Safeway's portion of our total operating revenues from 14.5% in 2011 to 10.5% in 2013 reflects the growth of our business through the addition of distribution partners, the expansion of our geographic footprint and the more rapid growth of certain other less mature distribution partners.

We typically enter into contracts with our retail distribution partners ranging from three years to five years in length. The agreements generally contain varying degrees of exclusivity for our distribution of prepaid products in their stores. They also provide, among other things, that we will pay our distribution partner a negotiated commission based on a percentage of the content provider commission or purchase fee we receive upon the sale of our various products and services. We believe our highly productive gift card program coupled





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with our expanding range of products and payment services creates a powerful incentive for our retail distribution partners to remain loyal to our program. Over the past five years, we have renewed and/or extended agreements with 96% of our top 25 distribution partners worldwide, and these distribution partners activated 77% of the total amount loaded onto our prepaid products, which we refer to as load value, in 2013.

Our products are sold through our retail distribution partners through prominent, in-store fixed location displays, typically branded as the Gift Card Mall. We offer a wide variety of displays, including four- and two-sided rotating displays, as well as checkout line horizontal displays. Our primary displays are typically seven feet tall, three-sided grocery aisle end caps that display up to 80 pegs of prepaid cards on each side, for a total of 4,800 cards when fully stocked. In many stores, our products are displayed in multiple locations including near checkout lanes and floral and greeting card sections of stores.

We also sell prepaid products online through our website, GiftCardMall.com, other online retailers including Amazon.com, Staples.com and eBay.com as well as through websites operated by certain of our retail distribution partners (some of which also link to GiftCardMall.com). In addition, we provide application program interfaces, or APIs, to allow other payment services companies, financial institutions, social networks and retailers to incorporate various functions, such as gift card purchases, registration and balance-inquiry, into their digital and/or mobile wallets.

In 2013, we purchased IntelliSpend which broadened our distribution channels to include businesses that offer prepaid cards for their incentives and rewards programs. Our IntelliSpend business unit also sells its solutions through approximately 300 channel partners who offer a full range of incentives products in the United States and Canada.

## **Products and Services**

Prepaid products that we offer are activated when a consumer loads funds (with cash or with a debit or credit card payment) at a retail store location or online or when a business loads awards or incentives onto a card for subsequent redemption or use. We also provide reload for reloadable prepaid products, including prepaid telecom accounts and general-purpose reloadable (GPR) cards. We typically negotiate multi-year contracts with our content providers. For many of our content providers, we have various types of exclusivity provisions related to certain of the channels through which we distribute their products. As of December 28, 2013, we had agreements with over 650 content providers.

Apple Inc. is our largest content provider and represented 14.7%, 12.5% and 10.2% of our total operating revenues for 2013, 2012 and 2011, respectively. No other content provider represented more than ten percent of our total operating revenues during these periods.

### ***Gift Card Products***

***Closed Loop (Private-Branded) Gift Cards.*** We distribute gift cards in categories including digital media and e-commerce, dining, electronics, entertainment, fashion, gasoline, home improvement and travel. Gift cards that we distribute for sale directly to consumers in physical or online locations carry no consumer fees, and funds associated with the cards generally do not expire. These products contributed 69% of total operating revenues for 2013.

***Open Loop (Network-Branded) Gift Cards.*** We distribute single-use, non-reloadable gift cards carrying the American Express, MasterCard and Visa brands in our retail channels. We also serve as a program manager for our proprietary Visa gift cards that we distribute. Funds loaded on these cards by consumers at retail locations generally do not expire and can be redeemed at most merchant locations that accept the credit cards of the same network brand. These products contributed 16% of total operating revenues for 2013.



**Table of Contents*****Prepaid Telecom Products***

We distribute a full range of prepaid wireless or cellular cards used to load airtime onto the prepaid handsets. We also purchase handsets from manufacturers and sell them for a markup at our distribution partner locations, which we include as Other Services below. Our prepaid wireless cards are denominated either in minutes purchased, which generally do not expire, or, increasingly, as flat rate voice and/or data plans. We offer prepaid telecom cards from all the major carriers including AT&T, Sprint's Boost Network and Virgin Mobile brands, T-Mobile, TracFone, a leading prepaid telecom provider, and Verizon. Prepaid telecom cards contributed 6% of total operating revenues for 2013.

***Prepaid Financial Services Products (Open Loop Reloadable)***

***GPR Cards.*** We program manage and distribute a proprietary, bank-issued GPR card that we have branded PayPower. We distribute GPR cards provided by Green Dot and NetSpend, the industry leaders in this product category. GPR cards have features similar to a typical bank checking account, including fee-free direct deposit, in-store and online purchasing capability wherever a credit card is accepted, bill payment and ATM cash access. Fees are charged to consumers for initial load and reload transactions, monthly account maintenance and other transactions, some of which are waived if certain conditions are met.

***GPR Reload Network.*** We offer a proprietary reload network named Reloadit, which allows consumers to reload funds onto their previously purchased GPR cards, including our PayPower GPR card and certain other third-party GPR cards. We remit funds directly to the card issuing bank once the consumer instructs us to transfer funds from their Reloadit Pack to their GPR card, which is done either on a website or over the telephone. Until the funds have been remitted to the card issuing bank, we hold the consumer's funds in trust. We also distribute Green Dot's Money Pack product.

The prepaid financial services products including all GPR cards, reloads and the Reloadit product distributed in retail locations and online contributed approximately 1% of total operating revenues for 2013.

Some of the content provider brands we offer include:

<b>Product Category</b>	<b>Selected Brands</b>
<i>Closed Loop Gift Cards</i>	
Digital Media & E-Commerce	Amazon.com, Facebook, iTunes, Microsoft
Dining	Applebee's, Outback Steakhouse, Starbucks, Subway
Electronics	Best Buy, GameStop
Entertainment	AMC Theatres, Regal Entertainment Group
Fashion	JCPenney, Kohl's, Macy's, TJ Maxx/Marshalls
Gasoline	BP, Shell
Home Improvement	Home Depot, Lowe's
Travel	Marriott, Southwest Airlines
Other Retail	Barnes & Noble, Bed Bath & Beyond, Sears, Target, Toys R Us
<i>Open Loop Gift Cards</i>	American Express, MasterCard, Visa
<i>Prepaid Telecom Products</i>	
Wireless Cards	AT&T, Sprint's Boost Network and Virgin Mobile brands, T-Mobile, TracFone, Verizon

Prepaid Handsets

*Prepaid Financial Services Products*

GPR Cards

GPR Reload Network

Alcatel, LG, Motorola, Samsung, Tracfone

Green Dot, NetSpend, PayPal, PayPower (our  
proprietary brand), Univision

Reloadit (includes AccountNow, Galileo, NetSpend,  
Precash and Ready Credit)

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### ***Incentives and Rewards Products***

The IntelliSpend business unit's incentives solutions include non-reloadable debit cards, reloadable debit cards that allow multiple incentives and rewards to be loaded onto a recipient's card, and restricted authorization network cards that permit redemption at only selected merchants. Funds on non-reloadable and reloadable open loop cards offered by businesses as incentives, rewards, or promotions generally have expiration dates ranging from 90 days to one year from date of card activation. The IntelliSpend business unit also issues Discover-branded products and provides program management and integration services for companies and incentives industry resellers. The related revenue is included in Open Loop Gift Cards, described above.

### ***Cardpool***

Through our gift card exchange business, Cardpool, we offer consumers an online marketplace and various retail locations to sell unused gift cards that they do not want and an online sales website to purchase at a discount gift cards that others have sold to Cardpool. The Cardpool business contributed approximately 5% of total operating revenues for 2013.

### ***Digital Services for Online and Mobile Applications***

We have developed a technology platform to integrate prepaid products with other parties' online, digital and mobile applications. We have also introduced a proprietary application called GoWallet which utilizes our platform to facilitate the registration of gift cards, tracking of balances, delivery of gift card related offers and purchase of eGifts online or through our smartphone application. We plan to expand GoWallet's features in 2014 and 2015 to include card exchange functionality and redemption using proxy cards or smartphone interfaces. In addition, we have developed application program interfaces, or APIs, to allow other payment services companies, financial institutions, social networks and retailers that we contract with to incorporate many of these functions into their online and mobile applications.

### ***Other Services***

We receive marketing funds from our content providers to promote their prepaid cards throughout our distribution network. In some instances, we may receive a portion of other fees such as account maintenance, interchange or referral fees for certain open loop cards. We also receive other fees related to local, regional and sports team card programs. These revenues have been included in the applicable products detailed above.

We offer card production and packaging services to our prepaid gift and telecom content providers. These services, along with the sale of telecom handsets to our distribution partners, described above in Prepaid Telecom Products, accounted for 3% of total operating revenues in 2013.

## **Description of Revenue Types**

In a typical retail closed loop card transaction, the consumer purchases a gift card from our distribution partner who collects the load value. The distribution partner then forwards to us the collected amount, less the distribution partner's share of the commission. We then remit the load value of each card, less the total amount of the commission and fees to the applicable content provider. The cardholders access the value they loaded on a closed loop card by using the card to pay for goods or services at the content provider's physical store point of sale system or online at the content provider's website. We earn commission and fees from the content providers when a closed loop card is activated.

For a retail open loop card transaction, the consumer purchases a Visa, MasterCard or American Express network-branded gift card from our distribution partner who collects the load value and a purchase fee. The distribution partner then forwards to us the load value and purchase fee, less the distribution partner's share of

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the purchase fee. We then remit the load value of each card to the card issuing bank partner, retaining the balance of the consumer purchase fee. The cardholder can access the value they loaded on an open loop card by transacting for goods or services with any merchant that accepts the network-branded card. For such transactions, the card issuing bank transfers funds through the network association to the merchant's bank following the consumer's purchase. Besides retaining a portion of the consumer purchase fee, we earn, from issuing banks, interchange fees, program management fees, account service fees and in some countries card expiration fees resulting from the unspent balances on expired cards.

For incentives and rewards products, we earn transaction fees for fulfilling the reward or incentive, interchange on the redemption of open loop incentive cards, commissions on the redemption of certain open loop incentive cards using our proprietary restricted authorization network, interest from the investment of unspent funds on cards, income from unspent funds on cards that have expired and miscellaneous program management and integration fees.

The following table describes how fees are earned for each of the following product categories:

<b>Products and Services</b>	<b>How We Earn Fees</b>
<i>Closed Loop Gift Cards</i>	Content providers pay us commission and fees based on load value. We share commissions with our distribution partners.
<i>Open Loop Gift Cards</i>	Consumers pay a flat fee upon card activation depending on load value. We share this fee with our distribution partners and content providers.
	Our issuing banks pay us additional program management fees and other fees for our Visa gift cards, based, in part, on unspent balances, and American Express pays us fees for certain ancillary services.
<i>Prepaid Telecom Products</i>	We also earn a portion of merchant interchange fees when customers use our proprietary Visa gift card for purchases. The telecom carriers pay us a commission based on load value. We share these commissions with our distribution partners.
<i>Prepaid Financial Services Products</i>	We purchase handsets from manufacturers and sell them with a markup to our distribution partners. Our distribution partners retain the full proceeds from the sale of handsets to consumers. Consumers pay flat fees for the initial purchase and subsequent reloads of our proprietary PayPower GPR cards. We share these fees with our distribution partners. In addition, we earn account maintenance fees and interchange and other transaction fees based on consumers' continued use of these cards.

We earn a fixed fee for each third-party GPR card we sell. We share this fee with our distribution partners. We also earn account maintenance and interchange fees from these third-party GPR content providers.

When consumers reload GPR cards on our Reloadit network, we collect a fee, which we share with our distribution partners. For third-party GPR cards, this fee is also shared with the third-party GPR content provider.

*Prepaid Cards Secondary  
Market*

We earn a markup on the sale of pre-owned closed loop gift cards, which we purchase from consumers at a discount to the amount of funds remaining on a card.

*Other Fee Categories*

Program management fees, interchange, interest and unredeemed expired funds on incentives and rewards products.

Marketing funds received from our content providers to support programs that we coordinate with our distribution partners for the in-store or online promotion of their gift cards.

Fees related to card production and packaging services for content providers.

Fees related to local, regional and sports team card programs.



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### **Technology**

We own and operate the critical components of our technology platform including our transaction acquiring switch, prepaid card processing system, settlement system and online and eGift platform. These integrated systems are designed to allow us to authorize, process and settle transactions, ensure security and regulatory compliance, rapidly onboard new distribution partners and content providers and provide customer service across our network's broad points of contact and electronic mediums.

Our breadth of product and service offerings is enabled by our technology platform in the following ways:

***Gift Cards.*** We have made a significant investment in direct connections to our distribution partners over the past ten years to ensure high reliability of the gift card activation transaction at the point of sale. We process activation transactions primarily through direct connections to the card processing systems of our content providers or their service providers. In addition, for our proprietary U.S. and UK Visa gift cards, we process all post-activation transactions, including redemptions, directly on our processing platform that we co-developed with TxVia, a third-party processor recently purchased by Google.

***Prepaid Financial Services.*** Our PayPower products and Reloadit transactions are processed on our co-developed proprietary processing platform, which gives us significant flexibility in adding new functions or developing different program features. Card account and transaction data is extracted to a central data repository for reporting on card usage, analyzing customer behaviors and monitoring for fraudulent or potential money laundering activities. Fraud rules are integrated into the processing platform to provide us with real-time risk alerts and transaction review queues. Our processing platform is certified and connected to the Visa North America, Visa Europe and MasterCard networks as well as to our issuing banks.

***Digital Wallet Services.*** Our wallet platform is built on a scalable and configurable web platform. It deploys a service-oriented architecture in which web services enable other digital wallet providers to utilize the prepaid wallet services we offer.

***Cardpool.*** Cardpool is a proprietary platform built on an open source web framework that manages pricing, spreads, orders and inventory for our gift card exchange marketplace, and provides a web-based interface for customers and an API-based interface for partners.

Over the past three years, we have invested over \$70 million, including over \$25 million in 2013, in our technology platform. In 2013 we commenced development of a new cloud-based processing system to replace our current data center-based system that we co-developed with a third-party. We expect to begin processing open loop gift card transactions and digital card transactions on this new platform during 2014 and transactions for our GPR and Reloadit products in 2015.

We believe our technology capabilities provide us with significant competitive advantages and cannot be easily replicated. Our system is designed to be secure, highly reliable and scalable. Our technology capital expenditures included expenditures for hardware, licensed software and internally developed software for processing and switching technologies, mobile applications and enhancements to our enterprise resource planning and other infrastructure systems.

### **Sales and Marketing**

Our sales and marketing functions manage our relationships with content providers, retail distribution partners and incentives business partners, as well as develop marketing programs and communication strategies to reach our consumers. We provide or fund product display fixtures and provide or coordinate merchandising visits intended to maintain in-stock conditions on the displays. We also manage or participate in the design of effective in-store marketing programs funded jointly by our content and distribution partners. In addition, we use online marketing in connection with our financial services products and GiftCardMall.com.

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**Operations and Customer Service**

Our operations services include production and fulfillment of prepaid products for which we contract with third-party card printing, warehouse and fulfillment logistics providers. Contracts with these providers are typically for terms of three to four years. In the United States and Canada, we have integrated our order management systems with our third-party service providers' warehouse management systems to optimize fulfillment to stores. For select retail distribution partners that elect to participate, we also operate an inventory tracking and replenishment system and deliver automated re-orders directly to individual stores to optimize in-stock positions.

Our services also include a customer service function that utilizes both in-house and third-party call centers to support our retail-distributed Visa-branded products (both gift and GPR), general fulfillment and card activation for our retail distribution channel, online gift card sales and our business incentives and rewards channel. We employ second level customer and partner support personnel at our corporate headquarters in Pleasanton, California and our in-house call center in Reno, Nevada. We utilize Interactive Voice Response systems, web-based support and email support in our customer service efforts. We also operate a Network Operations Center at our corporate headquarters to monitor all systems and partner connections worldwide.

**Bank Partners**

We derive a material amount of our revenue from our program-managed proprietary Visa-branded products, which include our proprietary Visa gift card, PayPower GPR card and certain incentive cards. For the year ended December 28, 2013, these programs represented approximately 13.2% of our total operating revenues. The issuing banks for these programs, as well as issuing banks for other card association-branded card programs that we program manage, provide the Federal Deposit Insurance Corporation (FDIC) insured depository accounts tied to prepaid card association-branded cards, access to ATM networks, membership in the card associations and other banking functions. The issuing banks hold cardholder funds, charge applicable fees on GPR products and collect interchange fees charged to merchants when cardholders make purchase transactions using the prepaid card association-branded cards. Our issuing banks remit some or all of those fees to us plus additional fees for our program management services.

In the United States, we currently serve as program manager for three issuing banks for our proprietary Visa-branded products: MetaBank, Sunrise Bank, N.A. and The Bancorp Bank. MetaBank has been an issuing bank for both our proprietary Visa gift cards and Visa-branded PayPower GPR cards since 2007. Sunrise Bank, N.A. has been an issuing bank for our proprietary Visa gift card program since November 2011. The Bancorp Bank has been an issuing bank for our Visa-branded PayPower GPR cards since May 2012. For the year ended December 28, 2013, the MetaBank program represented approximately 9.6% of our total operating revenues.

Outside the United States, we contract with several issuing banks for Visa- and MasterCard-branded products that we program manage. For the year ended December 28, 2013, these programs represented less than 2.0% of our total operating revenues.

Please see **Risk Factors** **Risks Related to Our Business and Industry**. We rely on relationships with card issuing banks for services related to products for which we act as program manager, and our business, results of operations and financial condition could be materially and adversely affected if we fail to maintain these relationships or if we maintain them under new terms that are less favorable to us.

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**Competition**

Due to the breadth of our product offerings and distribution channels, we face a number of competitors. For our retail gift card and telecom products, we primarily compete with Interactive Communications International, Inc. (InComm) and Euronet. InComm distributes its products in the United States primarily at convenience stores, drug stores and mass retailers. In the retail GPR card market, our PayPower GPR card competes with Green Dot and NetSpend cards, which we also distribute in select locations. We operate a reload network, branded as the Reloadit network, which competes with other reload networks, including those for Green Dot and NetSpend. Numerous other companies have announced their intention to enter the GPR card market. In our business incentives and rewards channel, we compete with others who provide prepaid card solutions and other incentives content such as travel awards and merchandise. We also face competition from companies who are developing new prepaid access technologies and from businesses outside of the prepaid industry, including traditional providers of financial services such as banks and money services providers, and card issuers that offer credit cards, private label retail cards and gift cards. Some of these competitors offer digital solutions that don't require plastic cards for redemption by the consumer and allow for the sale of prepaid cards through new or existing online and mobile channels. Our incentives and rewards business competes with many service providers, including other prepaid products companies such as InComm, channel partners that offer alternatives to prepaid products and divisions of larger companies, such as Citibank's prepaid products groups.

**Intellectual Property**

Our intellectual property is important to our continued success. We rely on patent, trademark and copyright laws and trade secret protection in the United States, employee and third-party nondisclosure agreements and other methods to protect our intellectual property and other proprietary rights. We also license technology from third parties who provide various levels of protection against technology infringement by third parties.

We pursue the registration of our intellectual property rights, such as domain names, trademarks, service marks and patents, in the United States and in various other countries. We own several registered trademarks, including the Blackhawk Network, Reloadit, IntelliSpend and Talk Shop trademarks. We also have pending trademark applications for Go Wallet and PayPower. The PayPower trademark applications are the subject of a trademark opposition proceeding in the U.S. Through agreements with our retail distribution partners and customers, we authorize and monitor the use of our trademarks in connection with their activities with us.

As of December 28, 2013, we own, or are the exclusive licensee of, 40 patents in various countries providing coverage for systems and methods relating to prepaid product loads and reloads, ewallet services, eGift card transactions, packaging, card design, processing, online services and card exchange, and have exclusive rights to five patents related to fraud prevention in egift card transactions. These patents expire at various dates, ranging from 2015 to 2030. We have an additional 132 patent applications in various countries for various card assemblies and packaging, security features, activation and processing methods, and online prepaid services and have licensed exclusive rights that arise from nine patent applications. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. We believe a robust patent portfolio to protect our intellectual property rights and proprietary systems will become increasingly important as the prepaid industry continues to expand. Please see Legal Proceedings.

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**Regulation**

We operate in an increasingly complex legal and regulatory environment. We, the products and services that we offer and market, and those for which we provide processing services are subject to a variety of federal and state laws and regulations, including:

federal anti-money laundering laws and regulations, including the USA PATRIOT Act (the Patriot Act), the Bank Secrecy Act (the BSA), anti-terrorist financing laws and anti-bribery and corrupt practice laws and regulations;

state unclaimed property laws and money transmitter licensing requirements;

federal and state consumer protection laws, including the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the CARD Act), and the Durbin Amendment to Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), and regulations relating to privacy and data security; and

foreign jurisdiction payment services industry regulations.

***Anti-Money Laundering Regulation.*** We are subject to a comprehensive federal anti-money laundering regulatory regime that is constantly evolving. The anti-money laundering regulations to which we are subject include the BSA, as amended by the Patriot Act, which criminalizes the financing of terrorism and enhances existing BSA regimes through: (a) expanding AML program requirements to certain delineated financial institutions; (b) strengthening customer identification procedures; (c) prohibiting financial institutions from engaging in business with foreign shell banks; (d) requiring financial institutions to have due diligence procedures and, where appropriate, enhanced due diligence procedures for foreign correspondent and private banking accounts; and (e) improving information sharing between financial institutions and the U.S. government. Pursuant to the BSA, we have instituted a Customer Identification Program, or CIP, to meet the Patriot Act requirement that we establish a reasonable belief that we know the true identity of our customers in a manner appropriate to the size and type of our business. The CIP is incorporated into our BSA/anti-money laundering compliance program, as required by the Patriot Act. Please see Risk Factors Risks Related to Our Business and Industry We are increasingly facing more stringent anti-money laundering rules and regulations, compliance with which may increase our costs of operation, decrease our operating revenues and disrupt our business for additional information.

Our subsidiary, Blackhawk Network California, Inc. (Blackhawk Network California), is a registered money services business subject to reporting requirements related to anti-money laundering compliance obligations arising under the Patriot Act and its implementing regulations. In addition, provisions of the BSA known as the Prepaid Access Rule issued by the Financial Crimes Enforcement Network, or FinCEN, impose certain obligations, such as registration and collection of consumer information, on providers of certain prepaid access programs, including the prepaid products issued by our IntelliSpend business unit (operating as Blackhawk Network California) and our issuing banks for which we serve as program manager. FinCEN has taken the position that, where the issuing bank has principal oversight and control of such prepaid access programs, no other participant in the distribution chain, including us as the program manager, would be required to register as a provider under the Prepaid Access Rule. On November 4, 2013, FinCEN affirmed that it did not expect Blackhawk to register as a provider under the Prepaid Access Rule for Blackhawk s

bank-issued products.

In order to qualify for certain exclusions under the Prepaid Access Rule, some of our content providers were required to modify operational elements of their products, such as limiting the amount that can be loaded onto a card in any one day. In addition, pursuant to the Prepaid Access Rule, some of our distribution partners have adopted policies and procedures to prevent the sale of more than \$10,000 in prepaid access (including closed loop and open loop products that fall under the monetary thresholds outlined above) to any one person during any one day.

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***Anti-Terrorism and Anti-Bribery Regulation.*** We are also subject to an array of federal anti-terrorism and anti-bribery legislation. For example, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) administers a series of laws that imposed economic and trade sanctions against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other entities that pose threats to the national security, foreign policy or economy of the United States. As part of its enforcement efforts, OFAC publishes a list of individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries, as well as those such as terrorists and narcotics traffickers designated under programs that are not country-specific and with whom U.S. persons are generally prohibited from dealing.

The Foreign Corrupt Practices Act, or FCPA, prohibits the payment of bribes to foreign government officials and political figures and includes anti-bribery provisions enforced by the Department of Justice and accounting provisions enforced by the Securities and Exchange Commission (the SEC). The statute has a broad reach, covering all U.S. companies and citizens doing business abroad, among others, and defining a foreign official to include not only those holding public office but also local citizens affiliated with foreign government-run or -owned organizations. The statute also requires maintenance of appropriate books and records and maintenance of adequate internal controls to prevent and detect possible FCPA violations. Please see Risk Factors Risks Related to Our Business and Industry Abuse of our prepaid products for purposes of financing sanctioned countries, terrorist funding, bribery or corruption could cause reputational or other harm that could have a material adverse effect on our business, results of operations and financial condition for additional information.

***Consumer Protection.*** We are subject to various state consumer protection laws, including those related to unfair and deceptive trade practices as well as privacy and data security, which are discussed under Risk Factors Risks Related to Our Business and Industry Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition and A data security breach could expose us to liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues.

***Federal Regulation.*** At the federal level, Congress and federal regulatory agencies have recently enacted and implemented new laws and regulations that affect the prepaid industry, such the CARD Act and FinCEN's Prepaid Access Rule. Moreover, there are currently various proposals before Congress that could further substantially change the way banks, including prepaid card issuing banks and other financial services companies, are regulated and are permitted to offer their products to consumers. Non-bank financial services companies, including money transmitters and prepaid access providers, are now regulated at the federal level by the Consumer Financial Protection Bureau (the CFPB), which began operations in July 2011, bringing additional uncertainty to the regulatory system and its impact on our business. Please see Risk Factors Risks Related to Our Business and Industry We are increasingly facing more stringent anti-money laundering rules and regulations, compliance with which may increase our costs of operation, decrease our operating revenues and disrupt our business, Abuse of our prepaid products for purposes of financing sanctioned countries, terrorist funding, bribery or corruption could cause reputational or other harm that could have a material adverse effect on our business, results of operations and financial condition, Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition, and Failure by us to comply with federal banking regulation may subject us to fines and penalties and our relationships with our issuing banks may be harmed for additional information.

***State Unclaimed Property.*** We derive a portion of our revenues from consumers' failure to redeem prepaid products that we issue or distribute. Although for such products, we or our issuing banks are required to remit unredeemed funds to certain states pursuant to unclaimed property laws, not all state laws apply to unredeemed prepaid products. However, states periodically revise their unclaimed property statutes in an effort to increase revenues. For example, in 2010 the State of New Jersey adopted regulations that in part require the collection of customer data at the

point-of-sale in connection with the sale of prepaid access products. These regulations



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would result in increased compliance obligations and execution costs for our distribution partners and potentially discourage consumer purchases due to the inconvenience and sensitivity of personal data collection. More recently, the State of New Jersey enacted legislation delaying until 2016 implementation of this collection of customer data requirement. Nevertheless, this regulation (unless later repealed or amended) ultimately will result in increased compliance obligations and execution costs for our distribution partners and potentially discourage consumer purchases due to the inconvenience and sensitivity of personal data collection. Please see **Risk Factors Risks Related to Our Business and Industry** Costs of compliance or penalties for failure to comply with or changes in state unclaimed property laws and regulations and changes in state tax codes could have a material adverse effect on our business, financial condition and results of operations for additional information.

**Money Transmitter Licenses or Permits.** Most states regulate the business of sellers of traveler s checks, money orders, drafts and other money instruments, which we refer to collectively as money transmitters. While a large number of states expressly exempt banks and their agents from regulation as money transmitters, others purport to regulate the money transmittal businesses of bank agents or do not extend exemptions to non-branch bank agents. We have historically taken the position that state money transmitter statutes do not apply to our core prepaid card distribution business. Nonetheless, in connection with our open loop business, we rely on the money transmitter licenses of Blackhawk Network California in connection with our bank-issued products in some of those states; and our core distribution business, Blackhawk Network, Inc., is licensed in connection with gift card distribution in two states, Maryland and West Virginia.

In connection with our Reloadit business and our IntelliSpend incentive business unit, Blackhawk Network California is a licensed money transmitter in 46 U.S. jurisdictions. The remaining U.S. jurisdictions do not currently regulate money transmitters or have determined that we do not need to be licensed in connection with our current businesses. We have a license application conditionally approved in California with respect to the incentive business card issuance. In those states where we are licensed, we are subject to direct supervision and regulation by the relevant state banking departments or similar agencies charged with enforcement of the money transmitter statutes and must comply with various restrictions and requirements, such as those related to the maintenance of certain levels of net worth, surety bonding, selection and oversight of our authorized delegates, permissible investments in an amount equal to our outstanding payment obligations with respect to some of the products subject to licensure, recordkeeping and reporting, and disclosures to consumers. We are also subject to periodic examinations by the relevant licensing authorities or their designees, which may include reviews of our compliance practices, policies and procedures, financial position and related records, various agreements that we have with our issuing banks, retail distribution partners and other third parties, privacy and data security policies and procedures, and other matters related to our business. As a regulated entity, Blackhawk Network California incurs significant costs associated with regulatory compliance. We anticipate that compliance costs and requirements will increase in the future for our regulated subsidiaries and that additional subsidiaries will need to become subject to these or new regulations. Please see **Risk Factors Risks Related to Our Business and Industry** If we fail to maintain our existing money transmitter licenses or permits, or fail to obtain new licenses or permits in a timely manner, our business, results of operations and financial condition could be materially and adversely affected for additional information.

**Privacy.** In the ordinary course of our business, we collect and store personally identifiable information about Cardpool customers, holders of our proprietary Visa gift card and GoWallet users. This information may include names, addresses, email addresses, social security numbers, driver s license numbers and account numbers. We also maintain a database of cardholder data for our proprietary Visa gift card relating to specific transactions, including account numbers, in order to process transactions and prevent fraud. These activities subject us to certain privacy and information security laws, regulations and rules in the United States, including, for example, the privacy provisions of the Gramm-Leach-Bliley Act and its implementing regulations, various other federal and state privacy and information security statutes and regulations, and the Payment Card Industry Data Security Standard.



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These federal and state laws, as well as our agreements with our issuing banks, contain restrictions relating to the collection, processing, storage, disposal, use and disclosure of personal information, and require that we have in place policies regarding information privacy and security. We have in effect a privacy policy relating to personal information provided to us in connection with requests for information or services, and we continue to work with our issuing banks and other third parties to update policies and programs and adapt our business practices in order to comply with applicable privacy laws and regulations. Certain state laws also require us to notify affected individuals of certain kinds of security breaches of computer databases that contain their personal information. These laws may also require us to notify state law enforcement, regulators or consumer reporting agencies in the event of a data breach. Please see [Risk Factors Risks Related to Our Business and Industry Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition](#) and [A data security breach could expose us to liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues](#) for additional information.

***Foreign Regulation.*** We are subject to regulation by foreign governments and must maintain permits and licenses in certain foreign jurisdictions in order to conduct our business. Our Blackhawk Network (UK) Limited subsidiary is regulated as an electronic money institution in the United Kingdom, and in 2012, it began issuing an open loop product. Foreign regulations also present obstacles to, or increased costs associated with, our expansion into international markets. For example, in certain jurisdictions we face costs associated with repatriating funds to the United States, administrative costs associated with payment settlement and other compliance costs related to doing business in foreign jurisdictions. These foreign regulations often differ in kind, scope and complexity from U.S. regulations. Please see [Risk Factors Risks Related to Our Business and Industry We are subject to added business, political, regulatory, operational, financial and economic risks associated with our international operations](#) for additional information.

For additional information about the regulatory environment in which we operate, please see [Risk Factors Risks Related to Our Business and Industry We operate in a highly and increasingly regulated environment, and failure by us or the businesses that participate in our distribution network to comply with applicable laws and regulations could have a material adverse effect on our business, results of operations and financial condition](#) and [Changes in laws and regulations to which we are subject, or to which we may become subject in the future, may materially increase our costs of operation, decrease our operating revenues and disrupt our business.](#)

### ***Card Association and Network Organization Rules***

In addition to the federal and state laws and regulations discussed above, we and our issuing banks are also subject to card association and debit network rules and standards. The operating rules govern a variety of areas, including how consumers and merchants may use their cards and data security. Each card association and network organization audits us from time to time to ensure our compliance with these standards. Noncompliance with these rules or standards due to our acts or omissions or the acts or omissions of businesses that work with us could result in fines and penalties or the termination of the card association registrations held by us or any of our issuing banks. Please see [Risk Factors Risks Related to Our Business and Industry Changes in card association rules or standards set by Visa, MasterCard and Discover, or changes in card association and debit network fees or products or interchange rates, could materially and adversely affect our business, financial condition and results of operations.](#)

### **Employees**

As of December 28, 2013, we had 1,316 employees. We are not subject to any collective bargaining agreement and have never been subject to a work stoppage. We believe that we have maintained good relationships with our employees.



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### **Corporate and Available Information**

We were founded in 2001 as a division of Safeway. We were incorporated in Delaware as Blackhawk Network, Inc. in 2006 and changed our name to Blackhawk Network Holdings, Inc. later that year. Our principal executive offices are located at 6220 Stoneridge Mall Road, Pleasanton, California 94588, and our telephone number at that location is (925) 226-9990. Our website is [www.blackhawknetwork.com](http://www.blackhawknetwork.com). The information available on or that can be accessed through our website is not incorporated by reference into and is not a part of this Annual Report and should not be considered to be part of this Annual Report.

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any other filings required by the SEC. We make available on our Investor Relations website, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on our website is not incorporated by reference into this Annual Report or in any other report or document we file with the SEC.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

### **ITEM 1A. RISK FACTORS**

*You should carefully consider the risks described below and the other information in this Annual Report. The occurrence of any of the events or circumstances described below or other adverse events could have a material adverse effect on our business, results of operations and financial condition. Additional risks or uncertainties not presently known to us or that we currently deem immaterial may also harm our business.*

#### **Risks Related to Our Business and Industry**

*We may not be able to grow at historic rates in the future, if at all.*

Our revenues have grown rapidly, increasing from \$959.1 million in 2012 to \$1.1 billion in 2013, representing a growth rate of 19%. There can be no assurance that we will be able to continue our historic growth rates in future periods. Our ability to maintain and grow our business depends on a number of factors, many of which are outside our control. These include:

changes in consumer preferences and demand for the products and services that we offer;

our ability to retain and attract new customers, both in-store and online;

our ability to maintain and expand our distribution network and business partners;

our ability to maintain and expand the supply and variety of products and services that we distribute and offer;

our ability to increase the productivity of our distribution partners' stores, including through in-store execution of marketing, loyalty and merchandising programs;

our ability to anticipate and adapt to technological changes in the industry, as well as to develop new technologies to deliver our product and service offerings;

our ability to maintain our relationships with issuing banks and other industry participants;

pricing pressure in the face of increasing competition and other market forces;

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regulatory changes or uncertainty that increase compliance costs, decrease the attractiveness of the products and services we offer or make it more difficult or less attractive for us, our distribution partners or our content providers, including issuing banks, to participate in our industry; and

consumer acceptance of our product and services offerings in international markets, and our ability to grow our international operations and manage related regulatory compliance and foreign currency risk.

Even if we are successful in increasing our operating revenues through our various initiatives and strategies, we may experience a decline in growth rates and/or an increase in expenses, which could have a material adverse effect on our business, results of operations and financial condition.

***Our operating revenues may decline if we lose one or more of our top distribution partners, fail to maintain existing relationships with our distribution partners or fail to attract new distribution partners to our network, or if the financial performance of our distribution partners' businesses declines.***

The success of our business depends in large part upon our relationships with distribution partners. During 2013, 2012 and 2011, our top five largest distribution partners represented approximately 43.2%, 47.8% and 50.9% of our operating revenues, respectively. Many of our distribution partner agreements are subject to renewal every three to five years. Upon expiration of their agreements with us, our distribution partners may enter into relationships with our competitors instead of renewing their agreements with us, renew their agreements with us on less favorable terms or establish direct relationships with our content providers. There is no assurance that we will be able to continue our relationships with these distribution partners on the same terms, or at all, in future periods. Among other things, many of our distribution partner agreements contain varying degrees of exclusivity for us as the provider of prepaid products in their stores, and it is important to our competitive positioning to maintain those exclusive relationships. Our operating results could be materially and adversely affected if any of our significant distribution partners terminates, fails to renew or fails to renew on similar or more favorable terms, its agreement with us. In addition, exclusive relationships between potential distribution partners and our competitors as well as other commercial arrangements may make it difficult for us to attract new distribution partners to our network.

The success of our business also depends on the continued success of our distribution partners' businesses. Accordingly, our operating results may fluctuate with the performance of our partners' businesses, including their ability to maintain and increase consumer traffic in their stores.

***We rely on our content providers for our product and service offerings, and the loss of one or more of our top content providers or a decline in demand for their products, or our failure to maintain existing exclusivity arrangements with content providers or to attract new content providers to our network, could have a material adverse effect on our business, results of operations and financial condition.***

The success of our business depends, in large part, on our ability to offer a wide array of quality content. Our agreements with our content providers generally range from one to three years in length. There can be no assurance that we will be able to negotiate a renewal of those agreements on satisfactory terms or at all. Some of these agreements also permit the content providers to terminate their agreements with us prior to expiration if we fail to meet certain operational performance standards, among other reasons. In addition, we distribute the open loop gift and reloadable products of certain of our competitors, such as American Express, Green Dot and NetSpend. These content providers may choose to cease doing business with us for competitive or other reasons.

Many of our content provider agreements specify varying degrees of exclusivity for Blackhawk as a third-party distributor. Failure to maintain the same level of exclusivity of any of our agreements, whether upon renewal with our

content providers or otherwise, could adversely affect our business, results of operations and financial condition. The exclusive arrangements that we have been able to negotiate vary widely, and in many instances exclusivity is limited to particular channels, such as conventional grocery retailer channels, or more



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narrowly. Our content providers with limited or no exclusivity arrangements may decide to establish direct relationships with our distribution partners or use other third-party distributors to sell through existing or other channels. Our content providers may also eliminate their third-party distribution relationships entirely and offer their cards only in their own physical and online retail locations. Certain of our content providers represent a significant portion of our revenues, one of which represented 14.7%, 12.5% and 10.2% of our total operating revenues in 2013, 2012 and 2011, respectively.

Some of our contracts with content providers require a guarantee of our payment obligations by Safeway. Some of these guarantees will expire upon the Spin-Off. We are currently negotiating the terms of these guarantees in anticipation of the Spin-Off and are currently negotiating a credit agreement to provide adequate security in place of these guarantees. Please see Management Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sources of Liquidity. Failure to provide adequate security or our failure to demonstrate our independent financial viability to certain content providers, or to any new content providers who may require security in the future, may adversely affect our ability to maintain our relationships with our content providers or adversely affect our cash flows.

Our ability to grow our business depends, in large part, on our ability to expand our product offerings by adding new content providers. Exclusive relationships between other content providers and our competitors may make it more difficult for us to attract new content providers to our network. In addition, some of our agreements with content providers prohibit us from offering products of those providers' competitors. If we are not able to attract new content providers due to exclusivity arrangements, competition or other factors, our business may suffer.

The success of our business is heavily dependent on consumer demand for our content providers' products and services. Any factors negatively affecting our content providers or their industries, including those discussed elsewhere in this Risk Factors section, could have a material adverse effect on our business, results of operations and financial condition.

***We rely on relationships with card issuing banks for services related to products for which we act as program manager, and our business, results of operations and financial condition could be materially and adversely affected if we fail to maintain these relationships or if we maintain them under new terms that are less favorable to us.***

We rely on issuing banks for critical services, such as membership in the Visa card association and provision of FDIC-insured depository accounts tied to our program-managed GPR cards. MetaBank is one of the issuing banks for our proprietary GPR products and open loop products and, in 2013, was the issuing bank for the substantial majority of our proprietary open loop gift and GPR products. If our relationship with MetaBank deteriorates, it could hinder our ability to grow our business and have a material adverse effect on our business, results of operations and financial condition.

According to the public disclosures of MetaBank, a Supervisory Directive issued in 2010 by the Office of Thrift Supervision, or the OTS, now the Office of the Comptroller (the OCC) and a Cease and Desist Order issued in July 2011, require MetaBank to obtain prior written approval of the OCC in order to, among other things, enter into any new third-party relationship agreements concerning any credit or deposit product (including prepaid access), materially amend any such existing agreements and publicly announce any new third-party relationship agreements or material amendments to existing agreements. These directives and orders have limited

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or prevented our ability to offer MetaBank-issued cards to new distribution partners. If, as a result of the 2010 Supervisory Directive, the 2011 Cease and Desist Order or further OCC actions, MetaBank is unable to continue to service our existing needs or support our future growth, we may be forced to move our cards issued through MetaBank to another issuing bank.

Although we have entered into an agreement with Sunrise Bank, N.A. as a second issuing bank for proprietary Visa gift cards and with The Bancorp Bank (Bancorp) as a second issuing bank for Visa-branded GPR cards, there can be no assurance that we will be able to reduce the risk associated with our reliance on MetaBank. We continue to use MetaBank as the issuing bank for a substantial majority of our proprietary Visa gift cards, and we cannot provide any assurance that we will continue to achieve comparable financial terms related to these programs if we are required, or elect, to reduce or eliminate our issuances through MetaBank. Further, we may not be able to renew our existing agreements with issuing banks or enter into relationships with additional banks on acceptable terms, or at all, in which case we would incur significant transition and other costs and expenses, and users of our products and services could be significantly affected. In addition, there has been increased regulatory scrutiny of products and services that are offered by issuing banks (including our issuing banks) in conjunction with third parties. As a result, we have faced increased compliance costs. To the extent that our issuing banks continue to face increased regulatory pressure, we may face further increased compliance costs and limits on our product offerings, among other consequences. If any material adverse event were to affect MetaBank, Sunrise Bank, N.A., Bancorp or any other issuing bank with whom we have a relationship, including a decline in their financial condition, a decline in the quality of their services, loss of their deposits, their failure or inability to comply with applicable banking and financial regulatory requirements, a systems failure or their inability to pay us fees or outstanding receivable balances, then our business, results of operations and financial condition could be materially and adversely affected.

***If our distribution partners fail to actively and effectively promote our products and services, our future growth and results of operations may suffer.***

Substantially all of our operating revenues are derived from sales of our products and services at the locations of our distribution partners. Our success depends heavily on the retail execution of our distribution partners in promoting the prepaid products supplied by our content providers, which we can facilitate but do not control. For example, the in-store placement and size of our prepaid card displays, as well as the marketing and merchandising efforts of our distribution partners for our products and services, all have an impact on the number and load value of products and services sold. Although we advise our distribution partners concerning optimal display of the card content, our contracts allow distribution partners to exercise significant discretion over the placement and promotion of our products in their stores. In addition, those of our distribution partners who only have basic displays of our products may not be willing or able to implement enhanced displays and marketing efforts, which could significantly harm our ability to grow our business. If our distribution partners give more favorable placement or promotion to the products and services of our competitors, or otherwise fail to effectively market our products and services, our results of operations may suffer.

Historically, inclusion of our products and services in certain of our distribution partners' customer loyalty programs has resulted in significant increases in sales of our products and services for certain of such partners. An important part of our growth strategy is to continue to implement and expand these loyalty programs. However, customer participation in these loyalty programs may decline, or our distribution partners may fail to adopt new loyalty programs that include our distributed products and services, change their existing loyalty programs in a manner that reduces or eliminates inclusion of our products and services or reduces the programs' effectiveness or terminate their existing loyalty programs altogether. For example, some of these loyalty programs provide for discounts on gasoline. To the extent fuel prices decline or our distribution partners reduce the discount, customer participation in these loyalty programs may also decline. Any of these events could have a material adverse effect on our business, results of

operations and financial condition.

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***We operate in a highly and increasingly regulated environment, and failure by us or the businesses that participate in our distribution network to comply with applicable laws and regulations could have a material adverse effect on our business, results of operations and financial condition.***

We and our content providers and distribution partners are subject to a wide variety of federal, state, local and foreign laws and regulations. This legal and regulatory landscape has significantly expanded and has become increasingly complex in recent years, and we expect such trends to continue. These laws and regulations presently include, among others:

federal anti-money laundering laws and regulations, including the Patriot Act, the BSA, anti-terrorist financing laws and anti-bribery and corrupt practice laws and regulations;

federal and state consumer protection laws and regulations;

state unclaimed property laws and money transmitter licensing requirements; and

foreign jurisdiction payment services industry regulations.

Costs of compliance or penalties for failure to comply with these laws and regulations could have a material adverse effect on our business, financial condition and results of operations.

The laws and regulations applicable to our business, and to the businesses of our content providers and distribution partners, are often unclear and may differ or conflict between jurisdictions, rendering compliance difficult and costly. Failure by us and our regulated subsidiaries or businesses that participate in our distribution network to comply with all applicable laws and regulations could result in fines and penalties, limitations on our ability to conduct our business, or governmental or third-party actions. Regulatory agencies in these matters may seek recovery of large or indeterminate amounts or seek to have aspects of our business or that of our business partners modified or suspended. The outcome of regulatory proceedings or investigations is difficult to predict. Any fines, penalties or limitations on our business could significantly harm our reputation with consumers and other program participants, as well as the reputation of the banks that issue open loop cards that we manage, any and all of which could materially and adversely affect our business, operating results and financial condition, including potentially decreasing acceptance and use of, and loyalty to, our products and services. In addition, if our content providers and distribution partners have adverse experiences resulting from regulatory compliance obligations arising from their relationships with us, they may seek to curtail, terminate or adversely modify those relationships, which could harm our business, operating results and financial condition. In addition, we perform various compliance functions on behalf of our issuing banks, and any failure to perform those functions properly could result in contractual claims brought against us by our issuing banks.

***We are increasingly facing more stringent anti-money laundering rules and regulations, compliance with which may increase our costs of operation, decrease our operating revenues and disrupt our business.***

We are subject to the BSA, as amended by the Patriot Act. Blackhawk Network California is a registered money services business subject to reporting requirements related to anti-money laundering compliance obligations arising under the Patriot Act and its implementing regulations. A more aggressive enforcement of the BSA and other federal anti-money laundering and terrorist financing prevention laws or more onerous regulation could increase our or our

distribution partners' compliance costs or require changes in, or place limits upon, the products and services we offer, which in turn could have a material adverse effect on our business, results of operations and financial condition.

In connection with our acquisition in 2013 of substantially all the assets and liabilities of IntelliSpend, including our related acquisition and issuance of Discover-branded products and services, Blackhawk Network California subsequently registered as a provider of prepaid access with FinCEN. Consequently, with respect to the Discover-branded products we issue, we are required to comply with the requirements of FinCEN's Prepaid Access Rule as they apply to providers of prepaid access, which include obligations to obtain personal

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identifying information for each person who purchases a prepaid access product through our programs and retain access to such information for five years after the last use of such product, serve as a central source of information for law enforcement and file reports of suspicious transactions with the U.S. Treasury Department. Registration as a provider under the Prepaid Access Rule may result in increased costs and diversion of resources away from our core operations. Please see the risk factor titled **Recent and future acquisitions or investments could disrupt our business and harm our financial condition** for additional information.

In addition, abuse of our prepaid products or our Cardpool business for purposes of money laundering or terrorist financing could cause reputational or other harm that could have a material adverse effect on our business, results of operations and financial condition. Please see the risk factor titled **Fraudulent and other illegal activity involving our products and services could lead to reputational and financial harm to us and reduce the use and acceptance of our prepaid access products and services** for additional information.

***Abuse of our prepaid products for purposes of financing sanctioned countries, terrorist funding, bribery or corruption could cause reputational or other harm that could have a material adverse effect on our business, results of operations and financial condition.***

We are subject to an array of federal anti-terrorism and anti-bribery legislation such as a series of laws administered by the U.S. Treasury Department's Office of Foreign Assets Control and the Foreign Corrupt Practices Act. Abuse of our prepaid products for purposes of financing sanctioned countries or corruption could cause reputational or other harm that could have a material adverse effect on our business, results of operations and financial condition. Increasing regulatory scrutiny of our industry with respect to terrorist financing or corruption could result in more aggressive enforcement of such laws or more onerous regulation, which could increase our compliance costs or require changes in, or place limits upon, the products and services we offer, and which in turn could have a material adverse effect on our business, results of operations and financial condition.

***Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition.***

We are subject to federal regulation aimed at consumer protection. For example, the CARD Act, imposes requirements relating to disclosures, fees and expiration dates that are generally applicable to gift certificates and prepaid cards. We believe that GPR cards and the maintenance fees charged on our GPR cards are exempt from these requirements under an express exclusion for cards that are reloadable and not marketed or labeled as a gift card or gift certificate. However, this exclusion is not available if the issuer, the distribution partner or the program manager promotes, even if occasionally, the use of the GPR card as a gift card or gift certificate. We provide our distribution partners with instructions and policies regarding the display and promotion of our GPR cards so that retailers do not market our GPR cards as gift cards. For example, we instruct retailers to separate or otherwise distinguish our GPR cards from gift cards on their displays. However, we do not control our distribution partners and cannot assure that they will comply with our instructions and policies. If displayed incorrectly, it is possible that our GPR cards would lose their eligibility for this exclusion from the CARD Act requirements, and therefore could be deemed to be in violation of the CARD Act, which could result in the imposition of fines, the suspension of our ability to offer GPR cards, civil liability, criminal liability and the inability of our issuing banks to apply certain fees to our GPR cards, each of which could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, on May 24, 2012, the CFPB, published an advance notice of proposed rulemaking regarding GPR cards, in which the CFPB posed a series of questions relating to potential application of certain provisions of the Electronic Funds Transfer Act and Regulation E (such as those related to disclosure requirements, periodic reporting, error resolution procedures and liability limitations) to GPR products. While we believe that it is appropriate to apply a

limited set of Regulation E provisions to GPR products that are intended for repeated self-use, other components of Regulation E compliance (such as those that would require obtaining customer information at the time of sale) would be highly disruptive to our distribution partners' business and may materially increase our or our distribution partners' costs of operation or disrupt our business. For that reason, we

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have advocated for alternative methods of providing account transaction information currently used by many payroll card providers, such as information available by telephone or online. However, there can be no assurance that the ultimate rule will adopt the position we have advocated. Other aspects of Regulation E compliance could impose additional obligations on our issuing banks or us, which could increase our costs of operations or make our issuing banks unwilling to engage in the GPR business. We now anticipate that the CFPB will issue a notice of proposed rulemaking in May 2014.

We may become subject to further regulation by the CFPB, which was created under the Dodd-Frank Act. On July 17, 2012, the CFPB issued a final rule defining certain nonbank larger participants in markets for consumer financial products or services. It is uncertain whether the CFPB will include money transmission, check cashing and prepaid cards within the definition of larger participant as well as what criteria and which thresholds should be used to define larger participants. At this time, we are not certain whether we will be considered a larger participant under the CFPB's final rules. It is possible that the CFPB could propose and adopt rules that would give the CFPB regulatory, supervisory and enforcement powers over us. The CFPB can obtain cease and desist orders, which may include orders for restitution or rescission of contracts as well as other kinds of affirmative relief, and monetary penalties ranging from \$5,000 per day for ordinary violations of federal consumer financial laws to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. Also, where a company has violated the Dodd-Frank Act or CFPB regulations, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the type of cease and desist orders available to the CFPB. Expanded CFPB jurisdiction over our business may increase our compliance costs and risks, which could have a material adverse effect on our business, results of operations and financial condition.

On June 26, 2013, the CFPB issued a final rule (Nonbank Supervisory Rule) that establishes procedures to implement Section 1024(a)(1)(C) of the Dodd-Frank Act, by which the CFPB will supervise certain nonbank entities that offer or provide consumer financial products or services. The CFPB is authorized to supervise nonbank entities for purposes of: (1) assessing compliance with federal consumer financial law; (2) obtaining information about the activities and compliance systems or procedures of nonbank entities; and (3) detecting and assessing risks to consumers and markets. The Nonbank Supervisory Rule establishes the procedures the CFPB will use to determine whether a nonbank entity will be subject to the CFPB's supervisory authority. Regardless of whether nonbank entities providing consumer financial products or services are subject to the CFPB's supervisory authority, the CFPB affirmed in the Nonbank Supervisory Rule that such entities are subject to the CFPB's regulatory and enforcement authority and that the CFPB may conduct examinations or request information from supervised entities. If the CFPB determines that there is a need to examine us, it could increase our costs of operation or disrupt our business.

Furthermore, failure by us to comply with federal and state privacy and information safeguard laws could result in fines and penalties from regulators and harm to our reputation with our customers and business partners, all of which could have a material adverse effect on our business, results of operations and financial condition.

***Failure by us to comply with federal banking regulation may subject us to fines and penalties and our relationships with our issuing banks may be harmed.***

We are subject to federal banking regulation through our relationships with our issuing banks. The GPR cards and certain open loop products for which we serve as program manager are the products of MetaBank, Sunrise Bank, N.A., The Bancorp Bank and U.S. Bank, which we refer to collectively as our issuing banks and which are subject to various federal and state laws and regulation by a number of authorities, including the OCC, the Federal Reserve Bank (the FRB), FDIC, and the Delaware Office of the State Bank Commissioner. As a third-party service provider to our issuing banks, we are subject to regulation and audit and examination by the OCC, FRB and FDIC. As an agent of our issuing banks, we are considered institution-affiliated parties of our issuing banks and subject to the enforcement



jurisdiction of these federal banking agencies for our activities in that capacity. To the extent that we fail to comply with such federal banking regulations, we may incur fines and penalties and our relationships with our issuing banks may be harmed, all of which could have a material adverse effect on our business, results of operations and financial condition.

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On October 30, 2013, the OCC issued new guidance, or the Bulletin, on third-party relationships and associated risk management by federal banks. The Bulletin states that the OCC expects each bank to have risk management processes that are commensurate with the level of risk and complexity involving third parties providing the bank with critical activities. The critical activities include certain of the services that we perform for our issuing banks. Consequently, to enable our issuing banks to meet their obligations under the Bulletin, they may impose on us (and, in turn, our distribution partners) additional obligations, including record keeping and reporting requirements, as well as examinations. Compliance with these potential additional obligations could increase our and our distribution partners compliance costs or disrupt our business, which in turn could have a material adverse effect on our business, results of operations and financial condition.

***Costs of compliance or penalties for failure to comply with or changes in state unclaimed property laws and regulations and changes in state tax codes could have a material adverse effect on our business, financial condition and results of operations.***

State unclaimed property laws require that card issuers track information on our card products and services and that, if customer funds are unclaimed at the end of an applicable statutory abandonment period, the proceeds of the unclaimed property be remitted to the appropriate jurisdiction. We are directly responsible for compliance with state unclaimed property laws in connection with our Reloadit business. We have also agreed to provide information to our issuing banks on card usage to enable them to comply with unclaimed property laws with respect to our bank-issued products. For such products, we or our issuing banks are required to remit unredeemed funds to certain states pursuant to unclaimed property laws, although not all such state laws apply to unredeemed prepaid products.

States periodically revise their unclaimed property laws to increase state revenues relating to collection of unclaimed property, which may adversely affect our business. We have derived approximately 1% of our revenues in each of the last three fiscal years from consumers' failure to redeem prepaid products that we or Safeway issue. We also earn supplemental and other fees from the banks that issue our program-managed open loop gift cards that may be adversely impacted to the extent that unredeemed funds on such products become increasingly subject to state unclaimed property laws. Such fees represented 4.0%, 3.9% and 4.3% of total revenues in 2013, 2012, and 2011, respectively.

In addition, states may also revise their tax codes to introduce new or higher taxes relating to our products and services, and these actions, individually or in the aggregate, could adversely affect our margins and make our products and services less attractive to consumers.

***If we fail to maintain our existing money transmitter licenses or permits, or fail to obtain new licenses or permits in a timely manner, our business, results of operations and financial condition could be materially and adversely affected.***

Most states regulate the business of sellers of traveler's checks, money orders, drafts and other money instruments, which we refer to collectively as money transmitters. While a large number of states expressly exempt banks and their agents from regulation as money transmitters, others purport to regulate the money transmittal businesses of bank agents or do not extend exemptions to non-branch bank agents. We have historically taken the position that state money transmitter statutes do not apply to our core prepaid card distribution business. Nonetheless, in connection with our open loop business, we rely on the money transmitter licenses of Blackhawk Network California in connection with our bank-issued products in some of those states; and our core distribution business operated by our wholly-owned subsidiary Blackhawk Network, Inc., is licensed in connection with gift card distribution in two states, Maryland and West Virginia.

In connection with our Reloadit business and the issuance of Discover cards as part of our IntelliSpend business unit's offerings, Blackhawk Network California is a licensed money transmitter in 46 U.S. jurisdictions and, with respect to the incentive issuance, has a license application conditionally approved with the California

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Department of Business Oversight. The remaining U.S. jurisdictions either do not currently regulate money transmitters or have determined that we do not need to be licensed in connection with our current businesses. If our regulated subsidiaries fail to maintain their existing licenses or permits, or fail to obtain new licenses or permits in a timely manner, our business, results of operations and financial condition could be materially and adversely affected.

***Changes in laws and regulations to which we are subject, or to which we may become subject in the future, may materially increase our costs of operation, decrease our operating revenues and disrupt our business.***

Changes in laws and regulations may occur that could:

impair or eliminate our ability to conduct certain aspects of our business;

increase our compliance and other costs of doing business;

require significant product redesign or systems redevelopment;

render our products or services less profitable, obsolete or less attractive compared to competing products;

affect our distribution partners or content providers' willingness to do business with us or operate in our industry;

reduce the amount of revenues that we derive from unredeemed prepaid products; and

discourage distribution partners from offering, and consumers from purchasing, our prepaid products.

Any of these events could have a material adverse effect on our business, results of operations and financial condition. In light of current economic conditions, legislators and regulators have increased their focus on the banking and consumer financial services industry. As a result, in recent years there has been a significant increase in the regulation of the prepaid industry that is intended to protect consumers and help detect and prevent money laundering, terrorist financing and other illicit activities.

At both the federal and state level, there are recent changes and proposed changes to existing laws and regulations that would limit the fees or interchange rates that can be charged or refine the disclosures that must be provided with respect to our products and services or expand the point-of-sale data collection that is required when prepaid cards are sold, all of which have increased, and may in the future increase, our costs and decrease our operating revenues.

For example, the provisions of the Dodd-Frank Act known as the Durbin Amendment gave the FRB the power to regulate debit card interchange fees. On June 29, 2011, the FRB issued its final rule that set a cap, which took effect on October 1, 2011, on the interchange fee an issuer can receive from a single debit card transaction (21 cents plus 5 basis points multiplied by the amount of the transaction); and the rule allows an issuer to raise its interchange fees by as much as one cent if it implements certain fraud-prevention measures. GPR cards, including certain of our GPR

products, and smaller issuing banks, including some of our issuing banks, are exempt from the rule. However, to the extent that one or more of our GPR products or issuing banks lose their exempt status, the interchange rates applicable to transactions involving those GPR products or issuing banks could be affected, which would decrease our revenues and profit and could have a material adverse effect on our financial condition and results of operations. Please see risk factor titled "We rely on relationships with card issuing banks for services related to products for which we act as program manager, and our business, results of operations and financial condition could be materially and adversely affected if we fail to maintain these relationships or if we maintain them under new terms that are less favorable to us."

Additionally, the Durbin Amendment requires that certain prepaid access products be accessible through two unaffiliated payment networks, which we refer to as the network exclusivity requirement. The compliance deadline for the network exclusivity requirement for open loop gift and GPR cards was April 1, 2013, subject to

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certain exceptions with respect to reloads on GPR cards that were issued prior to April 1, 2013. We and the issuing banks and program managers for these open-loop gift and CPR cards made changes in response to the requirement, which increased certain of our costs. However, on March 13, 2013, the Staff of the Board of Governors of the Federal Reserve System, or the Staff, issued certain frequently asked questions, or FAQs, relating to the network exclusivity requirement. We and the issuing banks and program managers made further changes to address the FAQs, and we believe that the open loop gift and GPR cards that we distribute are in compliance with the network exclusivity requirement, as PINs are enabled on such products at the time of their activation. We and others in the prepaid industry requested clarification from the Staff that our changes complied with the network exclusivity requirement. On May 31, 2013, the Staff issued an update to the FAQs, specifying that the issuer of such products complies with the requirement by providing a PIN to the cardholder or having the cardholder select a PIN before or at the time a merchant first prompts the cardholder to enter a PIN. We and the issuing banks and program managers are making further changes to address the updated FAQs. Although these additional changes may increase our costs and potentially could make these cards less attractive to our distribution partners or consumers, we do not presently believe that such changes will have a material adverse effect on our business, results of operations and financial condition.

On July 31, 2013, the U.S. District Court for the District of Columbia overturned the FRB's rules regarding interchange fees and network exclusivity, holding that (1) those rules violated the Durbin Amendment's provisions concerning which costs are allowed to be taken into account for purposes of setting fees that are reasonable and proportional to the costs incurred by the issuer; and (2) the rule's network exclusivity provisions also violated the Durbin Amendment, because the statutory language requires each card to have two unaffiliated networks enabled for each method of authentication (*i.e.*, both signature and PIN) possible using the card. The Court vacated the rules, but stayed its ruling to allow the FRB to replace the invalidated portions. On August 21, 2013, the FRB announced that it would seek an expedited appeal for the ruling by U.S. Court of Appeals for the D.C. Circuit. On September 19, 2013, the Court of Appeals granted an expedited briefing schedule, and the District Court stayed enforcement of its ruling during the appeal, thereby keeping in place the 2011 rules enacting the Durbin amendment's cap in debit fees and the network exclusivity provisions pending the D.C. Circuit Court of Appeals review. On January 17, 2014 the D.C. Circuit Court of Appeals heard oral arguments for the appeal. A ruling is anticipated in May or June of 2014 and may be further appealed to the U.S. Supreme Court. In addition, recent changes and proposed changes to other laws and regulations may materially increase our costs of operation, decrease our operating revenues and disrupt our business.

On June 26, 2013, the CFPB issued a final rule (Nonbank Supervisory Rule) that establishes procedures to implement Section 1024(a)(1)(C) of the Dodd-Frank Act, by which the CFPB will supervise certain nonbank entities that offer or provide consumer financial products or services. The CFPB is authorized to supervise nonbank entities for purposes of: (1) assessing compliance with federal consumer financial law; (2) obtaining information about the activities and compliance systems or procedures of nonbank entities; and (3) detecting and assessing risks to consumers and markets. The Nonbank Supervisory Rule establishes the procedures the CFPB will use to determine whether a nonbank entity will be subject to the CFPB's supervisory authority. Regardless of whether nonbank entities providing consumer financial products or services are subject to the CFPB's supervisory authority, the CFPB affirmed in the Nonbank Supervisory Rule that such entities are subject to the CFPB's regulatory and enforcement authority and that the CFPB may conduct examinations or request information from supervised entities. If the CFPB determines that there is a need to examine us, it could increase our costs of operation or disrupt our business.

***We face intense competitive pressure, which may materially and adversely affect our revenues and profitability.***

The prepaid industry is highly competitive. For our gift card and telecom products, we primarily compete with InComm and Euronet. In the GPR card market, our PayPower GPR card currently competes with Green Dot and NetSpend cards, which we also distribute in selected locations. We operate a reload network, branded as the Reloadit

network, which currently competes with other reload

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networks, including those for Green Dot, NetSpend and InComm. Numerous other companies have announced their intention to enter the GPR card market. We also compete with a number of other industry participants in the United States and internationally in connection with prepaid card issuance, program management, prepaid product distribution, marketing and processing, secondary card exchange and most recently, business-to-business transactions involving corporate incentives and consumer promotions. We also face competition from companies who are developing new prepaid access technologies and from businesses outside of the prepaid industry, including traditional providers of financial services such as banks and money services businesses, and card issuers that offer credit cards, private label retail cards and gift cards.

Many of our current or potential competitors have longer operating histories and greater name recognition than we do. Many also are substantially larger than we are, may have substantially greater financial or other resources than we have, may develop and introduce a wider or more innovative range of products and services than we offer or may implement more effective marketing strategies than we do, thus achieving broader brand recognition, customer awareness and market penetration. To stay competitive, we may need to decrease our commissions and fees earned from content providers, increase the commissions and incentives that we share with our distribution partners or make modifications to the agreements with our content providers and distribution partners that are not favorable to us, any of which could reduce or eliminate our profitability. Increased pricing pressure also increases the importance of cost containment and increased productivity in other areas, including through investments in technology development to support our network, and we may not succeed in these efforts.

Our failure to compete effectively against any of the foregoing competitive threats could have a material adverse effect on our business, results of operations and financial condition.

### ***Fluctuations in our financial results from quarter to quarter could cause significant price swings in our common stock.***

Our revenues, expenses, operating results, liquidity and cash flows have fluctuated, and may in the future fluctuate, significantly from quarter to quarter due to a number of factors, many of which are outside our control. In addition to the effects of seasonality described below under the risk factor titled "Due to seasonal fluctuations in our business, adverse events that occur during the second or fourth fiscal quarter could have a disproportionate effect on our results of operations and financial condition," factors that may contribute to these fluctuations include the following:

the addition or loss of one or more significant distribution partners or content providers;

consumer spending patterns and preferences;

business spending patterns and preferences;

general economic conditions affecting consumer spending;

the overall business condition of our distribution partners and content providers;



the development and expansion of new product and service offerings by our competitors;

changes in pricing and fee structures, whether driven by competitive factors, issuing banks, card associations, regulatory requirements or otherwise;

changes to our product and service offerings or changes in the way our products and services are sold, whether due to regulatory requirements or otherwise;

changes in our product and service mix;

changes in regulations or changes in interpretations of existing regulations;

the institution of new, or the adverse resolution of pending, litigation or regulatory investigations applicable to us;

business and service interruptions resulting from natural disasters, fraud or network infrastructure failures;

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the timing of our distribution partners' roll out of new programs and content; and

other factors discussed elsewhere in this Risk Factors section.

In addition to the factors described above, we have issued warrants to purchase shares of our Class B common stock that are carried at fair value and are required to be adjusted through earnings (marked to market) each reporting period. The fair value of these warrants is based on the value of our underlying Class B common stock. These mark-to-market adjustments could fluctuate significantly from quarter to quarter.

Our fiscal year consists of a 52-week or 53-week period ending on the Saturday closest to December 31, and our fiscal quarters consist of three 12-week periods and one 16-week or 17-week period ending on a Saturday. As a result, our fourth fiscal quarter of each year contains not only the holiday gifting season but also an extra four weeks (or five weeks for 53-week fiscal years) when compared to our first three fiscal quarters, a fact that exacerbates our quarterly fluctuations and makes it difficult to evaluate our operating results from quarter to quarter.

As a result of quarterly fluctuations caused by these and other factors, comparisons of our operating results across different fiscal quarters may not be accurate indicators of our future performance. Any quarterly fluctuations that we report in the future may differ from the expectations of market analysts and investors, which could cause the price of our Class A common stock and, following the Spin-Off, our Class B common stock to fluctuate significantly.

***Due to seasonal fluctuations in our business, adverse events that occur during the second or fourth fiscal quarter could have a disproportionate effect on our results of operations and financial condition.***

Seasonal consumer spending habits significantly affect our business. During 2013, we derived approximately 25% of our annual revenues in the last four weeks of our fiscal year. A significant portion of gift card sales occurs in late December of each year as a result of the holiday selling season. As a result, we earn a significant portion of our revenues and generate a higher portion of our net income during the fourth fiscal quarter of each year. The timing of December holiday sales, cash inflows from our distribution partners and cash outflows to our content providers also results in significant but temporary increases in our cash flow and certain balance sheet items at the end of each fiscal year relative to normal daily balances. We also experience an increase in revenues and cash flows in the second fiscal quarter of each year, which we primarily attribute to the Mother's Day, Father's Day, the graduation gifting season and the Easter holiday. Depending on when the Easter holiday occurs, the associated increase could occur in either our first or second fiscal quarter. Adverse events that occur during the second or fourth fiscal quarter could have a disproportionate effect on our results of operations for the entire fiscal year.

***Our closed loop and open loop gift card business could suffer if there is a decline in the attractiveness of gift cards to consumers.***

Consumer demand for gift cards may stagnate or decline. Consumer perception of gift cards as impersonal gifts may become more widespread, which may deter consumers from purchasing gift cards for gifting purposes in general and through our distribution program in particular. This perception may increase to the extent that electronic gift cards become more prevalent. In addition, a move from traditional gift cards to other gifting technologies could harm our business, as discussed in the risk factor titled "Our failure to keep pace with the rapid technological developments in our industry and the greater electronic payments industry may materially and adversely affect our business, results of operations and financial condition." Moreover, during periods of economic uncertainty and decline, consumers may become increasingly concerned about the value of gift cards due to fears that content providers may become insolvent and be unable to honor gift card balances. Finally, consumers may remain concerned about expiration dates, despite the fact that few gift cards are still subject to expiration. Decline or stagnation in consumer acceptance of and demand

for gift cards, or a failure of demand to grow as expected, could have a material adverse effect on our business, results of operations and financial condition.

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***Our ability to increase our revenues from prepaid financial services products, including GPR cards, will depend, in large part, upon the success of the prepaid financial services industry.***

We earn fees when GPR cards are loaded or reloaded through our network or are used by consumers. If consumers do not maintain or increase their usage of prepaid cards, our operating revenues may remain at current levels or decline. As the financial services industry evolves, consumers may find prepaid financial products and services such as GPR cards to be less attractive than traditional payment instruments, new products offered by others or other financial services. Prepaid financial products and services may fail to maintain or achieve greater popularity for any number of reasons, including the general perception of the prepaid industry, fees associated with the use of GPR cards, the potential for fraud in connection with these products, changes to these products from time to time, including those that result from new regulatory requirements, new technologies and a decrease in our distribution partners' willingness to sell these products as a result of a more challenging regulatory environment. Negative publicity surrounding other prepaid financial products and service providers could adversely affect our business or our industry as a whole. Predictions by industry analysts and others concerning the growth of prepaid financial services as an electronic payment mechanism may overstate the growth of an industry, segment or category, and investors should not rely upon them. The projected growth may not occur or may occur more slowly than estimated. If consumer acceptance of prepaid financial services does not continue to develop or develops more slowly than expected, or if there is a shift in the mix of payment forms, such as cash, credit cards and traditional bank debit cards, away from our products and services, our business, results of operations and financial condition could be materially and adversely affected. In addition, we have signed agreements with third parties to provide a private-branded GPR solution. In some cases, we incur costs to launch such programs before we are assured of the volume of sales of these GPR cards, and if we are not able to recover these costs, our business, results of operations and financial condition could be adversely affected.

***Our operating revenues could be materially and adversely affected by declines in consumer confidence, spending and preferences.***

The prepaid industry depends upon the overall level of consumer spending. Prepaid card sales for gifting purposes are particularly dependent on discretionary consumer spending. Consumer spending may be adversely affected by general economic conditions, including consumer confidence, interest and tax rates, employment levels, salary and wage levels, the availability of consumer credit, the housing market and energy and food costs. The effects of these conditions on our business may be exacerbated by changes in consumer demand for prepaid products and services. Adverse economic conditions in the United States or other regions where we conduct business may reduce the number and load value of prepaid cards that are purchased or reloaded through our distribution network, the number of transactions involving those cards and the use of our reload network and related services, all of which could have a material and adverse effect on our business, results of operations and financial condition.

***Our business depends on the efficient and uninterrupted operation of our transaction processing systems, including our computer network systems and data centers, and if such systems are disrupted, our business, results of operations and financial condition could be materially and adversely affected.***

Our ability to provide reliable service to consumers, distribution partners and content providers depends on the efficient and uninterrupted operation of our computer network systems and data centers, as well as those of our content providers, distribution partners and third-party processors. Our business involves the movement of large sums of money, the processing of large numbers of transactions and the management of the data necessary to do both. Our success depends on our ability and that of our partners and respective vendors to process and facilitate these transactions in an efficient, uninterrupted and error-free manner.

Our transaction processing systems and websites (or those of our content providers, distribution partners or third-party processors) may experience service interruptions or degradation as a result of processing or other technology malfunction, software defects, technology installation difficulties or delays, fire, natural disasters,

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power loss, disruptions in long distance or local telecommunications access, fraud, terrorism or accident. Additionally, we rely on service providers for the timely transmission of information across our data network. If a service provider fails to provide the communications capacity or services we require, the failure could interrupt our services. In the event of a service interruption or degradation of our transaction processing systems, we could suffer financial loss, loss of customers, regulatory sanctions and damage to our reputation. If we face system interruptions or failures, our business interruption insurance may not be adequate to cover the losses or damages that we incur, or in the future we may determine to self-insure against some of these risks. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

***A data security breach could expose us to liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues.***

We and our content providers and distribution partners receive, transmit and store confidential customer and other information in connection with the sale and use of our prepaid products and services. The encryption software and the other technologies we use to provide security for storage, processing and transmission of confidential customer and other information may not be effective to protect against data security breaches by third parties. The risk of unauthorized circumvention of our security measures has been heightened by advances in computer capabilities and the increasing sophistication of hackers. The banks that issue our program-managed cards, as well as our other content providers, distribution partners and third-party processors, also may experience similar security breaches involving the receipt, transmission and storage of our confidential customer and other information. Improper access to our or these third parties' systems or databases could result in the theft, publication, deletion or modification of confidential customer information and/or card data, including theft of funds on the card or counterfeit reproduction of the cards.

A data security breach of our or our partners' systems could lead to fraudulent activity involving our products and services, reputational damage, private claims or regulatory actions against us and increased compliance costs. Any such data security breach could result in protracted and costly litigation. If unsuccessful in defending that litigation, we might be forced to pay damages and/or change our business practices, any of which could have a material adverse effect on our business, results of operations and financial condition. Further, a significant data security breach could lead to additional regulation, which could result in new and costly compliance obligations. We may have to replace any issuing bank or third-party processor that has a security breach, which may not be possible on acceptable terms, or at all. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

We regularly experience unauthorized attempts to access our systems, but we have not experienced any material losses in connection with data security breaches discovered to date. While we have multiple security measures in place to both prevent and detect intrusions, rapid advances in computer capabilities and the increasing sophistication of hackers may expose us to significant losses in the future.

***Litigation, investigations or regulatory examinations could lead to significant settlements, fines, penalties or compliance costs.***

We are involved, and in the future may be involved, in various litigation and regulatory matters arising in the ordinary course of business. We are also subject to ongoing regulatory examinations related to our state money transmitter licenses. We may also be subject to other regulatory investigations from time to time. These matters can result in substantial costs and diversions of management time and other resources. While we do not anticipate any material negative outcomes related to these matters, we can provide no assurance that any pending or future matters will not have a material adverse effect on our business, results of operations and financial condition.



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**Table of Contents*****Fraudulent and other illegal activity involving our products and services could lead to reputational and financial harm to us or our partners and reduce the use and acceptance of our prepaid access products and services.***

Criminals are using increasingly sophisticated methods to acquire or activate prepaid cards illegally or to use prepaid cards in connection with illegal activities. In addition, we are subject to the security vulnerabilities of third parties who provide transaction processing services to us or to our content providers and distribution partners. Furthermore, our Cardpool business subjects us to additional fraud risks associated with previously owned cards or with merchandise credits. Merchandise credits function much like a prepaid gift card once issued. Such credits may result from organized retail theft, typically in the form of returns of stolen or fraudulently obtained goods by organized groups of professional shoplifters, or boosters, who then convert such goods into merchandise credits, which are sometimes then exchanged for cash. To the extent that our content providers view the exchange of merchandise credits by our Cardpool business as contrary to their efforts to reduce organized retail crime, our relationships with those content providers may be adversely affected. Content providers may also change their merchandise credit practices in a way that hurts our business. In addition, law enforcement agencies have advised us of investigations into the exchange activities of various customers they believe to be involved in such organized retail crime. Although we have introduced enhanced anti-fraud and anti-crime measures, such as improved know your customer and suspicious activity reporting in connection with our Cardpool business in an effort to reduce our fraud risk and the risk of illegal activity (including money laundering) being associated with our Cardpool business, the outcome of investigations by law enforcement agencies is difficult to predict. The monetary and other impacts of these investigations and our ongoing risk management actions may remain unknown for a substantial period of time.

A single significant incident of theft or fraud, or results of these investigations involving customers of our business, or the prepaid industry or card exchange industry more generally, could also result in losses and reputational damage, which could in turn reduce the use and acceptance of the products and services that we offer, cause distribution partners, content providers or reload network participants to cease doing business with us, lead to civil or criminal proceedings and liability, lead to fines and penalties by the credit card associations or lead to greater regulation that would increase our or our partners' compliance costs or increase our direct or indirect expenses associated with preventing and detecting both fraud and illegal activity. While we have not experienced any material losses in connection with fraudulent or illegal activities discovered to date, fraudulent or other illegal activities involving, or investigations relating to, our products and services, or any changes we make to our product and service offerings to prevent such activities, could have a material adverse effect on our business, results of operations and financial condition.

Prior to customers' purchases of our gift card products and GPR cards, we, or our content providers or our distribution partners generally bear losses due to theft and fraudulent access based on whose card processing systems are at fault. Following activation, whether a cardholder bears the loss of any theft, fraudulent access or other loss of a card depends upon the issuer's cardholder terms and conditions. We generally bear such losses to the extent that (a) we process or program manage the card, (b) the cardholder has registered the card, (c) the loss exceeds the amount for which the cardholder is responsible (with the cardholder's responsibility ranging from zero to \$500) and (d) the cardholder notifies us of the loss within the required timeframe.

***Changes in card association rules or standards set by Visa, MasterCard and Discover, or changes in card association and debit network fees or products or interchange rates, could materially and adversely affect our business, financial condition and results of operations.***

We and the banks that issue our program-managed cards are subject to Visa card association and debit network rules and standards. As a result of our acquisition of InteliSpend, Blackhawk Network California issues Discover-branded prepaid cards and is subject to Discover's network rules and standards. Noncompliance with these rules or standards



due to our acts or omissions or the acts or omissions of businesses that work with us could subject us or our issuing banks to fines or penalties imposed by card associations or networks, and we may

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be required to indemnify the banks for the fines and penalties they incur. The termination of the card association registrations held by us or any of the banks that issue our cards or any changes in card association or other debit network rules or standards, including interpretation and implementation of existing rules or standards, that increase the cost of doing business or limit our ability to provide our products and services could have a material adverse effect on our business, results of operations and financial condition.

In addition, from time to time, card associations increase the organization and/or processing fees that they charge, which could increase our operating expenses, reduce our profit margin and have a material adverse effect on our business, results of operations and financial condition. A portion of the revenue derived from our proprietary open loop cards is derived from our share of the fees charged to merchants for services provided in settling transactions routed through the networks of the card associations and network organizations, referred to as interchange fees. The enactment of the Dodd-Frank Act required the FRB to implement regulations that have substantially limited interchange fees for many issuers of debit cards and prepaid cards. While we believe that the exemption from the limits imposed by the FRB available to small issuing banks, such as MetaBank, Sunrise Bank, N.A. and Bancorp, will apply to our program-managed cards, it remains possible that the card associations and network organizations could reduce the interchange fees applicable to transactions conducted by the holders of cards issued by these banks. If interchange rates decline, whether due to actions by the payment networks, our issuing banks or existing or future legislation, regulation or the interpretation or enforcement thereof, our business, results of operations and financial condition could be materially and adversely affected.

***We may not be able to operate and scale our technology effectively to match our business growth.***

Our ability to continue to provide our products and services to a growing number of content providers and distribution partners, as well as to enhance our existing products and services and offer new products and services, is dependent on our information technology systems. If we are unable to manage the technology associated with our business effectively, we could experience increased costs, reductions in system availability or performance and losses of our network participants. Any failure of our systems in scalability and functionality could have a material adverse effect on our business, results of operations and financial condition.

***Our failure to keep pace with the rapid technological developments in our industry and the greater electronic payments industry may materially and adversely affect our business, results of operations and financial condition.***

The electronic payments industry is subject to rapid and significant technological changes, including ongoing technological advancement in the areas of smart cards, radio frequency and proximity payment devices (such as contactless cards), e-commerce and mobile commerce, and real-time reloading for prepaid telecom products, among others. We cannot predict the effect of technological changes on our business. We expect that new services and technologies applicable to the electronic payments industry will continue to emerge, and that these new services and technologies may be superior to, or render obsolete, the technologies and related business practices we currently use in our distributed products and services. Successful implementation of our strategy will depend in part on our ability to develop and implement technological changes and to respond effectively and quickly to changes in our industry.

We expect to invest in new technologies, services and infrastructure changes to further our strategic objectives, strengthen our existing businesses and remain competitive. These initiatives may be costly, could be delayed and may not be successful. In addition, in some areas, such as mobile interfaces, electronic gift card solutions and digital wallet integration, we may rely on strategic partners to develop or co-develop our solutions, or to incorporate our solutions into broader platforms for the electronic payments industry. We may not be able to enter into such relationships on attractive terms, or at all, and these relationships may not be successful. In addition, these partners, some of whom may be our competitors or potential competitors, may choose to develop competing solutions on their own or with

third parties. Even if we or our partners are successful in developing new services and technologies, these new services and technologies may not achieve broad acceptance due to a

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variety of factors, including a lack of industry-wide standards, competing products and services or resistance to these changes from our content providers and distribution partners, third-party processors or consumers. In addition, we may not be able to derive revenue from these efforts.

Our future success will depend, in large part, upon our ability to develop new technologies and adapt to technological changes and evolving industry standards. These initiatives are inherently risky, and they may not be successful. The failure of these initiatives could have a material adverse effect on our business, results of operations and financial condition.

***Changes in the telecom industry, consumers purchasing preferences and distribution partners support could cause our prepaid telecom business to decline.***

We are subject to changes in the telecom industry, including changes in distribution strategies for carriers, that may reduce our market share. Our telecom providers may choose to distribute their products through other third-party distributors or establish physical or online distribution channels that allow them to reach consumers directly. For example, in 2011, one of our telecom providers decided to pursue a single supplier strategy in its wholesale market which resulted in the loss of a significant share of our wholesale telecom supply business to another distributor. Furthermore, certain carriers have designated preferred distributors for their products in certain channels. In the future, some carriers may de-emphasize or choose to exit the prepaid market, thus reducing the scope of our telecom offerings and overall profitability.

Our prepaid telecom offerings generally have been sold in an unassisted manner, as opposed to an assisted sales environment in which sales employees are available to answer questions and demonstrate product features and functionality. As handsets become more sophisticated, consumers may prefer purchasing their handsets in an assisted sales environment, which could lead to a shift in our business model toward assisted sales, resulting in increased costs, or cause sales of our prepaid telecom products to decline or grow at a slower rate than expected or not at all.

Our distribution partners may not devote sufficient retail space to effectively market our telecom products, in particular handset offerings that require significant display and secure inventory storage space as compared to prepaid cards. In addition, our distribution partners may choose to discontinue offering telecom products due to legislative and regulatory developments that result in additional costs or compliance burdens in the retail sales environment.

***Assertions by third parties of infringement by us, our distribution partners or our content providers of their intellectual property rights could result in significant costs and substantially harm our business and operating results.***

The technologies used in the payments industry are protected by a wide array of patents and other intellectual property rights. As a result, third parties have in the past and may in the future assert infringement and misappropriation claims against us, our distribution partners or our content providers from time to time.

For example, on October 19, 2009, e2Interactive, Inc. and InComm, collectively, e2Interactive, filed a lawsuit against our subsidiary, Blackhawk Network, Inc., in Federal District Court in Wisconsin, asserting that Blackhawk infringed a patent held by e2Interactive relating to methods, systems and computer programs for processing a stored-value-card transaction request in a card data-management system, and seeking injunctive relief, damages in an unspecified amount and recovery of costs and attorneys' fees. The jury found infringement and awarded damages to e2Interactive in the amount of \$3.5 million for the period from August 2009 through February 2012, with no further payments due as the result of Blackhawk's removal of certain lines of code in a computer program. We fully accrued for this award in fiscal 2011. In December 2012, the trial court rendered its final post-trial rulings, entering judgment for approximately

\$3.7 million, including interest and costs, and entering a permanent injunction prohibiting use of the removed code. While the damages represent an immaterial

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impact to Blackhawk's financial results for the referenced periods, Blackhawk appealed. On March 12, 2014, the Court of Appeals for the Federal Circuit (the Federal Circuit) reversed the lower court and ruled that Blackhawk had not infringed. e2Interactive may request rehearing or rehearing *en banc* at the Federal Circuit or otherwise seek to reverse the Federal Circuit's decision by petitioning the U.S. Supreme Court. Review by the Supreme Court is discretionary. If the Federal Circuit's reversal becomes final, Blackhawk intends to ask the court to vacate the damages award and to dissolve the injunction.

In addition, in the past, we have received letters from various other parties claiming to have enforceable patent rights and asserting infringement of them by us. There can be no assurance that these assertions, or any such future assertions, will not result in liability or damages payable by us.

Our distribution partners may be subject to infringement or misappropriation claims that, if successful, could preclude the distribution partner from distributing our products and services. In addition, some of our agreements require that if claims related to our products and services are made against our distribution partners or content providers, we are required to indemnify them against any losses. For example, we are currently defending a number of our partners in connection with the matter *Alexsam, Inc. v. Best Buy Co., Inc. et al.*, filed in the United States District Court for the Eastern District of Texas, alleging patent infringement in connection with activation of prepaid cards. Alexsam was successful in other patent litigation in 2011. The defendants in our case have denied the claims and vigorously defended the infringement allegations. The trial court in the initial consolidated trial upheld the validity and enforceability of the Alexsam patents in late April 2013 and early May 2013. Separate infringement trials started in May 2013. The first litigation was settled in May 2013, and the next two trials resulted in verdicts of non-infringement by the defendants in June 2013. The remaining four cases were dismissed with prejudice, with no right of appeal. Alexsam has preserved its ability to appeal one case relating to subject matter involving Blackhawk transactions. If the matter is reversed on appeal, our content providers (including those not subject to the litigation) may be required to pay past and future royalties or future license fees (and may rely on us for indemnification of some of those payments) which could have a material adverse effect on our business, results of operations and financial condition.

Whether or not an infringement or misappropriation claim is valid or successful, it could adversely affect our business by diverting management's attention or involving us in costly and time-consuming litigation. If we are not successful in defending any such claim, we may be required to pay past and future royalties to use technology or other intellectual property rights then in use, we may be required to enter into a license agreement and pay license fees or we may be required to stop using the technology or other intellectual property rights then in use. Any of these results could have a material adverse effect on our business, results of operations and financial condition.

***If we are unable to adequately protect our brands and the intellectual property rights related to our distributed products and services, our competitive position could be harmed and we could be forced to engage in costly litigation to protect our rights.***

Our success depends in part on developing and protecting our intellectual property and other proprietary rights in our technology, including various aspects of our card activation and management platform. In addition, the Blackhawk brand, our Gift Card Mall and our other proprietary product brands such as PayPower and Reloadit are important to our business. We rely on a combination of patent, trademark and copyright laws, trade secret protection and confidentiality agreements to protect our intellectual property and other proprietary rights, all of which offer only limited protection. Some of our technology and other intellectual property may not be protected by intellectual property laws, particularly in foreign jurisdictions. The loss of our intellectual property or the inability to secure or enforce our intellectual property rights could have a material adverse effect on our business, results of operations and financial condition.

*We face settlement risk from retailers that sell our distributed products and services.*

Substantially all of our business is conducted through distribution partners. Our distribution partners collect payment from consumers and then remit these funds to us. In a limited number of cases, we have agreed to pay our closed loop content providers whether or not the distribution partners have paid us. In other limited cases, we

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have wholesale relationships where another party is responsible for collection of payments from merchants and subsequent remittance of such payments to us. In such cases, our settlement risk is increased due to reliance on these intermediaries.

For open loop products for which we act as program manager, we are liable for payments to the issuing bank whether or not the distribution partners have paid us. With respect to our Reloadit Pack, as the issuer, we are responsible for payment to the consumer regardless of any nonpayment by distribution partners. With respect to telecom products other than handsets, we are liable for payments to the telecom provider regardless of any nonpayment by distribution partners.

Settlement risk is affected by the seasonality of our business and peaks at year-end as a result of the holiday selling season. As of December 28, 2013, we estimate that we had settlement risk of \$223.5 million. We are not insured against these risks. We have in the past experienced settlement losses when an intermediary service provider failed to remit payment to us. These losses over the past three fiscal years have been immaterial. Significant settlement losses resulting from the adverse financial condition of our distribution partners or intermediaries or due to other factors could have a material adverse effect on our business, results of operations and financial condition.

***We receive important services from third-party vendors, and replacing them would be difficult and disruptive to our business.***

In addition to issuing banks, we rely on third-party vendors to provide certain services relating to our business, including customer service, warehousing and distribution, in-store merchandising, card production, transaction processing functions, customer verification services and credit validation. It would be difficult to replace some of our third-party vendors, in particular our sole warehousing and distribution provider for the United States and Canada and the software and service provider for our proprietary processing platform, in a timely manner if they were unwilling or unable to provide us with these services in the future, and our business and operations could be adversely affected. If we are required to replace a vendor, we may not be able to do so on acceptable terms, or at all. Also, to the extent that any third-party vendor fails to deliver services, either in a timely, satisfactory manner, or at all, our business, results of operations and financial condition could be materially and adversely affected.

***Recent and future acquisitions or investments could disrupt our business and harm our financial condition.***

We acquired a gift card exchange business, Cardpool in the fourth quarter of 2011. More recently, as of November 12, 2013, we acquired substantially all of the assets and liabilities of a business-to-business card sales company called IntelliSpend Prepaid Solutions, LLC and its subsidiaries, or IntelliSpend, that involves corporate incentives and consumer promotions. As a result, Blackhawk Network California issues Discover-branded prepaid products and consequently has registered with FinCEN as a provider of prepaid access. For additional information, please see the risk factor titled "We are increasingly facing more stringent anti-money laundering rules and regulations, compliance with which may increase our costs of operation, decrease our operating revenues and disrupt our business." Also in the fourth quarter of 2013, we acquired the stock of Retailo AG, a German company engaged in a prepaid card distribution business in Germany, Switzerland and Austria. In the future, we may pursue other acquisitions or investments that we believe will help us achieve our strategic objectives. The process of integrating an acquired business, product or technology can create unforeseen operating difficulties, expenditures and other challenges such as:

potentially increased regulatory and compliance requirements;



implementation or remediation of controls, procedures and policies at the acquired company;

diversion of management time and focus from operation of our then-existing business to acquisition integration challenges;

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coordination of product, sales, marketing and program and systems management functions;

transition of the acquired company's users and customers onto our systems;

retention of employees from the acquired company;

integration of employees from the acquired company into our organization;

integration of the acquired company's accounting, information management, human resources and other administrative systems and operations into our systems and operations;

liability for activities of the acquired company prior to the acquisition, including violations of law, commercial disputes and tax and other known and unknown liabilities; and

litigation or other claims in connection with the acquired company, including claims brought by terminated employees, customers, former stockholders or other third parties.

If we are unable to address these difficulties and challenges or other problems encountered in connection with our acquisition of IntelliSpend, Cardpool, Retailo or any future acquisition or investment, we might not realize the anticipated benefits of that acquisition or investment and we might incur unanticipated liabilities or otherwise suffer harm to our business generally.

To the extent that we pay the consideration for any future acquisitions or investments in cash, it would reduce the amount of cash available to us for other purposes. Future acquisitions or investments could also result in dilutive issuances of our equity securities or the incurrence of debt, contingent liabilities, amortization expenses or impairment charges against goodwill on our balance sheet, any of which could have a material adverse effect on our business, results of operations and financial condition.

***Our future success depends upon our ability to attract and retain key personnel.***

We depend on a number of key personnel who have substantial experience relevant to the payments industry and our operations. All of our employees, including William Tauscher, our Chief Executive Officer, Talbott Roche, our President, and Jerry Ulrich, our Chief Financial and Administrative Officer, are at-will employees, meaning they may terminate their employment with us at any time. Consequently, our future success will depend, to a significant extent, on our ability to identify, attract and retain key personnel, namely our management team and experienced sales, marketing, technical and systems management personnel, as well as finance, legal and compliance personnel. Qualified individuals are in high demand, particularly in the San Francisco Bay Area, where our principal offices are located, and we may incur significant costs to attract and retain them. In addition, we may experience difficulty assimilating our newly hired personnel and assimilating personnel from acquisition activity, which could have a material adverse effect on our business, results of operations and financial condition. Competitors have in the past and may in the future attempt to recruit our top management and employees. If we fail to identify, attract and retain key personnel, our business, results of operations and financial condition could be materially and adversely affected.

***We are subject to added business, political, regulatory, operational, financial and economic risks associated with our international operations.***

We currently conduct business in the United States and 20 other countries (with our international business accounting for approximately 19% of our total revenues in 2013), and an important element of our business strategy is the expansion of our business in our existing and new international markets. We are subject to a number of risks related to our foreign operations, including:

challenges caused by distance, language and cultural differences;

multiple, conflicting and changing laws and regulations, and difficulties in understanding and ensuring compliance with those laws by our employees and business partners;

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foreign currency fluctuations;

differing and potentially adverse tax laws;

higher costs associated with doing business internationally, such as costs associated with repatriating funds to the United States, administrative costs associated with payment settlement and other compliance costs related to doing business in foreign jurisdictions;

difficulties in staffing and managing international operations;

restrictions on the transfer of funds among countries and back to the United States;

differing levels of social and technological acceptance of prepaid products and services;

limitations on the level of intellectual property protection;

trade sanctions, political unrest, terrorism, war and epidemics or threats of any of these events;

lack of acceptance of our distributed products or of prepaid products generally;

the potential for disputes with our business partners; and

competitive environments that favor local businesses.

In addition, in certain markets, we have entered into and plan to enter into additional distribution agreements with local partners. Accordingly, our success in those markets depends in large part on the success of our commercial partners. We do not control those partners and there is no assurance that they will devote the time or resources, or have the capability, necessary to make our expansion into new markets successful.

The materialization of these risks could harm our current international operations, as well as our expansion efforts, which could in turn have a material adverse effect on our business, results of operations and financial condition.

***Our headquarters and one of our two data centers are located near known earthquake fault zones and in areas of elevated wild fire danger. The occurrence of an earthquake, fire or any other catastrophic event could disrupt our operations or the operations of third parties who provide vital support functions, which in turn could have a material adverse effect on our business, results of operations and financial condition.***

We and some of the third-party service providers on which we depend for various support functions, such as customer service, warehousing and distribution, card production, transaction processing functions, customer verification

services and credit validation, are vulnerable to damage from catastrophic events, such as power loss, natural disasters, terrorism and similar unforeseen events beyond our control. Our principal offices and one of our data centers, for example, are situated in the San Francisco Bay Area near known earthquake fault zones and areas of elevated wild fire danger. If a catastrophic event were to occur, our ability to operate our business in the normal course could be seriously impaired. The measures we have taken to prepare for such an event may not be successful, and we may experience unforeseen problems unrelated to catastrophic events. In addition, we might not have adequate insurance to cover our losses resulting from catastrophic events or other significant business interruptions. Any significant losses that are not recoverable under our insurance policies, as well as the damage to, or interruption of, our infrastructure and processes, could have a material adverse effect on our business, results of operations and financial condition.

#### **Risks Related to Our Relationship with Safeway**

*On February 19, 2014, Safeway announced that it intended to distribute its shares of our common stock to all Safeway stockholders. On March 6, 2014, Safeway announced that it had entered into a definitive agreement to merge with Albertsons (the Merger), and that it expects to complete the Spin-Off by mid-April 2014. In connection with the completion of the Merger, it is expected that Safeway's distribution of shares of our common stock will be taxable to Safeway and Safeway's stockholders.*

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*As disclosed in our preliminary information statement on Schedule 14C filed with the SEC on February 27, 2014, our board of directors approved, and, pursuant to an action taken by written consent without a meeting, Safeway, as the holder of a majority of the combined voting power of our common stock, approved, an amendment to our amended and restated certificate of incorporation to change certain provisions of our certificate of incorporation concerning a potential Spin-Off so as to be applicable whether or not the Spin-Off is intended to be tax-free to Safeway and its stockholders (the Charter Amendment). The Charter Amendment is intended to help preserve the ability of a Spin-Off to be tax-free for federal income tax purposes in the event such Spin-Off otherwise meets the applicable requirements for tax-free treatment, including in a circumstance in which Safeway does not consummate a strategic transaction involving the sale of Safeway, such as the Merger, that would prevent such tax-free treatment. Whether such a strategic transaction involving the sale of Safeway will be consummated is not expected to be known at the time of the Spin-Off.*

*The Charter Amendment will result in the shares of our Class B common stock distributed by Safeway to its stockholders in a Spin-Off, whether or not that Spin-Off is tax-free, no longer being convertible into shares of our Class A common stock, which means that our Class B common stock will retain 10 votes per share voting power following the Spin-Off. Following the Spin-Off, our Class B common stock will trade separately from our Class A common stock and may trade at different prices per share than our Class A common stock. We anticipate effecting the Charter Amendment by filing it with the Secretary of State of the State of Delaware on or after April 7, 2014.*

*Stockholders are cautioned that we do not control the timing of any Spin-Off.*

***Control by Safeway severely limits the ability of our other stockholders to influence matters requiring stockholder approval and could adversely affect our other stockholders.***

As of December 28, 2013, Safeway owned 94.0% of our outstanding Class B common stock and 0.1% of our outstanding Class A common stock, representing 91.2% of the combined voting power of our outstanding stock and 72.2% of the economic interest in our outstanding common stock. Accordingly, as it has since the inception of Blackhawk, Safeway is able to elect our entire board of directors and to exert a significant degree of influence or actual control over our management, business policies and affairs and over matters requiring stockholder approval, including super-majority approval, but will no longer be able to exert such influence or control through its ownership of our common stock following the Spin-Off.

Until such time as Safeway beneficially owns shares of our common stock representing less than a majority of the voting rights of our common stock (including as a result of the Spin-Off), Safeway has the ability to take stockholder action by written consent without calling a stockholder meeting and to approve amendments to our amended and restated certificate of incorporation and bylaws and to take other actions without the vote of any other stockholder, and stockholders other than Safeway are not able to affect the outcome of any stockholder vote during such time. As a result, Safeway has the ability to control all such matters affecting us, including: