BLACKHAWK NETWORK HOLDINGS, INC
Form 424B4
April 19, 2013
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Filed Pursuant to Rule 424(b)(4)
Registration Nos. 333-187325 and 333-188004

10,000,000 Shares

CLASS A COMMON STOCK

This is an initial public offering of the Class A common stock of Blackhawk Network Holdings, Inc. All of the 10,000,000 shares of Class A common stock are being sold by our existing stockholders, including our parent company, Safeway Inc., or Safeway. The selling stockholders will receive all of the net proceeds from the sale of the shares of our Class A common stock.

Prior to this offering, there has been no public market for our Class A common stock. The initial public offering price of our Class A common stock is $23.00 per share. Our Class A common stock has been approved for listing on the NASDAQ Global Select Market under the symbol HAWK.

Following this offering, we will have two classes of authorized common stock: Class A common stock and Class B common stock. Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders generally. Each share of our Class B common stock entitles its holder to ten votes on all matters to be voted on by stockholders generally. Holders of our Class A and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law. Our parent company, Safeway, will hold 39,315,772 shares of Class B common stock, representing 75.7% of our total outstanding shares of common stock, 93.8% of our total outstanding shares of Class B common stock, and 91.6% of the combined voting power of our outstanding common stock upon completion of this offering, assuming that the underwriters do not exercise their option to purchase additional shares. The shares being sold in this offering will represent 19.3% of our total outstanding shares of common stock immediately following this offering.

We are an emerging growth company, as that term is used in the Jumpstart Our Business Startups Act of 2012, and, as such, may elect to comply with certain reduced public company reporting requirements in future reports after the completion of this offering.

See Risk Factors beginning on page 18 to read about factors you should consider before buying shares of the Class A common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$ 23.000	$ 230,000,000
Underwriting discount(1)	$ 1.495	$ 14,950,000
Proceeds, before expenses, to the selling stockholders	$ 21.505	$ 215,050,000

(1) See Underwriting.

To the extent that the underwriters sell more than 10,000,000 shares of Class A common stock, the underwriters have the option to purchase up to an additional 1,500,000 shares from the selling stockholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about April 24, 2013.

Goldman, Sachs & Co. **BofA Merrill Lynch** **Citigroup** **Deutsche Bank Securities**

Barclays **BMO Capital Markets** **Credit Suisse**

Piper Jaffray **Raymond James** **Wells Fargo Securities**

Prospectus dated April 18, 2013

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Through and including May 13, 2013 (the 25th day after the date of this prospectus), all dealers effecting transactions in our Class A common stock, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

Neither we, the selling stockholders nor the underwriters have authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. Neither we, the selling stockholders nor the underwriters take any responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Industry and Market Data

This prospectus includes industry data and forecasts that we obtained from industry publications and surveys, public filings and internal company sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of the included information. Statements as to our ranking, market position and market estimates are based on independent industry publications, third-party forecasts and management s estimates and assumptions about our markets and our internal research. We have not independently verified such third-party information nor have we ascertained the underlying economic assumptions relied upon in those sources, and we

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cannot assure you of the accuracy or completeness of such information contained in this prospectus. Such data involve risks and uncertainties and are subject to change based on various factors, including those discussed under the headings Risk Factors and Cautionary Note Regarding Forward-Looking Statements in this prospectus.

Trademarks, Service Marks and Trade Names

We own or have rights to various trademarks, service marks and trade names that we use in connection with the operation of our business. This prospectus also contains trademarks, service marks and trade names of third parties, which are the property of their respective owners. We do not intend for our use or display of other companies trademarks, service marks, trade names or products in this prospectus to imply relationships with, or endorsement or sponsorship of us by, these other companies. Solely for convenience, the trademarks, service marks and trade names referred to in this prospectus may appear without the ®, TM or SM symbols, but such references do not constitute a waiver of any rights that might be associated with the respective trademarks, service marks or trade names.

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PROSPECTUS SUMMARY

This summary highlights selected information included elsewhere in this prospectus and is qualified in its entirety by the more detailed information and financial statements and notes thereto included elsewhere in this prospectus. Because it is abbreviated, this summary is not complete and does not contain all of the information that you should consider before investing in our Class A common stock. You should read the entire prospectus carefully before making an investment decision, including the information presented under the headings Risk Factors, Cautionary Note Regarding Forward-Looking Statements, and Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included elsewhere in this prospectus. Unless the context otherwise requires, Blackhawk Network Holdings, Inc., Blackhawk, the Company, we, us and our refer to Blackhawk Network Holdings, Inc. and its subsidiaries, and the terms Safeway, Parent and Safeway Inc. refer to our parent company, Safeway Inc., and its consolidated subsidiaries other than us.

Business

Overview

Blackhawk is a leading prepaid payment network utilizing proprietary technology to offer a broad range of gift cards, other prepaid products and payment services in the United States and 18 other countries. We believe our extensive payment network provides significant benefits to our three primary constituents: consumers who purchase the products and services we offer, content providers who offer branded gift cards and other prepaid products that are redeemable for goods and services, and distribution partners who sell those products. For consumers, we provide convenience by offering a broad variety of quality brands and content at retail distribution locations and online, enhanced by customer promotions and loyalty incentive programs that may be offered by our distribution partners. For our content providers, we drive incremental sales by providing access to millions of consumers and creating new customer relationships. For our distribution partners, we provide a significant, high-growth and highly productive product category that drives incremental store traffic and customer loyalty. Our technology platform allows us to efficiently and seamlessly connect our network participants and offer new products and services as payment technology evolves. We believe the breadth of our distribution network and product content, combined with our consumer reach and technology platform, create powerful network effects that enhance value for our constituents and fuel 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 extensive network connects to more than 500 content providers and over 100,000 active retail distribution locations, providing access to over 160 million consumer visits per week. In addition, we sell physical and electronic gift cards to consumers through both leading online distributors and our website, GiftCardMall.com. In fiscal year 2012, we processed a total load value of $8.5 billion and over 216 million load transactions.

We offer gift cards from leading consumer brands such as Amazon.com, Applebee s, iTunes, Lowe s, Macy s and Starbucks and from payment networks such as American Express, MasterCard and Visa. We also distribute prepaid telecom products offered by leading prepaid wireless telecom brands. In addition, we distribute general purpose reloadable, or GPR, cards provided by Green Dot and NetSpend, the industry leaders in this product category, as well as PayPower, our own GPR card. REloadit, our proprietary reload network, allows consumers to reload funds onto certain of their previously purchased GPR cards. Our content provider relationships allow us to provide what we believe is the most extensive selection of gift card brands and prepaid products in a single shopping

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location for consumers seeking to purchase prepaid products both as gifts and for their own use. In 2012, our gift card products represented approximately 84% of total revenues.

We distribute our products across multiple high-traffic channels such as grocery, convenience, specialty and online retailers. Grocery is our largest channel and enjoys a high volume of frequent visits from all consumer demographics. 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 and Canada as reported by Supermarket News on January 30, 2012. These grocery retailers include Ahold, Giant Eagle, Kroger, Loblaws, Publix and Safeway. We also distribute our products in specialty retailers such as Bed Bath & Beyond, Lowe s and Staples, in convenience stores such as QuikTrip and Wawa, and in other retailers such as JCPenney and Kohl s. In addition to the United States, we distribute our products in 18 other countries, including Canada, the United Kingdom and Australia. We are expanding in Brazil and Korea and we also plan to begin selling in China in 2013. Our international business accounted for approximately 15% of our total revenues in 2012. Because of the wide array of quality content we offer and the high-growth, highly productive characteristics of our product category, we have been able to develop strong relationships with our distribution partners, generally with multi-year contracts containing varying degrees of exclusivity.

We have invested over $100 million in our proprietary technology platform which connects content providers, distribution partners and transaction processors, and allows consumers to easily load, reload, redeem and manage prepaid cards. We believe our technology capabilities provide us with significant competitive advantages and cannot be easily replicated.

We have experienced significant growth since our inception in 2001 as we expanded our network. From 2008 through 2012, our revenues grew from $362 million to $959 million and our Adjusted net income grew from $22.7 million to $50.3 million, representing a compound annual growth rate, or CAGR, of 27.6% and 22.1%, respectively.

Industry Overview

As paper-based forms of payment have declined over the last several decades, card-based and other electronic forms of payment have increased significantly, with the development of different types of payment products and services to address specific consumer needs. Gift cards and other prepaid products represent a large and quickly growing segment within the continuing shift toward electronic payments. Prepaid products accounted for an estimated $483 billion of load value in the United States in 2011 and are expected to grow at a projected 12% CAGR from 2011 to 2015 according to Mercator Advisory Group s U.S. Prepaid Cards Market Forecasts, 2012-2015 research report.

Consumers increasingly view gift cards as convenient self-use products that often provide many advantages over traditional cash, debit and credit payment methods. This trend towards self-use is redefining the scope of the addressable market in the gift card category.

Digital products and mobile payments are also emerging as the next generation in prepaid technology, facilitating convenience and accessibility for consumers. Many merchants now offer prepaid products that can be purchased online and then delivered electronically either to the purchaser or to a gift recipient through email or social media. Mobile digital wallet applications are also being offered to provide consumers greater convenience and flexibility by using their mobile phone as a payment device at the point of sale. Worldwide mobile payment transactions are expected to grow to $617 billion in 2016 from $172 billion in 2012, according to Gartner s Forecast: Mobile Payment, Worldwide, 2009-2016 May 2012 research report. As mobile digital wallets continue to gain more widespread adoption, consumers will demand integrated solutions for management of their prepaid products. Platforms that can provide digital market participants with critical prepaid functionality and connectivity between consumers, retailers and payments networks will be best positioned to share in the rapid growth of this opportunity for mobile digital wallets.

Our Competitive Strengths

Leading Distribution. We have developed a network of over 100,000 active retail distribution locations across multiple channels, providing us with frequent access to a large number of consumers. Our diversified distribution capabilities include grocery stores, convenience stores and specialty and online retailers. The combination of our broad consumer reach, investments in retail store displays and our customized value-add services, such as merchandising, marketing programs and direct-to-store fulfillment, results in a highly productive third-party prepaid distribution program.

Breadth of Product and Service Offerings. We believe that our payment network offers consumers the most extensive assortment of gift cards and other prepaid products and payment services available in a single shopping location. We currently offer multiple categories of prepaid products and services, including gift cards, prepaid telecom cards and handsets, and GPR cards and reload services, with access to over 500 consumer brands, retailers and other merchants. The breadth of product categories and depth of our offerings in each category diversify our revenue streams and position us to benefit from shifting consumer trends.

Innovation. We have a history of innovation, driven by our strong commitment to consumer research and new product testing. We pioneered the distribution of gift cards through third-party retail channels. We launched GiftCardMall.com, a third-party online site for the sale of prepaid products. We have also developed innovative capabilities and services to integrate prepaid products with mobile applications. Our open platform can support a broad range of retailers, financial institutions, social networks and digital wallets. We also operate in the secondary gift card market through Cardpool, a gift card exchange that enables consumers to sell unused gift cards at a discount for cash and purchase gift cards at a discount. We believe that our broad-based industry knowledge in combination with our dedication to consumer research and our proprietary technology platform will allow us to continue to innovate and enhance the value of our network for all participants.

Proprietary and Scalable Technology. We have a vertically integrated infrastructure, which includes our proprietary switching and redemption, processing, settlement and e-commerce systems. We believe that owning and operating our own technology platform provides us with economic and time-to-market advantages when introducing new products, features and network participants. Our systems are designed to be highly scalable and reliable, which enables us to respond to rising demand while ensuring high-quality service for our network participants.

Strong Network Effects. The combination of our broad range of products and leading consumer brands, our extensive footprint of high-traffic distribution partners and our frequent access to a large consumer base creates strong, self-reinforcing network effects. We believe the growth in our product offerings, our distribution partners and our consumer base enhance the value we deliver to all network participants. We believe our network would be difficult to replicate and allows us to drive innovation, create new prepaid products and services and adapt to evolving payment technologies.

Experienced Management Team. Our senior management team has extensive experience across a wide range of disciplines relevant to the payments industry, including technology, distribution, retail program management and financial services.

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Our Growth Strategy

Increase Productivity of Our Distribution Partners. We believe there is a significant opportunity to enhance the productivity of our distribution partners, which will lead to greater sales at existing retail locations and drive incremental revenue for our business. We have developed best practices based on our distribution partners performance over time and we utilize these best practices to help our distribution partners measure and increase their productivity. Several of these best practices include development of expanded retail displays, use of our marketing programs and direct-to-store fulfillment solutions, and the inclusion of prepaid card purchases in our distribution partners loyalty and rewards programs.

Expand Our Content, Products and Services. We believe we have the opportunity to increase our revenues by expanding the breadth of our content as well as the types of products and services that we offer.

> ***Content.*** We believe there is meaningful opportunity to expand the content that is currently available at our points of distribution. For example, we are expanding our localization initiatives to deliver a customized mix of prepaid products tailored to individual markets, such as local restaurants, merchants and service providers. We have found that the introduction of new or expanded content often increases the sales from our fixtures.

> ***Products and Services.*** We believe there is an opportunity to expand the types of products and services we offer to consumers. For example, we have developed innovative capabilities and services to integrate prepaid products with mobile applications. We believe that we will be an important provider of gift card solutions for a broad set of digital payment offerings which are being developed by major and emerging technology companies, payment networks, financial institutions, retailer networks and third-party service providers. We are also expanding our Cardpool business by introducing card acquisition in grocery and other distribution channels and integrating Cardpool technology with our mobile application.

Continue to Develop International Markets. We continue to expand our business in countries with strong growth potential and the appropriate payment and retail infrastructure to support prepaid products. For example, we have replicated the U.S. model in Canada, where we offer prepaid products through leading grocery and convenience stores. We also have international operations in Australia, the United Kingdom and other countries in the European Union, where we have contracted with leading distribution partners. We are expanding in a number of countries including Brazil and Korea and we also plan to begin selling in China in 2013.

Expand Our U.S. Distribution. We believe there is opportunity to expand our distribution to new retail partners in the United States. The strength of our network, the variety of our offered brands and the breadth of our products have made our displays a destination for consumers. In addition, we believe our products and services have created a highly profitable product category for many of our existing distribution partners, which presents a compelling value proposition for other potential distribution partners.

Leverage Our Technology and Distribution Infrastructure to Drive Cost Efficiency. We believe that we have the opportunity to lower our costs through scale efficiencies, improved systems, cost discipline and continued process improvements. For example, as the overall scale of our operations has grown over the past three years, our processing and services expense has declined as a percentage of total revenues. We will continue to use established business processes to identify and execute initiatives to increase back-end integration and leverage infrastructure to increase the efficiency of our core prepaid card business.

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Our Relationship with Safeway

We are currently approximately 96% owned by Safeway, and Safeway will continue to hold shares of Class B common stock representing a significant majority of the combined voting power of our outstanding common stock upon completion of this offering. Safeway is also one of our largest distribution partners. Please see Certain Relationships and Related Party Transactions and Principal and Selling Stockholders.

Recent Developments First Quarter Results

Our consolidated financial statements for the quarter ended March 23, 2013 are not yet available. The following expectations regarding our results for this period are solely management estimates based on currently available information. Our independent registered public accounting firm has not audited, reviewed or performed any procedures with respect to these preliminary financial data and, accordingly, does not express an opinion or any other form of assurance with respect to these data.

We expect that for the quarter ended March 23, 2013:

- Our total operating revenues will be $185.1 million; and
- Our net income will be between $0.1 million and $0.3 million.

Key operating results for the quarter ended March 23, 2013 are expected to be as follows:

- Load value: $1.6 billion (compared to $1.3 billion for the quarter ended March 24, 2012);
- Commissions and fees as a % of load value: 9.0% (compared to 9.2% for the quarter ended March 24, 2012);
- Distribution partner commissions paid as a % of commissions and fees: 66.4% (compared to 64.5% for the quarter ended March 24, 2012); and
- Number of load transactions: 36.8 million (compared to 32.7 million for the quarter ended March 24, 2012).

Our actual results may differ from these expectations.

We expect our total operating revenues for the quarter ended March 23, 2013 to be $185.1 million, an increase of 22.1% from total operating revenues of $151.5 million for the quarter ended March 24, 2012. This increase was due primarily to an increase in load value of 23.0%, partially offset by a 20 basis point (0.2 percentage point) decline in commissions and fees as a percentage of load value, which is within the range of historical quarterly fluctuations that we experienced in fiscal year 2012.

We expect distribution partner commissions paid as a percentage of commissions and fees for the quarter ended March 23, 2013 to increase by 190 basis points (1.9 percentage points) from distribution partner commissions paid as a percentage of commissions and fees for the quarter ended March 24, 2012. The majority of this expected increase (approximately 100 basis points or 1.0 percentage points) was the result of increased commissions paid to Safeway pursuant to the amendment of our distribution partner agreements with Safeway, and the remainder was due to changes to the distribution partner mix and the territories in which our products are sold. We presently expect that these factors will continue to influence the percentage of commissions and fees paid to distribution partners in fiscal 2013.

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We expect our net income for the quarter ended March 23, 2013 to be between $0.1 million and $0.3 million compared to net income of $2.9 million for the quarter ended March 24, 2012. This change was due primarily to an increase in distribution partner commissions paid as a percentage of commissions and fees, increased marketing expenses net of marketing revenues and increased distribution partner program development expenses.

Our net income for the quarter ended March 23, 2013 is expected to include an aggregate amount of approximately $4.8 million of net interest expense, income tax expense and depreciation and amortization. Our net income for the quarter ended March 23, 2013 is also expected to include an aggregate amount of approximately $2.5 million ($1.6 million after-tax) in stock-based compensation expense, distribution partner mark-to-market expense, change in fair value of contingent consideration and amortization of intangibles. For the quarter ended March 24, 2012, the comparable amount of net interest expense, income tax expense and depreciation and amortization was $5.5 million, and the comparable amount of stock-based compensation expense, distribution partner mark-to-market expense, change in fair value of contingent consideration and amortization of intangibles was $1.7 million ($1.1 million after-tax).

The foregoing preliminary first quarter results constitute forward looking statements. Actual results may vary materially from the information contained in these forward-looking statements based on a number of factors. Please refer to the section entitled Cautionary Note Regarding Forward-Looking Statements in this prospectus for additional information.

Risk Factors

Our business is subject to a number of risks of which you should be aware before making an investment decision. These risks are discussed more fully under the caption Risk Factors, and include risks under the headings Risks Related to Our Business and Industry, Risks Related to Our Ongoing Relationship with Safeway and Risks Related to this Offering and Ownership of Our Class A Common Stock.

Corporate 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. 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 prospectus and should not be considered to be part of this prospectus.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least $1.0 billion, or (c) in which we become a large accelerated filer, which means that we have been public for at least 12 months, have filed at least one annual report and the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last day of our then most recently completed second fiscal quarter, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period. We refer to the Jumpstart Our Business Startups Act of 2012 herein as the JOBS Act, and references herein to emerging growth company shall have the meaning associated with such term in the JOBS Act.

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The Offering

Class A common stock offered by the selling stockholders, including Safeway	10,000,000 shares
Option to purchase additional shares of Class A common stock	The selling stockholders, including Safeway, have granted the underwriters a 30-day option to purchase up to an aggregate of 1,500,000 additional shares of our Class A common stock.
Class A common stock to be outstanding after this offering	10,000,000 shares (11,500,000 shares if the underwriters option to purchase additional shares is exercised in full).
Class B common stock to be outstanding after this offering	41,936,135 shares (40,436,135 shares if the underwriters option to purchase additional shares is exercised in full).
Voting power of Class A common stock outstanding after giving effect to this offering	2.3% (2.8% if the underwriters option to purchase additional shares is exercised in full).
Voting power of Class B common stock outstanding after giving effect to this offering	97.7% (97.2% if the underwriters option to purchase additional shares is exercised in full).
Voting rights	Following this offering, we will have two classes of authorized common stock: Class A common stock and Class B common stock. Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders generally. Each share of our Class B common stock entitles its holder to ten votes on all matters to be voted on by stockholders generally. Holders of our Class A and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law. Please see Description of Capital Stock.
Use of proceeds	We will not receive any of the net proceeds from the sale of Class A common stock by the selling stockholders in this offering. Please see Principal and Selling Stockholders.
Risk factors	You should carefully read and consider the information set forth under Risk Factors beginning on page 18 and all other information set forth in this prospectus before deciding to invest in our Class A common stock.
Listing and trading symbol	Our Class A common stock has been approved for listing on the NASDAQ Global Select Market under the symbol HAWK.

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The number of shares of Class A and Class B common stock to be outstanding after this offering is based on 51,508,755 shares of common stock outstanding as of April 2, 2013, adjusted to include:

- 406,957 shares of Class B common stock (of which 149,940 shares will be sold in the offering as Class A common stock) that will be issued as a result of the net exercise of a warrant in respect of 750,000 shares at an exercise price of $10.52 per share, which is contingent upon the completion of this offering; and

- 20,423 shares of Class B common stock issuable upon the exercise of outstanding options at a weighted average exercise price of approximately $6.78 per share, which will be sold in the offering as Class A common stock.

The number of shares of Class A and Class B common stock to be outstanding after this offering excludes:

- an aggregate of up to 1,122,449 shares of Class B common stock issuable upon the exercise of additional warrants outstanding, at a weighted average exercise price of approximately $16.30 per share, of which 185,204 shares are vested but not yet exercisable, and 937,245 shares will become vested only upon future achievement of performance-based vesting requirements and exercisable with the passage of time;

- an aggregate of 2,250,000 shares of Class A common stock issuable upon the exercise of warrants issued on April 2, 2013 with a weighted average exercise price of $20.00 per share, which will become exercisable on the earlier of 181 days after the date of this prospectus and a change in control, and an additional 15,306 shares of Class A common stock issuable upon the exercise of a warrant that we are contractually required to issue, which will have an exercise price of $20.00 per share and will become exercisable on the earlier of 181 days after the date of this prospectus and a change in control;

- 3,467,777 shares of Class B common stock issuable upon the exercise of options outstanding at a weighted average exercise price of approximately $14.52 per share;

- 646,000 shares of Class B common stock subject to stock appreciation rights outstanding at a weighted average exercise price of approximately $18.50 per share, which will be settled in shares of our Class B common stock;

- 116,900 unvested restricted stock units outstanding, which will be settled in shares of our Class B common stock;

- an additional 304,118 shares of Class B common stock reserved for future issuance under our Second Amended and Restated 2006 Restricted Stock and Restricted Stock Unit Plan, or the 2006 Plan, and our Amended and Restated 2007 Stock Option and Stock Appreciation Right Plan, or the 2007 Plan, which will become available for issuance as shares of Class A common stock under our 2013 Equity Incentive Award Plan after completion of this offering; and

- an additional 3,000,000 shares of Class A common stock that will be reserved for future issuance under our 2013 Equity Incentive Award Plan, which will become effective immediately prior to the completion of this offering.

Conventions that Apply to this Prospectus

Except as otherwise indicated, all information in this prospectus assumes:

no exercise of the underwriters   option to purchase additional shares from the selling stockholders;

the implementation of a 1-for-2 reverse stock split of our common stock effective as of April 1, 2013, applied retroactively to all numbers of common shares and per common share data;

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- the filing of our amended and restated certificate of incorporation, which will occur immediately prior to the completion of this offering; and

- the reclassification of shares of common stock held by our stockholders of record as of immediately prior to the completion of this offering into shares of Class B common stock on a share-for-share basis.

When the selling stockholders consummate sales of Class B common stock in this offering, the shares of Class B common stock sold will automatically convert into shares of Class A common stock on a share-for-share basis. As a result, purchasers of our common stock in this offering will only receive Class A common stock, and only Class A common stock is being offered by this prospectus. Shares of Class B common stock that are not sold by the selling stockholders will remain Class B common stock unless otherwise converted into shares of Class A common stock as described under Description of Capital Stock.

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Summary Consolidated Financial Data

The following tables present a summary of our consolidated financial data and other operational and financial data for the periods ended on or as of the dates indicated. You should read this information together with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements, related notes and other financial information included elsewhere in this prospectus. This summary of our consolidated financial data is not intended to replace the financial statements and is qualified in its entirety by the financial statements and related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results.

We use a 52- or 53-week fiscal year ending on the Saturday closest to December 31, and our fiscal quarters consist of three 12-week periods and one 16- or 17-week period. The fiscal years presented in the tables below consist of the 53-week period ended January 3, 2009, or 2008, and the 52-week periods ended January 2, 2010, or 2009, January 1, 2011, or 2010, December 31, 2011, or 2011, and December 29, 2012, or 2012. As used in this prospectus, italicized terms reference line items appearing in our consolidated financial statements.

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We derived the statement of operations data for 2010, 2011 and 2012 and the balance sheet data for 2011 and 2012 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the statement of operations data for 2008 and 2009 and the balance sheet data for 2008, 2009 and 2010 from our audited consolidated financial statements (which we adjusted for the impact of redeemable equity) not included in this prospectus.

	2008	2009	2010	2011	2012
	(in thousands, except per share amounts)				
CONSOLIDATED STATEMENT OF INCOME DATA:					
OPERATING REVENUES:					
Commissions and fees	$ 327,874	$ 419,086	$ 499,260	$ 639,633	$ 786,552
Program, interchange, marketing and other fees(1)	26,909	70,225	64,611	87,551	103,432
Product sales	7,030	14,682	13,858	24,622	69,085
Total operating revenues	361,813	503,993	577,729	751,806	959,069
OPERATING EXPENSES:					
Distribution partner commissions	207,786	266,254	315,087	410,781	510,789
Processing and services	56,805	81,303	95,694	117,263	137,105
Sales and marketing	47,918	69,472	84,131	101,581	129,285
Costs of products sold	6,438	13,502	12,167	22,655	66,572
General and administrative	21,220	24,180	33,685	39,404	38,513
Total operating expenses	340,167	454,711	540,764	691,684	882,264
OPERATING INCOME(1)	21,646	49,282	36,965	60,122	76,805
OTHER INCOME (EXPENSE):					
Interest and other income	3,146	1,507	789	1,536	1,297
Interest expense	(155)		(70)	(5)	(11)
INCOME BEFORE INCOME TAX EXPENSE	24,637	50,789	37,684	61,653	78,091
INCOME TAX EXPENSE	9,107	24,032	18,496	25,154	30,199
NET INCOME BEFORE ALLOCATION TO NON-CONTROLLING INTEREST	15,530	26,757	19,188	36,499	47,892
Add: Loss attributable to non-controlling interest (net of tax)					273
NET INCOME ATTRIBUTABLE TO BLACKHAWK(1)	$ 15,530	$ 26,757	$ 19,188	$ 36,499	$ 48,165
EARNINGS PER SHARE:					
Basic	$ 0.31	$ 0.53	$ 0.38	$ 0.71	$ 0.93
Diluted	$ 0.31	$ 0.52	$ 0.37	$ 0.70	$ 0.93
Weighted average shares outstanding basic	50,423	50,583	50,615	50,225	50,045
Weighted average shares outstanding diluted	50,423	50,773	50,998	50,877	50,045

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The following table presents consolidated balance sheet data as of year-end 2008, 2009, 2010, 2011 and 2012 on an actual basis and as of year-end 2012 on an as adjusted basis to give effect to the reclassification of outstanding shares of our common stock, the termination of all redemption rights held by equity holders and the reclassification of *Warrant and common stock liabilities* and *Redeemable equity* to *Stockholders equity*. In addition, upon completion of this offering, we will be required to record an expense with respect to the equity instruments held by certain distribution partners in an amount equal to the excess of the initial public offering price per share over the relevant put or exercise price of the instrument multiplied by the relevant number of equity securities, less the amount previously expensed, with an offsetting increase in *Stockholders equity*. The amount of this non-cash expense will be $6.0 million in the aggregate.

	As of Year-End					
						2012
					2012	Pro Forma
	2008	2009	2010	2011	Actual	As Adjusted(2)
	(in thousands)					
CONSOLIDATED BALANCE SHEET DATA(3):						
Cash, cash equivalents and restricted cash(4)	$ 217,315	$ 46,118	$ 70,454	$ 162,642	$ 181,633	$ 181,771
Overnight cash advances to Parent(5)	199,000	541,000	504,000	598,157	495,000	495,000
Settlement receivables(6)	136,139	146,000	179,221	249,028	510,853	510,853
Total assets	665,725	909,808	973,690	1,301,301	1,533,711	1,531,912
Settlement payables(6)	525,109	686,485	767,898	990,436	1,231,429	1,231,429
Notes payable to Parent	30,917	56,486	10,568	17,915		
Warrant and common stock liabilities(7)	10,712	16,528	22,801	24,943	26,675	
Total liabilities	643,950	856,126	897,754	1,186,434	1,436,064	1,406,267
Redeemable equity	6,561	21,913	26,632	30,112	34,997	
Total stockholders equity	15,214	31,769	49,304	84,755	62,650	125,645

(1) In 2009 and 2011, we entered into contract amendments with two of our issuing banks that substituted or adjusted a program management fee for monthly card fees on our proprietary Visa gift cards. Under GAAP, we recognized as revenue fees of $23.4 million in 2009 and $4.4 million in 2011 when we entered into these amendments. A portion of the fees recognized in 2009 and 2011 related to cards sold in earlier years. For further analysis of this item and others, please see footnote (b) in the Reconciliation of Non-GAAP Measures table as well as the discussion of Adjusted operating revenues, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income in footnote 7 to the Other Operational and Financial Data table.

(2) Pro forma as adjusted reflects the initial offering price of $23.00 per share and an offering date of December 29, 2012 for purposes of calculating as adjusted consolidated balance sheet data and gives effect to the reclassification of outstanding shares of our common stock, the termination of all redemption rights held by equity holders and the reclassification of *Warrant and common stock liabilities* and *Redeemable equity* as *Stockholders equity*. In addition, upon completion of this offering, we will be required to record an expense with respect to the equity instruments held by certain distribution partners in an amount equal to the excess of the initial public offering price per share over the relevant put or exercise price of the instrument multiplied by the relevant number of equity securities, less the amount previously expensed, with an offsetting increase in Stockholders equity. The amount of this non-cash expense will be $6.0 million in the aggregate, with a tax benefit of $1.2 million. Certain selling stockholders will exercise stock options, resulting in an increase to *Additional paid-in capital* of $0.1 million.

(3) A significant portion of gift card sales occurs in late December of each year as a result of the holiday selling season. The timing of December holiday sales, cash inflows from our distribution partners and cash outflows to our content providers results in significant but temporary increases in our *Cash, cash equivalents and restricted cash*, *Overnight cash advances to Parent*, *Settlement receivables* and *Settlement payables* balances at the end of each fiscal year relative to normal period end balances. In 2012, the average monthly balances of *Cash, cash equivalents and restricted cash* was $50.1 million and the average daily balance of *Overnight cash advances to Parent* was $146.3 million. For additional information about the effects of seasonality on our business, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Quarterly Results of Operations and Seasonality.

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(4) Includes $8.5 million, $8.7 million, $8.8 million, $9.0 million and $9.0 million of restricted cash at year-end 2008, 2009, 2010, 2011 and 2012, respectively. We maintain this cash balance in an escrow account in accordance with a stock purchase agreement with one of our distribution partners. This cash will become unrestricted and available for general corporate use upon the completion of this offering.

(5) *Overnight cash advances to Parent* represent cash amounts that are borrowed from us by Safeway and invested by it on an overnight basis for our benefit.

(6) *Settlement receivables* represent the amounts due from our distribution partners for funds collected at the point of sale related to any of our prepaid products. *Settlement payables* represent the amounts that are due to our content providers or issuing banks.

(7) *Warrant and common stock liabilities* represent the potential cash settlement obligation to certain distribution partners under put rights for equity instruments they hold. For additional information about the balance sheet classification of such rights, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Equity Instruments Issued to Distribution Partners.

	2008	2009	2010	2011	2012
	(in thousands, except percentages, average load transaction value and selling stores)				
OTHER OPERATIONAL AND FINANCIAL DATA:					
Load value(1)	$ 3,839,695	$ 4,684,505	$ 5,511,596	$ 6,914,373	$ 8,474,285
Commissions and fees as a % of load value(2)	8.5%	8.9%	9.1%	9.3%	9.3%
Distribution partner commissions paid as a % of commissions and fees(3)	63.4%	63.5%	63.1%	64.2%	64.9%
Number of load transactions(4)	109,940	134,633	154,551	184,245	216,214
Average load transaction value(5)	$ 34.93	$ 34.79	$ 35.66	$ 37.53	$ 39.19
Selling stores(6)	52,600	50,700	59,900	75,800	100,700
Adjusted operating revenues(7)	$ 164,574	$ 226,148	$ 265,716	$ 337,512	$ 448,280
Adjusted EBITDA(7)	$ 38,507	$ 52,921	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin(7)	23.4%	23.4%	22.5%	23.1%	22.2%
Adjusted net income(7)	$ 22,679	$ 26,846	$ 28,265	$ 38,920	$ 50,337

(1) Represents the total dollar amount of value loaded (including reloads) onto any of our prepaid products during the period.

(2) Represents the total amount of *Commissions and fees* recognized during the period as a percentage of Load value for the same period.

(3) Represents *Distribution partner commissions* expense divided by *Commissions and fees* revenue during the period.

(4) Represents the total number of load transactions (including reloads) for all of our prepaid products during the period.

(5) Represents Load value divided by Number of load transactions during the period.

(6) Represents the approximate number of retail store locations selling one or more of our cards during the latest fiscal quarter within the period presented.

(7) Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income are non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company s performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. These measures, however, should be considered in addition to, and not as a substitute for or superior to, operating revenues, operating income, operating margin, cash flows, or other measures of the financial performance prepared in accordance with GAAP.

We regard Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income as useful measures of operational and financial performance of the business. We regard Adjusted EBITDA margin as an important financial metric that we use to evaluate the operating efficiency of our business. Adjusted EBITDA and Adjusted net income measures are prepared and presented to eliminate the effect of items from EBITDA and net income that we do not consider indicative of our core operating performance within the period presented. Adjusted operating revenues are prepared and presented to eliminate the prior period effect or effects of certain provisions contained in contract amendments with our proprietary Visa gift card issuing banks and to eliminate the commissions paid to our distribution partners. Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of Adjusted operating revenues. Our Adjusted operating revenues, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income may not be comparable to similarly titled measures of other organizations because other organizations may not calculate these measures in the same manner as we do. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

We believe Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income are useful to evaluate our operating performance for the following reasons:

adjusting our operating revenues for the issuing bank contract amendment fees and the commissions paid to our distribution partners is useful to understanding our operating margin;

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EBITDA and Adjusted EBITDA are widely used by investors and securities analysts to measure a company s operating performance without regard to items that can vary substantially from company to company and from period to period depending upon their financing, accounting and tax methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

Adjusted EBITDA margin provides a measure of operating efficiency based on Adjusted operating revenues and without regard to items that can vary substantially from company to company and from period to period depending upon their financing, accounting and tax methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

non-cash equity grants made to employees and distribution partners at a certain price and point in time do not necessarily reflect how our business is performing at any particular time and the related expenses are not key measures of our core operating performance;

the issuing bank contract amendment fee adjustments are necessary to adjust operating revenues, EBITDA and *Net income* to recognize the revenues from these fees as if the contract amendments had been in force in the previous years, which we believe better reflects our core operating performance during those periods;

intangible asset amortization expenses can vary substantially from company to company and from period to period depending upon the applicable financing and accounting methods, the fair value and average expected life of the acquired intangible assets, the capital structure and the method by which the intangible assets were acquired and, as such, we do not believe that these adjustments are reflective of our core operating performance; and

non-cash fair value adjustments to contingent business acquisition liability do not directly reflect how our business is performing at any particular time and the related expense adjustment amounts are not key measures of our core operating performance.

The following tables present a reconciliation of *Total operating revenues* to Adjusted operating revenues, a reconciliation of *Net income* to EBITDA and Adjusted EBITDA, a reconciliation of Operating income margin to Adjusted EBITDA margin and a reconciliation of *Net income* to Adjusted net income, in each case reconciling the most comparable GAAP measure to the adjusted measure, for each of the periods indicated.

Reconciliation of Non-GAAP Measures:

	2008	2009	2010	2011	2012
			(in thousands)		
Adjusted operating revenues:					
Total operating revenues	$ 361,813	$ 503,993	$ 577,729	$ 751,806	$ 959,069
Issuing bank contract amendment fee adjustment(b)	10,547	(11,591)	3,074	(3,513)	
Distribution partner commissions	(207,786)	(266,254)	(315,087)	(410,781)	(510,789)
Adjusted operating revenues	$ 164,574	$ 226,148	$ 265,716	$ 337,512	$ 448,280

	2008	2009	2010	2011	2012
		(in thousands, except percentages)			
Adjusted EBITDA:					
Net income	$ 15,530	$ 26,757	$ 19,188	$ 36,499	$ 47,892
Interest and other income	(3,146)	(1,507)	(789)	(1,536)	(1,297)
Interest expense	155		70	5	11
Income tax expense	9,107	24,032	18,496	25,154	30,199
Depreciation and amortization	5,344	7,889	11,126	15,123	18,431
EBITDA	26,990	57,171	48,091	75,245	95,236
Adjustments to EBITDA:					
Employee stock-based compensation	1,071	1,686	2,490	3,028	5,008
Distribution partner mark-to-market expense(a)	(101)	5,655	6,138	3,260	2,432

Issuing bank contract amendment fee adjustment(b)	10,547	(11,591)	3,074	(3,513)	
Change in fair value of contingent consideration(c)				89	(2,974)
Adjusted EBITDA	$ 38,507	$ 52,921	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin:					
Total operating revenues	$ 361,813	$ 503,993	$ 577,729	$ 751,806	$ 959,069
Operating income	$ 21,646	$ 49,282	$ 36,965	$ 60,122	$ 76,805
Operating margin	6.0%	9.8%	6.4%	8.0%	8.0%
Adjusted operating revenues	$ 164,574	$ 226,148	$ 265,716	$ 337,512	$ 448,280
Adjusted EBITDA	$ 38,507	$ 52,921	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin	23.4%	23.4%	22.5%	23.1%	22.2%

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	2008	2009	2010 (in thousands)	2011	2012
Adjusted net income:					
Net income	$ 15,530	$ 26,757	$ 19,188	$ 36,499	$ 47,892
Employee stock-based compensation	1,071	1,686	2,490	3,028	5,008
Distribution partner mark-to-market expense(a)	(101)	5,655	6,138	3,260	2,432
Issuing bank contract amendment fee adjustment(b)	10,547	(11,591)	3,074	(3,513)	
Change in fair value of contingent consideration(c)				89	(2,974)
Amortization of intangibles(d)	449	449	449	543	785
Total pre tax adjustments	11,966	(3,801)	12,151	3,407	5,251
Tax expense on adjustments(e)	(4,817)	3,890	(3,074)	(986)	(2,806)
Adjusted net income	$ 22,679	$ 26,846	$ 28,265	$ 38,920	$ 50,337

(a) Distribution partner equity instruments are generally marked to market at each reporting date to fair value until the instrument is settled or expired. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Equity Instruments Issued to Distribution Partners.

(b) In 2009 and 2011, we entered into contract amendments with two of our issuing banks that substituted or adjusted a program management fee for monthly card fees on our proprietary Visa gift cards. Under GAAP, we recognized fee revenue of $23.4 million in 2009 and $4.4 million in 2011 when we entered into these amendments. A portion of the fees recognized in 2009 and 2011 related to cards sold in earlier years. Adjusted EBITDA and Adjusted net income for 2008 through 2011 have been adjusted to recognize the revenues from these fees as if the contract amendments had been in force in the previous years. The amount of revenues recognized over the periods presented in our non-GAAP financial measures is not different than the aggregate amount of revenues recognized under GAAP and presented in the audited financial statements.

(c) Adjustments to reflect a contingent business acquisition liability at its estimated fair value.

(d) Non-cash expense resulting from the amortization of intangible assets.

(e) Assumes our statutory tax rate adjusted for certain amounts that are not deductible for tax purposes.

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GLOSSARY OF INDUSTRY AND OTHER TERMS

Set forth below is a glossary of industry and other terms used in this prospectus:

Active, with respect to distribution partners, means distribution partners that have sold one or more of our cards during the latest fiscal quarter.

Average load transaction value for any period means the total dollar amount of value loaded onto any of our prepaid products divided by the total number of load transactions (including reloads) for all our prepaid products during the relevant period.

Closed loop gift cards means prepaid cards that are accepted as payment by only a single merchant, affiliated merchants (including licensees and franchisees) or a limited group of merchants (such as a shopping mall gift card).

Content providers means those companies that supply the prepaid access products that we distribute.

Conventional grocery retailer means a retailer that sells a variety of food products, including some perishable items, such as meat, produce and dairy, as well as general merchandise, as distinct from a retailer that is generally an operator of supercenters, big box general merchandise stores, specialty retail food stores, niche retail food stores or warehouse outlets.

Distribution partners means the retail and online merchants in our network that sell the products we distribute.

GPR cards means general purpose reloadable open loop prepaid cards, which are cards that are registered by the cardholder with the issuing bank or licensed money transmitter after customer identification is performed.

Issuing bank means a depository financial institution that, as a member of a network card association, issues the bank-issued open loop products we distribute.

Load transaction means each transaction through our network in which a consumer loads funds onto the cards we distribute (including reloads).

Load value means the total dollar amount of value loaded onto any of our prepaid products (including reloads).

Network-branded means products that are branded by a network card association such as American Express, MasterCard or Visa.

Open loop gift cards are open loop prepaid cards that are non-reloadable and anonymous (that is, do not require registration by the cardholder).

Open loop prepaid cards means cards that are branded by a network card association such as American Express, MasterCard or Visa, and that are accepted as payment by multiple, unaffiliated retail merchants. Open loop prepaid cards can be either open loop gift cards or GPR cards.

Open loop products are open loop prepaid cards and other prepaid access products redeemable at multiple, unaffiliated retail merchants.

PayPower GPR card means the GPR card that is both branded and program-managed by us and is issued by one of our issuing banks.

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Prepaid access product means an electronic device or vehicle, such as a card, plate, code, number, electronic serial number, mobile identification number, personal identification number or other instrument that provides access to funds or the value of funds that have been paid in advance and can be retrievable and transferable at some point in the future, including closed loop gift cards, open loop gift cards, prepaid telecom cards and GPR cards.

Prepaid telecom cards means prepaid cards that may be redeemed for airtime usage on the network of a wired or wireless telecommunications provider.

Program manage means to provide program manager services.

Program manager means an entity that is principally responsible for marketing and distributing open loop products for sale by third-party retailers, on behalf of an issuing bank, and that may provide certain other services, either directly or through subcontractors, including customer service, card production and transaction processing services.

Selling stores means the number of retail store locations selling one or more of our cards during the latest fiscal quarter within the period presented.

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RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this prospectus, before deciding whether to invest in shares of our Class A common stock. 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. If such an event or circumstance were to occur, the trading price of our Class A common stock may decline and you may lose all or part of your investment. 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 $577.7 million in 2010 to $959.1 million in 2012, representing a compound annual growth rate of 28.8%. 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;
- 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;
- 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, including Safeway. During 2010, 2011 and 2012, Safeway was our largest distribution partner, measured by operating revenues, and represented approximately 16.6%, 14.5% and 12.2% of our operating revenues, respectively, and our top four largest distribution partners excluding Safeway (each also a conventional grocery retailer), represented approximately 35.8%, 36.4% and 35.6% 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, including our agreement with Safeway, 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 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 12% in 2012.

Some of our contracts with content providers require a guarantee of our payment obligations by Safeway, our parent company. Some of these guarantees expire upon certain events, such as a change of control or this offering. Failure to provide adequate security or our failure to demonstrate our independent financial viability to such 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, competitive factors or otherwise, 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 Federal Deposit Insurance Corporation, or 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 2011, was the issuing bank for substantially all 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, or 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 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. For additional information about our relationship with our issuing banks, please see Business Bank Partners elsewhere in this prospectus.

Although we recently entered into an agreement with University National Bank as a second issuing bank for proprietary Visa gift cards and with The Bancorp Bank, or 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 assure you 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

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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. To the extent that our bank-issued products become the subject of such regulation, we may face increased compliance costs and limits on our product offerings, among other consequences. If any material adverse event were to affect MetaBank, University Bank, 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 (including the 2010 Supervisory Directive or further regulatory actions), 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.

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 USA PATRIOT Act, the Bank Secrecy Act, anti-terrorist financing laws and anti-bribery and corrupt practice laws and regulations;

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- 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 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 Bank Secrecy Act, or the BSA, as amended by the USA PATRIOT Act, or the Patriot Act. Our subsidiary, Blackhawk Network California, Inc., 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 the event that we were to become a provider of prepaid access in the future, either due to a change in Financial Crimes Enforcement Network s, or FinCEN s, position or our introduction of new products and services, we would be 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 identifying information for each person that 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 would result in increased costs and diversion of resources away from our core operations.

If any of our content providers is unwilling or unable to make any required operational changes to fall within the exclusions provided under the Prepaid Access Rule, we would no longer be able to

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distribute such products of the content provider for sale through our program without our or our retail distribution partners taking on an obligation to comply with the Prepaid Access Rule in full. Moreover, the compliance costs and risks associated with the Prepaid Access Rule may discourage content providers and distribution partners from participating in our network, which could have a material adverse effect on our business, results of operations and financial condition. In addition, abuse of our prepaid access products 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 and Business Regulation Anti-Terrorism and Anti-Bribery Regulation for additional information.

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.

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. Please See Business Regulation Anti-Terrorism and Anti-Bribery Regulation.

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 Credit Card Accountability, Responsibility, and Disclosure Act of 2009, or 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 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 Consumer Financial Protection Bureau, or 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,

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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 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 may become subject to further regulation by the CFPB, which was created under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or 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.

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. Please see Business Regulation Privacy for additional information relating to the privacy and information security laws and regulations to which we are subject.

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, University Bank, 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, FRB, the 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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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 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 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 4.1%, 4.3% and 3.9% of total revenues in 2010, 2011 and 2012, 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 our Blackhawk Network California, Inc. subsidiary 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, our Blackhawk Network California, Inc. subsidiary is a licensed money transmitter in most U.S. jurisdictions. 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. Please see Business Regulation Money Transmitter Licenses or Permits for additional information.

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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 impacted, 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 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.

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 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 products made certain 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 have 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 have requested clarification from the Staff that our changes comply with the network exclusivity requirement. However, based on language in the FAQs, it is possible that the Staff or our issuing banks regulators may take the position that certain of the open loop gift and GPR cards that we distribute (representing a small percentage of our total revenues in fiscal 2012) are not in compliance with the network exclusivity requirement. If this were to occur, we or the issuing banks may be required to make additional changes with respect to these cards, which could increase our compliance costs or make these cards less attractive to our distribution partners or consumers, each of which could have an adverse effect on our business, results of operations and financial condition. 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. Please see Business Regulation for additional information.

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 Interactive Communications International, or 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 networks, including those for Green Dot and NetSpend. 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 and secondary card exchange. 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.

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 Class A 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

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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;
- 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;
- 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- 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- 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 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 2012, we derived approximately 27% of our annual revenues in December. 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 and 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.

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 product 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 you 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.

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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, 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

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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.

Although we have not experienced any material losses in connection with data security breaches discovered to date, 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.

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.

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.

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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 purchase 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 issuers 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 others, 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. 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 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, University Bank 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.

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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 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

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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. Although we believed the e2Interactive allegations were meritless, 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 and entering a permanent injunction prohibiting use of the removed code. While the damages represent an immaterial impact to Blackhawk s financial results for the referenced periods, Blackhawk has appealed. The appeal remains pending.

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 are vigorously defending the infringement allegations. The court has scheduled an initial consolidated trial regarding validity and enforceability of the Alexsam patents for the end of April 2013, with the separate trials set to begin in May 2013 and continuing into July 2013. If Alexsam succeeds, 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 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 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 29, 2012, we estimate that we had settlement risk of $135 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 except in 2010, when we experienced losses totaling $3.5 million, related to a single distribution partner. 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.

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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.

Future acquisitions or investments could disrupt our business and harm our financial condition.

We recently acquired a gift card exchange business, Cardpool. 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;
- 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 Cardpool 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

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Executive Officer, Talbott Roche, our President, and Jerry Ulrich, our Chief Financial 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, which could have a material adverse effect 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 18 other countries (with our international business accounting for approximately 15% of our total revenues in 2012), 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;
- 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.

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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 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 Ongoing Relationship with Safeway

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

Upon completion of this offering, Safeway will own no shares of our Class A common stock, but will own 93.8% of our outstanding Class B common stock, representing 91.6% of the combined voting power of our outstanding stock and 75.7% of the economic interest in our outstanding common stock (or 91.0% and 72.9%, respectively, if the underwriters option to purchase additional shares is exercised in full). Accordingly, as it has since the inception of Blackhawk, Safeway will be able to elect our entire board of directors and will continue 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.

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, Safeway will have 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. Investors in this offering will not be able to affect the outcome of any stockholder vote during such time. As a result, Safeway will have the ability to control all such matters affecting us, including:

- the composition of our board of directors and, through our board of directors, any determination with respect to our business plans and policies;
- any determinations with respect to mergers, acquisitions and other business combinations;
- our acquisition or disposition of assets;
- our financing activities, including the issuance of additional equity securities;
- corporate opportunities that may be suitable for us and Safeway, subject to the corporate opportunity provisions in our amended and restated certificate of incorporation, as described below;
- determinations with respect to the enforcement of rights we may have against third parties, including with respect to intellectual property rights;

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- the payment of dividends on our common stock; and
- the number of shares available for issuance under our stock plans for our existing and prospective employees.

This concentrated control will limit the ability of other stockholders to influence corporate matters and, as a result, we may take actions that our other stockholders do not view as beneficial. Safeway s voting control may also discourage or block transactions involving a change of control of Blackhawk, including transactions in which you as a holder of our Class A common stock might otherwise receive a premium for your shares over the then-current market price. For example, this concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could cause the market price of our Class A common stock to decline or prevent our stockholders from realizing a premium over the market price for their Class A common stock. Moreover, Safeway is not prohibited from selling a controlling interest in us to a third party and may do so without your approval and without providing for a purchase of your shares of Class A common stock. Accordingly, your shares of Class A common stock may be worth less than they would be if Safeway did not maintain voting control over us.

For additional information about our relationship with Safeway, please see Certain Relationships and Related Party Transactions and Principal and Selling Stockholders elsewhere in this prospectus.

We are a controlled company within the meaning of the NASDAQ Stock Market rules and, as a result, expect to qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Following the consummation of this offering, we expect that Safeway will continue to control approximately 91.6% of the voting power of our outstanding common stock. As a result, we expect to be a controlled company within the meaning of the NASDAQ Stock Market corporate governance standards. Under the controlled company exemption to the independence requirements of the NASDAQ Stock Market, we will be exempt from the rules of the NASDAQ Stock Market that require that our board of directors consist of a majority of independent directors, that our compensation committee consist solely of independent directors and that our nominating and governance committee consist solely of independent directors. The NASDAQ Stock Market requirement that our audit committee consist solely of independent directors will apply, subject to the phase-in provisions of the applicable listing requirements and the SEC s rules. A director who is an independent member of both the Safeway board of directors and our board of directors will be considered independent for this purpose.

If we utilize the controlled company exemption, we will not be required to have a majority of independent directors and our nominating and corporate governance and compensation committees will not need to consist entirely of independent directors and such committees will not be subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NASDAQ Stock Market.

Conflicts of interest between us and Safeway could be resolved in a manner unfavorable to us and our stockholders.

Safeway s interests may conflict with our interests and your interests as a stockholder. Various conflicts of interest between us and Safeway could arise. Seven of our eight directors are current or former members of the board of directors or executive officers of Safeway and our chief executive

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officer serves on the board of directors of Safeway. Ownership interests of directors or officers of Safeway in the common stock of Blackhawk and ownership interests of our directors and officers in the common stock of Safeway, or a person s service as either a director or officer of both companies, could create or appear to create potential conflicts of interest when those directors and officers are faced with decisions that could have different implications for Safeway and Blackhawk. These decisions could, for example, relate to:

- corporate opportunities;
- arrangements with our distribution partners, many of which are conventional grocery retailers that compete with Safeway;
- the impact that operating decisions for our business may have on Safeway s consolidated financial statements;
- management stock ownership;
- business combinations involving us;
- our dividend policy; and
- the intercompany services and arrangements between Blackhawk and Safeway.

Potential conflicts of interest could also arise if we enter into any new commercial arrangements with Safeway in the future. Our directors and officers who have interests in both us and Safeway may also face conflicts of interest with regard to the allocation of their time between Safeway and Blackhawk matters. Please see the risk factor titled Our amended and restated certificate of incorporation could prevent us from benefiting from corporate opportunities that might have otherwise been available to us.

These potential conflicts of interest may make it more difficult for us to favorably resolve disputes that arise between us and Safeway with respect to our past and ongoing relationships and could result in a significant reduction of our revenue. Disputes may arise between Safeway and us in a number of areas relating to our ongoing relationships, including:

- labor, tax, employee benefit, indemnification and other matters arising from our separation from Safeway;
- sales or distributions by Safeway of all or any portion of its ownership interest in us;
- our ability to engage in activities with certain channel, technology or other marketing partners;
- the nature, quality and pricing of services Safeway has agreed to provide us;
- business opportunities that may be attractive to both Safeway and us; and

product or technology development or marketing activities which may require the consent of Safeway.

Furthermore, under the administrative cooperation agreement, we will agree with Safeway to exchange information that has been regularly provided to the other party prior to the initial public offering as well as information that is reasonably necessary for certain specified purposes. Until Safeway is no longer required to consolidate our results of operations and financial position (determined in accordance with generally accepted accounting principles), we will agree to use our reasonable best efforts to use the same independent registered public accounting firm selected by Safeway, use reasonable best efforts to timely complete our audit and provide Safeway with all required financial and other information.

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For a description of our material agreements with Safeway, please see Certain Relationships And Related Party Transactions Relationship with Safeway and Related Transactions elsewhere in this prospectus.

Although we are party to a tax sharing agreement with Safeway under which our tax liabilities effectively may be determined as if we were not part of any consolidated, combined or unitary tax group of Safeway and/or its subsidiaries, we nonetheless could be held liable for the tax liabilities of other members of these groups.

We have historically been included in Safeway s consolidated group for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups that include Safeway and/or certain of its subsidiaries for state and local income tax purposes. Under our tax sharing agreement, or TSA, which was amended and restated effective December 30, 2012, we and Safeway generally make payments to each other such that, with respect to U.S. federal income tax returns for any taxable period in which we or any of our subsidiaries are included in Safeway s consolidated group for U.S. federal income tax purposes, the amount of taxes to be paid by us is determined, subject to certain adjustments, as if we and each of our subsidiaries included in such consolidated group filed our own consolidated federal income tax return. For state and local income tax purposes, the TSA provides that we and Safeway will generally make payments to each other such that, with respect to state and local income tax returns for any taxable period in which we or any of our subsidiaries are included in Safeway s combined, consolidated or unitary group for state or local income tax purposes, the amount of taxes to be paid by us is determined, subject to certain limitations, by calculating the excess of any taxes shown due on any such return over the amount that would otherwise be due if the return were recalculated by excluding us and any of our included subsidiaries.

Following this offering, we do not expect to be included in the Safeway consolidated group for U.S. federal income tax purposes and for some state and local income tax purposes. However, each member of a consolidated group for U.S. federal income tax purposes during any part of a consolidated return year is jointly and severally liable for tax on the consolidated return of such year and for any subsequently determined deficiency thereon. Similarly, in some other jurisdictions, each member of a consolidated, combined or unitary group for state, local or foreign income tax purposes is jointly and severally liable for the state, local or foreign income tax liability of each other member of the consolidated, combined or unitary group. Accordingly, for any period in which were included in the Safeway consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Safeway and/or its subsidiaries, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of any such group.

In addition, if in the future Safeway decides to undertake a tax-free spin-off of our Class B common stock, under the TSA, we would generally be liable for, among other things, any taxes resulting from the failure of such spin-off to qualify as a tax-free transaction to the extent such taxes are attributable to, or result from, any act or failure to act by us or certain transactions involving us following a spin-off. If neither we nor Safeway are responsible for the failure of such spin-off to qualify as a tax-free distribution, we would each be liable for 50% of any resulting taxes. Any such tax liability could have a material adverse effect on our business and financial position. As of the date of this prospectus, Safeway has advised us that it does not have any present intention or plans to undertake such a tax-free spin-off.

If our commercial distribution agreements with Safeway expire or are renewed on less favorable terms, our business, financial conditions or results of operations could be materially and adversely affected.

Revenues generated under our distribution partner agreements with Safeway represented approximately 14.5% and 12.2% of our revenues during 2011 and 2012, respectively. Prior to 2013,

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the portion of the distribution commission that we retained pursuant to these agreements was higher than the portion of commissions that we retained pursuant to our other distribution partner agreements and reflected additional services that we provided to Safeway compared to other distribution partners. Effective December 30, 2012, our distribution partner agreements with Safeway were amended to, among other things, extend the term to December 31, 2017 and decrease the share of distribution partner commissions retained by us. The term of these agreements are subject to earlier termination in the event of material breach, insolvency, operational failure of the Blackhawk information technology network or changes to the Blackhawk distribution program that have a material adverse effect on Safeway. The agreements automatically renew for successive five-year terms unless either party elects not to renew the agreements at least 12 months in advance of renewal. There can be no assurance that the agreements will continue to be renewed or, if so, that Safeway will agree to renew the agreements on existing terms. The expiration or termination of these agreements or renewal on less favorable terms to us could have a material and adverse effect on our business, financial condition or results of operations. Please see the risk factor under Risks Related to Our Business and Industry titled 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.

Our amended and restated certificate of incorporation could prevent us from benefiting from corporate opportunities that might have otherwise been available to us.

Our amended and restated certificate of incorporation will contain provisions related to corporate opportunities that may be of interest both to us and Safeway. It will provide that if a corporate opportunity is offered to:

- one of our officers or employees who is also a director (but not an officer or employee) of Safeway, that opportunity will belong to us unless expressly offered to that person primarily in his or her capacity as a director of Safeway, in which case it will belong to Safeway;

- one of our directors who is also an officer or employee of Safeway, that opportunity will belong to Safeway unless expressly offered to that person primarily in his or her capacity as a director of Blackhawk, in which case it will belong to us; and

- any person who is either (1) an officer or employee of both us and Safeway or (2) a director of both us and Safeway (but not an officer or employee of either one), that opportunity will belong to Safeway unless expressly offered to that person primarily in his or her capacity as a director of Blackhawk, in which case it will belong to us.

In following these procedures, any person who is offered a corporate opportunity will have satisfied his or her fiduciary duties to us and our stockholders. In addition, our amended and restated certificate of incorporation will provide that any corporate opportunity that belongs to us or Safeway, as the case may be, may not be pursued by the other, unless and until the party to whom the opportunity belongs determines not to pursue the opportunity and so informs the other party. Furthermore, so long as the material facts of any transaction between us and Safeway have been disclosed to or are known by our board of directors or relevant board committee, and the board or such committee (which may, for quorum purposes, include directors who are directors or officers of Safeway) authorizes the transaction by an affirmative vote of a majority of the disinterested directors, then, to the greatest extent permitted by law, Safeway will be deemed to have satisfied its fiduciary duties and will not be liable to us or our stockholders for any breach of fiduciary duty or duty of loyalty relating to that transaction. These provisions create the possibility that a corporate opportunity that may be pertinent to us could be used for the benefit of Safeway.

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In order to preserve the ability of Safeway to distribute its shares of our Class B common stock on a tax-free basis, we may be prevented from pursuing opportunities to raise capital, to effectuate acquisitions or to provide equity incentives to our employees, which could hurt our ability to grow.

Beneficial ownership of at least 80% of the total voting power and 80% of each class of nonvoting capital stock, if any, is required in order for Safeway to effect a tax-free spin-off of Blackhawk or certain other tax-free transactions. As of the date of this prospectus, Safeway has advised us that it does not have any present intention or plans to undertake such a tax-free spin-off. However, for the immediate future Safeway intends to use its majority voting interest to cause Blackhawk to retain the ability to engage in such a transaction. In order to maintain such an ability, Safeway may prevent us from issuing stock or other securities for capital raising purposes, as consideration for an acquisition or as equity incentives to our employees, which could cause us to forego capital raising or acquisition opportunities that would otherwise be available to us and may restrict our ability to incentivize our employees, thus potentially limiting our growth.

We are exposed to the unsecured credit risk of Safeway and also dependent on Safeway for cash management and short-term liquidity needs.

We have entered into a cash management and treasury services agreement with Safeway. This agreement sets forth the terms and conditions of the cash management and credit services provided to us by Safeway and permits Safeway to borrow cash from our operating accounts in excess of our immediate working capital and other operating requirements, calculated in accordance with the agreement, on an overnight basis to meet Safeway s short-term funding requirements or to be otherwise invested on our behalf. These advances are made pursuant to unsecured promissory notes. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceedings, holders of Safeway s secured indebtedness will have prior claim to Safeway s assets that constitute such holders collateral. We will participate ratably with all holders of Safeway s unsecured indebtedness that is deemed to be of the same class as our unsecured promissory notes. In such event, it is possible that Safeway s remaining assets may be insufficient to satisfy our claims in full.

If Safeway were to become insolvent, the return of the cash balances, if at all, could be delayed pending resolution of bankruptcy proceedings. If the return of our overnight cash balances is delayed or prevented, we may have insufficient cash to satisfy our obligations and operate our business. As a result, any such event could adversely affect our reputation and operating revenues. In 2012, the average and largest outstanding principal amounts of cash advances to Safeway were $146.3 million and $598.2 million, respectively.

Similarly, the ability of Safeway to provide other services contemplated by the cash management and treasury services agreement, including the ability of Safeway to fund certain of our short-term working capital requirements or provide other forms of credit, are dependent on Safeway s ability to perform its financial obligations thereunder. If Safeway is unable to comply with its obligations, we may not be able to find alternative sources of credit support to meet our short-term working capital and credit support requirements, either on acceptable terms or at all, which could have an adverse effect on our results of operations and financial condition. In addition, in the promissory notes issued to Safeway we also covenant not to incur any liens on our assets without Safeway s prior consent, which covenant could materially constrain our ability to obtain third party financing in the future while amounts are outstanding to Safeway.

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Future sales or distributions of our shares by Safeway could depress our Class A common stock price.

After this offering, and subject to the lock-up period described below, Safeway may sell all or a portion of its remaining shares of our Class B common stock (which shares would be converted automatically into Class A shares in connection with any sale prior to a tax-free distribution) or distribute those shares to its stockholders, including a distribution in exchange for Safeway s shares or securities (or another similar transaction), in which event no conversion to Class A common stock would take place. Additional sales by Safeway in the public market or distributions to its stockholders of substantial amounts of our common stock in the form of Class B common stock, or the filing by Safeway of a registration statement relating to a substantial amount of our common stock, could depress our Class A common stock price.

In addition, Safeway will have the right, subject to certain conditions, to require us to file registration statements covering its shares or to include its shares in other registration statements that we may file. In the event Safeway exercises its registration rights and sells all or a portion of its shares of our Class A common stock, the price of our Class A common stock could decline. Please see Description of Capital Stock Registration Rights.

Risks Related to this Offering and Ownership of Our Class A Common Stock

The dual class structure of our common stock has the effect of concentrating voting control with holders of our Class B common stock and limiting your ability to influence corporate matters.

Our Class B common stock has 10 votes per share, and our Class A common stock, which is being offered by the selling stockholders in this initial public offering, has one vote per share. When this offering is completed, holders of our Class B common stock will beneficially own shares representing 97.7% of the voting power of our outstanding capital stock. Due to the 10-to-1 voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock even when the shares of Class B common stock represent a small minority of all outstanding shares of our Class A and Class B common stock, and such voting control will be concentrated with Safeway. This concentrated control will very significantly limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be materially and adversely affected.

An active trading market for our Class A common stock may not develop or be maintained, and you may not be able to resell your shares at or above the initial public offering price.

Prior to this offering, there has been no public market for shares of our Class A common stock. Although our Class A common stock has been approved for listing on the NASDAQ Global Select Market, an active trading market for our shares may never develop or be sustained following this offering. In addition, we cannot assure you as to the liquidity of any such market that may develop or the price that our stockholders may obtain for their shares of our Class A common stock. The initial public offering price of our Class A common stock will be determined through negotiations between the selling stockholders and the underwriters. This initial public offering price may not be indicative of the market price of our Class A common stock after this offering. In the absence of an active trading market for our Class A common stock, investors may not be able to sell their Class A common stock at or above the initial public offering price or at the time that they would like to sell. As a result, you could lose all or part of your investment.

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The market price of our Class A common stock may be volatile, which could cause the value of an investment in our stock to decline.

The market price of our Class A common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

- changes in financial estimates or recommendations by securities analysts or failure to meet analysts performance expectations;
- changes in market valuations of similar companies;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- sales of our capital stock by our directors or executive officers or sales or distributions of our capital stock by Safeway;
- actions by or changes in our relationship with Safeway;
- the expiration of contractual lock-up agreements;
- the gain or loss of significant distribution partners or content providers;
- announcements by us or our competitors of significant contracts, acquisitions or strategic alliances;
- litigation involving us, our industry or both;
- additions or departures of key personnel;
- regulatory developments in the United States and/or foreign countries;
- investors general perception of us; and
- changes in general economic, industry and market conditions.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect the trading price of our Class A common stock.

In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management s attention and our other resources and could have a material adverse effect on our business, results of operations and financial condition.

The existence of multiple classes of common stock may harm the value and liquidity of our Class A common stock.

The holders of Class B common stock are entitled to 10 votes per share, and the holders of our Class A common stock are entitled to one vote per share. The difference in the voting rights of our Class A and Class B common stock could harm the value of the Class A common stock to the extent that any current or future investor in our common stock ascribes value to the rights of the holders of our Class B common stock to 10 votes per share. In addition, following any distribution of Class B common stock to the stockholders of Safeway in a transaction intended to qualify as a tax-free distribution under Section 355 of the Internal Revenue Code of 1986, as amended, or the Code, or any corresponding provision of any successor statute, shares of Class B common stock will no longer be convertible into shares of Class A common stock. In such event, we may apply to have our Class B common stock listed on a securities exchange. The existence of multiple classes of common stock could result in less liquidity for our Class A common stock and could depress the price of our Class A common stock.

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The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

As a public company, we will incur significant legal, accounting and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the Dodd-Frank Act and related rules implemented or to be implemented by the SEC and the NASDAQ Stock Market. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. For so long as we qualify as an emerging growth company under the JOBS Act, we may make certain elections that would subject us to reduced reporting and corporate governance requirements. Please see the risk factor titled We are an emerging growth company, and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our Class A common stock may be less attractive to investors. Nonetheless, we expect the rules and regulations associated with being a public company to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept constraints on policy limits and coverage or incur substantially higher costs to obtain coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers and may divert management s attention. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our Class A common stock, fines, sanctions and other regulatory action and potentially civil litigation.

We will be required to assess our internal control over financial reporting on an annual basis and any future adverse findings from such assessment could result in a loss of investor confidence in our financial reports, significant expenses to remediate any internal control deficiencies and ultimately have an adverse effect on the market price of our Class A common stock.

As a result of becoming a public company, we will be required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the first full fiscal year beginning after the effective date of this offering. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as an opinion from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. A material weakness is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected.

The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. We cannot assure you that there will not be material weaknesses and significant deficiencies in our internal controls. If our internal control over financial reporting is not effective, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations and lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our Class A common stock to decline. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the NASDAQ Global Select Market, regulatory investigations, civil or criminal sanctions and class action litigation.

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If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our Class A common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

We are an emerging growth company, and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our Class A common stock may be less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act, and for so long as we are an emerging growth company, among other things, we will:

- not be required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act;
- not be required to hold a nonbinding advisory stockholder vote on executive compensation pursuant to Section 14A(a) of the Exchange Act;
- not be required to hold a nonbinding advisory stockholder vote on any golden parachute payments that were not previously approved, pursuant to Section 14A(b) of the Exchange Act;
- be exempt from any rule adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplemental auditor discussion and analysis; and
- be subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements.

We may take advantage of certain of these exemptions until we are no longer an emerging growth company, and we cannot predict if investors will find our common stock less attractive because we rely on certain of these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our Class A common stock and our stock price may be more volatile. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least $1.0 billion, or (c) in which we become a large accelerated filer, which means that we have been public for at least 12 months, filed at least one annual report and the market value of our Class A common stock that is held by non-affiliates exceeds $700 million as of the last day of our then most recently completed second fiscal quarter, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for companies that are not emerging growth companies.

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Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our Class A common stock is substantially higher than the net tangible book value per share of our Class A common stock outstanding prior to this offering. Therefore, if you purchase our Class A common stock in this offering, you will incur an immediate substantial dilution of $21.43 in net tangible book value per share from the initial public offering price you paid of $23.00 per share. For additional information about the dilution that you will experience immediately after this offering, please see Dilution.

Our anti-takeover provisions may delay or prevent a change of control, which could adversely affect the price of our Class A common stock.

Upon the completion of this offering, our amended and restated certificate of incorporation and amended and restated bylaws will contain provisions that may make it difficult to remove our board of directors and management and may discourage or delay change of control transactions, which could adversely affect the price of our common stock. These provisions include, among others:

- a classified board of directors with staggered three-year terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;

- no cumulative voting in the election of directors, which prevents the minority stockholders from electing director candidates so long as Safeway holds a majority of the voting rights of our common stock;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- from and after such time as Safeway no longer holds a majority of the voting rights of our common stock, a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- from and after such time as Safeway no longer holds a majority of the voting rights of our common stock, special meetings of our stockholders can be called only by the Chairman of the Board or by our corporate secretary at the direction of our board of directors;

- advance notice and other requirements that stockholders, other than Safeway for so long as it holds a majority of the voting rights of our common stock, must comply with in order to nominate candidates to our board of directors and propose matters to be brought before an annual meeting of our stockholders, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company;

- from and after such time as Safeway holds less than a majority of the voting rights of our common stock, a majority stockholder vote is required for removal of a director only for cause (and a director may only be removed for cause), and a 75% stockholder vote is required for the amendment, repeal or modification of certain provisions of our certificate of incorporation and bylaws; and

- our board of directors may, without stockholder approval, issue series of preferred stock, or rights to acquire preferred stock, that could dilute the interest of, or impair the voting power of, holders of our Class A common stock or could also be used as a method of discouraging, delaying or preventing a change of control.

Certain anti-takeover provisions under Delaware law also apply to our company. After Safeway ceases to own 15% of our voting stock, we will be subject to Section 203 of the Delaware General Corporation Law. Under Section 203, a corporation may not, in general, engage in a business

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combination with any holder of 15% or more of its voting stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Furthermore, our amended and restated certificate of incorporation will specify that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for most legal actions involving actions brought against us by stockholders. We believe this provision benefits us by providing increased consistency in the application of Delaware law by chancellors particularly experienced in resolving corporate disputes, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. However, the provision may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in such action.

Future sales of our Class A common stock in the public market could cause our share price to fall.

Sales of a substantial number of our Class A common stock in the public market after this offering, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. Based on the number of shares of our common stock outstanding as of April 2, 2013, upon completion of this offering, we will have 10,000,000 shares of Class A common stock outstanding and 41,936,135 shares of Class B common stock outstanding.

All of the shares of our Class A common stock sold in this offering will be freely tradable without restrictions or further registration under the Securities Act except for any shares held by our affiliates as defined in Rule 144 under the Securities Act. Shares of our Class B common stock will generally become available for sale subject to compliance with applicable securities laws or upon expiration of these lock-up agreements or other contractual restrictions.

The underwriters may, in their sole discretion, release all or some portion of the shares subject to lock-up agreements prior to expiration of the lock-up period. Please see Shares Eligible for Future Sale.

After giving effect to this offering, the holders of 41,558,852 shares of our Class B common stock, or 80.0% of our outstanding common stock based on shares outstanding as of April 2, 2013, will be entitled to rights with respect to registration of such shares under the Securities Act pursuant to a stockholders agreement. Please see Description of Capital Stock Registration Rights. In addition, upon exercise of outstanding stock options, stock appreciation rights and restricted stock units by our employees, our employees will be entitled to rights with respect to registration of the Class B common stock acquired on exercise of such equity awards, as well as 377,283 shares of Class B common stock held by our employees that are currently subject to repurchase rights and will become eligible for registration when such repurchase rights lapse. If such holders, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our Class A common stock. If we file a registration statement for the purposes of selling additional shares of Class A common stock to raise capital, and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired. In addition, we intend to file a registration statement on Form S-8 under the Securities Act to register approximately 7,932,501 shares of common stock for issuance under our 2006 Plan, 2007 Plan and 2013 Equity Incentive Award Plan. Once we register these shares, upon issuance and once vested they can be freely sold in the public market, subject to a 180-day lock-up period, the applicable plan and/or the agreements for the equity awards entered into with holders of such equity awards.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are contained principally in the sections titled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. These statements relate to future events or our future financial or operational performance and involve known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievement to differ materially from those expressed or implied by these forward-looking statements, including those described in the Risk Factors section.

Forward-looking statements include all statements that are not historical facts. In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, expects, plans, anticipates, believes, estimates, projects, predicts, poten
of those terms, and similar expressions and comparable terminology intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this prospectus and, except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus.

The Gartner Report(s) described herein, (the Gartner Report(s)) represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (Gartner), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

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USE OF PROCEEDS

The selling stockholders are selling all the shares of Class A common stock being sold in this offering, including any shares sold upon exercise of the underwriters option to purchase additional shares. Accordingly, we will not receive any proceeds from the sale of shares of our Class A common stock by the selling stockholders in this offering, except to the extent such stockholders exercise options or warrants in connection with such sales, which amounts are not expected to be material. Safeway has agreed to pay substantially all of our expenses of the offering.

DIVIDEND POLICY

We paid no dividends to stockholders in 2009, 2010 and 2011. On December 14, 2012, our board of directors declared a one-time extraordinary cash dividend of $1.369 per common share (approximately $70 million in the aggregate) for stockholders of record as of December 18, 2012 and which was paid on December 21, 2012. Up to an additional $0.5 million in the aggregate will be payable in future periods with respect to restricted stock awards and restricted stock units outstanding but unvested at December 18, 2012.

We have no present intention to pay future cash dividends on our common stock. Any determination to pay dividends to holders of our common stock in the future will be at the discretion of our board of directors and will depend on many factors, including our financial condition, earnings, legal requirements and other factors as the board of directors deems relevant.

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CAPITALIZATION

The following table, which should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements and the accompanying notes included elsewhere in this prospectus, sets forth the capitalization as of December 29, 2012 for:

- Blackhawk Network Holdings, Inc. and its subsidiaries, on an actual basis; and
- Blackhawk Network Holdings, Inc. and its subsidiaries on a pro forma as adjusted basis to give effect to:
  - the reclassification of outstanding shares of our common stock held by our stockholders into shares of our Class B common stock on a share-for-share basis immediately prior to the closing of this offering, as though the reclassification had occurred at December 29, 2012;
  - the termination of all redemption rights held by equity holders and the reclassification of *Warrant and common stock liabilities* and *Redeemable equity* as *Stockholders equity*; and
  - the offer and sale of 10,000,000 shares of Class A common stock by the selling stockholders and the related conversion of an equal number of shares of Class B common stock in connection with such sale.

	As of December 29, 2012	
	Actual	Pro Forma as Adjusted
	(in thousands, except par value)	
Warrant and common stock liabilities(1)	$ 26,675	$
Redeemable equity(1)	34,997	
Stockholders equity:		
Preferred stock: $0.001 par value; 10,000 shares authorized; no shares issued or outstanding at December 29, 2012		
Class A common stock: $0.001 par value; 125,000 shares authorized; 10,000 issued at December 29, 2012		10
Class B common stock: $0.001 par value; 125,000 shares authorized; 42,108 issued at December 29, 2012		42
Common stock: $0.001 par value; 140,000 shares authorized; 51,681 issued at December 29, 2012	51	
Additional paid-in capital	31,542	66,478
Accumulated other comprehensive loss	298	298
Retained earnings	30,669	58,727
Non-controlling interest	90	90
Total stockholders equity	62,650	125,645
Total Capitalization	$ 124,322	$ 125,645

(1) Upon completion of this offering, all redemption rights held by equity holders will terminate and, accordingly, all amounts recorded as *Warrant and common stock liabilities* or as *Redeemable equity* will be reclassified as *Stockholders equity*. In addition, upon completion of this offering, we will be required to record an expense with respect to the equity instruments held by certain distribution partners in an amount equal to the excess of the initial public offering price per share over the relevant put or exercise price of the instrument multiplied by the relevant number of equity securities, less the amount previously

expensed, with an offsetting increase in *Stockholders equity*. The amount of this non-cash expense will be $6.0 million in the aggregate, with a tax benefit of $1.2 million. Certain selling stockholders will exercise stock options, resulting in an increase to *Additional paid-in capital* of $0.1 million.

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The number of shares of Class A and Class B common stock issued and outstanding actual and pro forma as adjusted in the table above has been adjusted to include the following shares as of December 29, 2012:

- 406,957 shares of Class B common stock (of which 149,940 shares will be sold in the offering as Class A common stock) that will be issued as a result of the net exercise of a warrant in respect of 750,000 shares at an exercise price of $10.52 per share, which is contingent upon the completion of this offering; and

- 20,423 shares of Class B common stock issuable upon the exercise of outstanding options at a weighted average exercise price of approximately $6.78 per share, which will be sold in the offering as Class A common stock.

The number of shares of Class A and Class B common stock issued and outstanding actual and pro forma and adjusted in the table above excludes the following shares as of December 29, 2012:

- an aggregate of up to 1,122,449 shares of Class B common stock issuable upon the exercise of additional warrants outstanding, at a weighted average exercise price of approximately $16.30 per share, of which 185,204 shares are vested but not yet exercisable, and 937,245 shares will become vested only upon future achievement of performance-based vesting requirements and exercisable with the passage of time;

- 2,667,727 shares of Class B common stock issuable upon the exercise of options outstanding at a weighted average exercise price of approximately $12.77 per share;

- 647,000 shares of Class B common stock subject to stock appreciation rights outstanding at a weighted average exercise price of approximately $18.50 per share, which will be settled in shares of our Class B common stock;

- 149,875 unvested restricted stock units outstanding, which will be settled in shares of our Class B common stock;

- an additional 563,325 shares of Class B common stock reserved for future issuance under our 2006 Plan and 2007 Plan, which will become available for issuance as shares of Class A common stock under our 2013 Equity Incentive Award Plan after completion of this offering; and

- an additional 3,000,000 shares of Class A common stock that will be reserved for future issuance under our 2013 Equity Incentive Award Plan, which will become effective immediately prior to the completion of this offering.

For information about the number of shares of Class A and Class B common stock issued and outstanding as of April 2, 2013, after giving effect to the conversion of all shares of our common stock into shares of Class B common stock immediately prior to the closing of this offering, please see Description of Capital Stock.

Except as otherwise indicated, all information in this prospectus assumes:

- no exercise of the underwriters option to purchase additional shares from the selling stockholders;

the implementation of a 1-for-2 reverse stock split of our common stock effective as of April 1, 2013, applied retroactively to all numbers of common shares and per common share data;

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- the filing of our amended and restated certificate of incorporation, which will occur immediately prior to the completion of this offering; and

- the reclassification of shares of common stock held by our stockholders of record as of immediately prior to the completion of this offering into shares of Class B common stock on a share-for-share basis.

When the selling stockholders consummate sales of Class B common stock in this offering, the shares of Class B common stock sold will automatically convert into shares of Class A common stock on a share-for-share basis. As a result, purchasers of our common stock in this offering will only receive Class A common stock, and only Class A common stock is being offered by this prospectus. Shares of Class B common stock that are not sold by the selling stockholders will remain Class B common stock unless otherwise converted into shares of Class A common stock as described under Description of Capital Stock.

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DILUTION

Net tangible book value per share is determined at any date by subtracting our total liabilities from the total book value of our tangible assets and dividing the difference by the number of shares of our common stock deemed to be outstanding on the date the book value is determined. As of December 29, 2012, we had a net tangible book value of $53.2 million, or $1.04 per share of common stock.

After giving effect to (i) the reclassification of *Warrant and common stock liabilities* to *Stockholders equity*, (ii) the tax benefit associated with our requirement to record an expense with respect to the equity instruments held by certain distribution partners as described in Capitalization (which will be $1.2 million), (iii) the receipt of $0.1 million in connection with the exercise of stock options by certain selling stockholders and the issuance of 20,243 shares in respect of the options and (iv) the issuance of 406,957 shares of Class B common stock that will be issued as a result of the net exercise of a warrant in respect of 750,000 shares, which is contingent upon the completion of this offering, our pro forma as adjusted net tangible book value as of December 29, 2012 would have been $81.2 million, or $1.57 per share.

The initial public offering price of our Class A common stock is substantially higher than the pro forma net tangible book value per share of our Class A common stock immediately after this offering and the sale of Class A common stock will not increase our *Additional paid-in capital*. Therefore, if you purchase shares of our Class A common stock in this offering, you will experience immediate and substantial dilution of approximately $21.43 per share because the initial public offering price of $23.00 per share that you pay will be substantially greater than the pro forma net tangible book value per share of the shares you acquire based on the pro forma net tangible book value per share of our Class A common stock as of December 29, 2012.

This dilution is due to the fact that our existing stockholders paid substantially less than the initial public offering price when they purchased their shares. Dilution is the amount by which the offering price paid by the purchasers of our Class A common stock exceeds the pro forma as adjusted net tangible book value per share of our Class A common stock after the offering.

The following table illustrates this per share dilution:

Initial public offering per share		$ 23.00
Net tangible book value per share	$ 1.04	
Increase in net tangible book value attributable to the offering	0.53	
Pro forma as adjusted net tangible book value per share at December 29, 2012		1.57
Dilution per share to new investors		$ 21.43

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The following table presents the differences between the existing stockholders, including the selling stockholders, and the new investors purchasing shares in this offering with respect to the number of shares purchased, the total consideration paid and the average price paid per share, as of December 29, 2012 and after giving effect to this offering.

	Shares Purchased		Total Consideration		Avg. Price per Share
	Number	Percent	Amount	Percent	
Existing stockholders	41,701,716	80.7%	$ 30,295,663	11.6%	$ 0.73
New investors	10,000,000	19.3%	230,000,000	88.4%	$ 23.00
	51,701,716	100.0%	$ 260,295,663	100.0%	$ 5.03

The discussion and tables above include:

- 406,957 shares of Class B common stock (of which 149,940 shares will be sold in the offering as Class A common stock) that will be issued as a result of the net exercise of a warrant in respect of 750,000 shares at an exercise price of $10.52 per share, which is contingent upon the completion of this offering; and

- 20,423 shares of Class B common stock issuable upon the exercise of outstanding options at a weighted average exercise price of approximately $6.78 per share, which will be sold in the offering as Class A common stock.

The discussion and tables above exclude:

- an aggregate of up to 1,122,449 shares of Class B common stock issuable upon the exercise of additional warrants outstanding as of December 29, 2012 at a weighted average exercise price of approximately $16.30 per share, of which 185,204 shares are vested but not yet exercisable, and 937,245 shares will become vested only upon future achievement of performance-based vesting requirements and exercisable with the passage of time;

- 2,667,727 shares of Class B common stock issuable upon the exercise of options outstanding as of December 29, 2012 at a weighted average exercise price of approximately $12.77 per share;

- 647,000 shares of Class B common stock subject to stock appreciation rights outstanding as of December 29, 2012 at a weighted average exercise price of approximately $18.50 per share, which will be settled in shares of our Class B common stock;

- 149,875 unvested restricted stock units outstanding as of December 29, 2012, which will be settled in shares of our Class B common stock;

- an additional 563,325 shares of Class B common stock reserved for future issuance under our 2006 Plan and 2007 Plan, which will become available for issuance as shares of Class A common stock under our 2013 Equity Incentive Award Plan after completion of this offering; and an additional 3,000,000 shares of Class A common stock that will be reserved for future issuance under our 2013 Equity Incentive Award Plan, which will become effective immediately prior to the completion of this offering.

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If all of these options, warrants and stock appreciation rights were exercised and restricted stock units became vested, then:

- our pro forma as adjusted net tangible book value as of December 29, 2012 would have been $133.9 million, or $2.40 per share, causing dilution to purchasers in this offering of $20.60 per share; and

- the total consideration paid by existing stockholders and new investors set forth in the table above would have been $83.0 million and $230.0 million, respectively, representing 26.5% and 73.5% of the total consideration and an average price per share of $1.81 and $23.00, respectively.

In addition, we may choose to raise capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that we raise capital through the sale of equity or securities exercisable for or convertible into equity, the issuance of these securities could result in further dilution to our stockholders.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following tables present selected consolidated financial data and other operational and financial data for the periods ended on or as of the dates indicated. You should read this information together with Management s Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements, related notes and other financial information included elsewhere in this prospectus. The selected consolidated financial data in this section are not intended to replace the financial statements and are qualified in their entirety by the financial statements and related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results.

We use a 52- or 53-week fiscal year ending on the Saturday closest to December 31, and our fiscal quarters consist of three 12-week periods and one 16- or 17-week period. The fiscal years presented in the tables below consist of the 53-week period ended January 3, 2009, or 2008, and the 52-week periods ended January 2, 2010, or 2009, January 1, 2011, or 2010, December 31, 2011, or 2011, and December 29, 2012, or 2012. As used in this prospectus, italicized terms reference line items appearing in our consolidated financial statements.

We derived the statement of operations data for 2010, 2011 and 2012 and the balance sheet data for 2011 and 2012 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the statement of operations data for 2008 and 2009 and the balance sheet data for 2008, 2009 and 2010 from our audited consolidated financial statements (which we adjusted for the impact of redeemable equity) not included in this prospectus.

	2008	2009	2010	2011	2012
	(in thousands, except per share amounts)				
CONSOLIDATED STATEMENT OF INCOME DATA:					
OPERATING REVENUES:					
Commissions and fees	$ 327,874	$ 419,086	$ 499,260	$ 639,633	$ 786,552
Program, interchange, marketing and other fees(1)	26,909	70,225	64,611	87,551	103,432
Product sales	7,030	14,682	13,858	24,622	69,085
Total operating revenues	361,813	503,993	577,729	751,806	959,069
OPERATING EXPENSES:					
Distribution partner commissions	207,786	266,254	315,087	410,781	510,789
Processing and services	56,805	81,303	95,694	117,263	137,105
Sales and marketing	47,918	69,472	84,131	101,581	129,285
Costs of products sold	6,438	13,502	12,167	22,655	66,572
General and administrative	21,220	24,180	33,685	39,404	38,513
Total operating expenses	340,167	454,711	540,764	691,684	882,264
OPERATING INCOME(1)	21,646	49,282	36,965	60,122	76,805
OTHER INCOME (EXPENSE):					
Interest and other income	3,146	1,507	789	1,536	1,297
Interest expense	(155)		(70)	(5)	(11)
INCOME BEFORE INCOME TAX EXPENSE	24,637	50,789	37,684	61,653	78,091
INCOME TAX EXPENSE	9,107	24,032	18,496	25,154	30,199
NET INCOME BEFORE ALLOCATION TO NON-CONTROLLING INTEREST	15,530	26,757	19,188	36,499	47,892
Add: Loss attributable to non-controlling interest (net of tax)					273
NET INCOME ATTRIBUTABLE TO BLACKHAWK(1)	$ 15,530	$ 26,757	$ 19,188	$ 36,499	$ 48,165
EARNINGS PER SHARE:					
Basic	$ 0.31	$ 0.53	$ 0.38	$ 0.71	$ 0.93
Diluted	$ 0.31	$ 0.52	$ 0.37	$ 0.70	$ 0.93
Weighted average shares outstanding basic	50,423	50,583	50,615	50,225	50,045
Weighted average shares outstanding diluted	50,423	50,773	50,998	50,877	50,045

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	2008	2009	As of Year-End 2010	2011	2012
			(in thousands)		
CONSOLIDATED BALANCE SHEET DATA(2):					
Cash, cash equivalents and restricted cash(3)	$ 217,315	$ 46,118	$ 70,454	$ 162,642	$ 181,633
Overnight cash advances to Parent(4)	199,000	541,000	504,000	598,157	495,000
Settlement receivables(5)	136,139	146,000	179,221	249,028	510,853
Total assets	665,725	909,808	973,690	1,301,301	1,533,711
Settlement payables(5)	525,109	686,485	767,898	990,436	1,231,429
Notes payable to Parent	30,917	56,486	10,568	17,915	
Warrant and common stock liabilities(6)	10,712	16,528	22,801	24,943	26,675
Total liabilities	643,950	856,126	897,754	1,186,434	1,436,064
Redeemable equity	6,561	21,913	26,632	30,112	34,997
Total stockholders equity	15,214	31,769	49,304	84,755	62,650

(1) In 2009 and 2011, we entered into contract amendments with two of our issuing banks that substituted or adjusted a program management fee for monthly card fees on our proprietary Visa gift cards. Under GAAP, we recognized as revenue fees of $23.4 million in 2009 and $4.4 million in 2011 when we entered into these amendments. A portion of the fees recognized in 2009 and 2011 related to cards sold in earlier years. For further analysis of this item and others, please see footnote (b) in the Reconciliation of Non-GAAP Measures table as well as the discussion of Adjusted operating revenues, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income in footnote 7 to the Other Operational and Financial Data table.

(2) A significant portion of gift card sales occurs in late December of each year as a result of the holiday selling season. The timing of December holiday sales, cash inflows from our distribution partners and cash outflows to our content providers results in significant but temporary increases in our *Cash, cash equivalents and restricted cash*, *Overnight cash advances to Parent*, *Settlement receivables* and *Settlement payables* balances at the end of each fiscal year relative to normal period end balances. In 2012, the average monthly balances of *Cash, cash equivalents and restricted cash* was $50.1 million and the average daily balance of *Overnight cash advances to Parent* was $146.3 million. For additional information about the effects of seasonality on our business, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Quarterly Results of Operations and Seasonality.

(3) Includes $8.5 million, $8.7 million, $8.8 million, $9.0 million and $9.0 million of restricted cash at year-end 2008, 2009, 2010, 2011 and 2012, respectively. We maintain this cash balance in an escrow account in accordance with a stock purchase agreement with one of our distribution partners. This cash will become unrestricted and available for general corporate use upon the completion of this offering.

(4) *Overnight cash advances to Parent* represent cash amounts that are borrowed from us by Safeway and invested by it on an overnight basis for our benefit.

(5) *Settlement receivables* represent the amounts due from our distribution partners for funds collected at the point of sale related to any of our prepaid products. *Settlement payables* represent the amounts that are due to our content providers or issuing banks.

(6) *Warrant and common stock liabilities* represent the potential cash settlement obligation to certain distribution partners under put rights for equity instruments they hold. For additional information about the balance sheet classification of such rights, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Equity Instruments Issued to Distribution Partners.

	2008	2009	2010	2011	2012
		(in thousands, except percentages, average load transaction value and selling stores)			
OTHER OPERATIONAL AND FINANCIAL DATA:					
Load value(1)	$ 3,839,695	$ 4,684,505	$ 5,511,596	$ 6,914,373	$ 8,474,285
Commissions and fees as a % of load value(2)	8.5%	8.9%	9.1%	9.3%	9.3%
Distribution partner commissions paid as a % of commissions and fees(3)	63.4%	63.5%	63.1%	64.2%	64.9%
Number of load transactions(4)	109,940	134,633	154,551	184,245	216,214
Average load transaction value(5)	$ 34.93	$ 34.79	$ 35.66	$ 37.53	$ 39.19
Selling stores(6)	52,600	50,700	59,900	75,800	100,700
Adjusted operating revenues(7)	$ 164,574	$ 226,148	$ 265,716	$ 337,512	$ 448,280
Adjusted EBITDA(7)	$ 38,507	$ 52,921	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin(7)	23.4%	23.4%	22.5%	23.1%	22.2%
Adjusted net income(7)	$ 22,679	$ 26,846	$ 28,265	$ 38,920	$ 50,337

(1) Represents the total dollar amount of value loaded (including reloads) onto any of our prepaid products during the period.

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(2) Represents the total amount of *Commissions and fees* recognized during the period as a percentage of Load value for the same period.
(3) Represents *Distribution partner commissions* expense divided by *Commissions and fees* revenue during the period.
(4) Represents the total number of load transactions (including reloads) for all of our prepaid products during the period.
(5) Represents Load value divided by Number of load transactions during the period.
(6) Represents the approximate number of retail store locations selling one or more of our cards during the latest fiscal quarter within the period presented.
(7) Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income are non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company s performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. These measures, however, should be considered in addition to, and not as a substitute for or superior to, operating revenues, operating income, operating margin, cash flows, or other measures of the financial performance prepared in accordance with GAAP.

We regard Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income as useful measures of operational and financial performance of the business. We regard Adjusted EBITDA margin as an important financial metric that we use to evaluate the operating efficiency of our business. Adjusted EBITDA and Adjusted net income measures are prepared and presented to eliminate the effect of items from EBITDA and net income that we do not consider indicative of our core operating performance within the period presented. Adjusted operating revenues are prepared and presented to eliminate the prior period effect or effects of certain provisions contained in contract amendments with our proprietary Visa gift card issuing banks and to eliminate the commissions paid to our distribution partners. Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of Adjusted operating revenues. Our Adjusted operating revenues, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income may not be comparable to similarly titled measures of other organizations because other organizations may not calculate these measures in the same manner as we do. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

We believe Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income are useful to evaluate our operating performance for the following reasons:

adjusting our operating revenues for the issuing bank contract amendment fees and the commissions paid to our distribution partners is useful to understanding our operating margin;

EBITDA and Adjusted EBITDA are widely used by investors and securities analysts to measure a company s operating performance without regard to items that can vary substantially from company to company and from period to period depending upon their financing, accounting and tax methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

Adjusted EBITDA margin provides a measure of operating efficiency based on Adjusted operating revenues and without regard to items that can vary substantially from company to company and from period to period depending upon their financing, accounting and tax methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

non-cash equity grants made to employees and distribution partners at a certain price and point in time do not necessarily reflect how our business is performing at any particular time and the related expenses are not key measures of our core operating performance;

the issuing bank contract amendment fee adjustments are necessary to adjust operating revenues, EBITDA and *Net income* to recognize the revenues from these fees as if the contract amendments had been in force in the previous years, which we believe better reflects our core operating performance during those periods;

intangible asset amortization expenses can vary substantially from company to company and from period to period depending upon the applicable financing and accounting methods, the fair value and average expected life of the acquired intangible assets, the capital structure and the method by which the intangible assets were acquired and, as such, we do not believe that these adjustments are reflective of our core operating performance; and

non-cash fair value adjustments to contingent business acquisition liability do not directly reflect how our business is performing at any particular time and the related expense adjustment amounts are not key measures of our core operating performance.

The following tables present a reconciliation of *Total operating revenues* to Adjusted operating revenues, a reconciliation of *Net income* to EBITDA and Adjusted EBITDA, a reconciliation of Operating income margin to Adjusted EBITDA margin and a reconciliation of *Net income* to Adjusted net income, in each case reconciling the most comparable GAAP measure to the adjusted measure, for each of the periods indicated.

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Reconciliation of Non-GAAP Measures:

	2008	2009	2010 (in thousands)	2011	2012
Adjusted operating revenues:					
Total operating revenues	$ 361,813	$ 503,993	$ 577,729	$ 751,806	$ 959,069
Issuing bank contract amendment fee adjustment(b)	10,547	(11,591)	3,074	(3,513)	
Distribution partner commissions	(207,786)	(266,254)	(315,087)	(410,781)	(510,789)
Adjusted operating revenues	$ 164,574	$ 226,148	$ 265,716	$ 337,512	$ 448,280

	2008	2009	2010 (in thousands, except percentages)	2011	2012
Adjusted EBITDA:					
Net income	$ 15,530	$ 26,757	$ 19,188	$ 36,499	$ 47,892
Interest and other income	(3,146)	(1,507)	(789)	(1,536)	(1,297)
Interest expense	155		70	5	11
Income tax expense	9,107	24,032	18,496	25,154	30,199
Depreciation and amortization	5,344	7,889	11,126	15,123	18,431
EBITDA	26,990	57,171	48,091	75,245	95,236
Adjustments to EBITDA:					
Employee stock-based compensation	1,071	1,686	2,490	3,028	5,008
Distribution partner mark-to-market expense(a)	(101)	5,655	6,138	3,260	2,432
Issuing bank contract amendment fee adjustment(b)	10,547	(11,591)	3,074	(3,513)	
Change in fair value of contingent consideration(c)				89	(2,974)
Adjusted EBITDA	$ 38,507	$ 52,921	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin:					
Total operating revenues	$ 361,813	$ 503,993	$ 577,729	$ 751,806	$ 959,069
Operating income	$ 21,646	$ 49,282	$ 36,965	$ 60,122	$ 76,805
Operating margin	6.0%	9.8%	6.4%	8.0%	8.0%
Adjusted operating revenues	$ 164,574	$ 226,148	$ 265,716	$ 337,512	$ 448,280
Adjusted EBITDA	$ 38,507	$ 52,921	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin	23.4%	23.4%	22.5%	23.1%	22.2%

	2008	2009	2010 (in thousands)	2011	2012
Adjusted net income:					
Net income	$ 15,530	$ 26,757	$ 19,188	$ 36,499	$ 47,892
Employee stock-based compensation	1,071	1,686	2,490	3,028	5,008
Distribution partner mark-to-market expense(a)	(101)	5,655	6,138	3,260	2,432
Issuing bank contract amendment fee adjustment(b)	10,547	(11,591)	3,074	(3,513)	
Change in fair value of contingent consideration(c)				89	(2,974)
Amortization of intangibles(d)	449	449	449	543	785
Total pre tax adjustments	11,966	(3,801)	12,151	3,407	5,251
Tax expense on adjustments(e)	(4,817)	3,890	(3,074)	(986)	(2,806)
Adjusted net income	$ 22,679	$ 26,846	$ 28,265	$ 38,920	$ 50,337

(a) Distribution partner equity instruments are generally marked to market at each reporting date to fair value until the instrument is settled or expired. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Equity Instruments Issued to Distribution Partners.

(b) In 2009 and 2011, we entered into contract amendments with two of our issuing banks that substituted or adjusted a program management fee for monthly card fees on our proprietary Visa gift cards. Under GAAP, we recognized fee revenue of $23.4 million in 2009 and $4.4 million in 2011 when we entered into these amendments. A portion of the fees recognized in 2009 and 2011 related to cards sold in earlier years. Adjusted EBITDA and Adjusted net income for 2008 through 2011 have been adjusted to recognize the revenues from these fees as if the contract amendments had been in force in the previous years. The amount of revenues recognized over the periods presented in our non-GAAP financial measures is not different than the aggregate amount of revenues recognized under GAAP and presented in the audited financial statements.
(c) Adjustments to reflect a contingent business acquisition liability at its estimated fair value.
(d) Non-cash expense resulting from the amortization of intangible assets.
(e) Assumes our statutory tax rate adjusted for certain amounts that are not deductible for tax purposes.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Blackhawk is a leading prepaid payment network utilizing proprietary technology to offer a broad range of gift cards, other prepaid products and payment services in the United States and 18 other countries. Our extensive prepaid network provides significant benefits to our three primary constituents: consumers who purchase the products and services we offer, content providers who offer branded gift cards and other prepaid products that are redeemable for goods and services, and distribution partners who sell those products. 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 extensive network connects to more than 500 content providers and over 100,000 active retail distribution locations, providing access to over 160 million consumer visits per week. In addition, we sell physical and electronic gift cards to consumers through both leading online distributors and our website, GiftCardMall.com. In 2012, we processed a total load value of $8.5 billion and over 216 million load transactions.

Our product offerings include gift cards, prepaid telecom products and prepaid financial services products (including general purpose reloadable, or GPR, cards and our reload network). We offer gift cards from leading consumer brands such as Amazon.com, Applebee s, iTunes, Lowe s, Macy s and Starbucks and from leading network card associations such as American Express, MasterCard and Visa. We also distribute prepaid telecom products offered by leading prepaid wireless telecom brands. In addition, we distribute GPR cards provided by Green Dot and NetSpend, the industry leaders in this product category, as well as PayPower, our own GPR card. REloadit, our proprietary reload network, allows consumers to reload funds onto certain of their previously purchased GPR cards. We also offer innovative prepaid solutions including functionality and connectivity for digital wallet products within the rapidly growing digital payments space as well as an online gift card exchange called Cardpool.

We distribute our products across multiple high-traffic channels such as grocery, convenience, specialty and online retailers. Grocery is our largest channel and enjoys a high volume of frequent visits from all consumer demographics. 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 and Canada as reported by Supermarket News on January 30, 2012. These grocery retailers include Ahold, Kroger, Loblaws, Publix and Safeway. We also distribute our products in specialty retailers such as Bed Bath & Beyond, Lowe s and Staples, in convenience stores such as QuikTrip and Wawa and in other retailers such as JCPenney and Kohl s. In addition to the United States, we distribute our products in 18 other countries, including Canada, the United Kingdom and Australia. We are expanding in Brazil and Korea and we also plan to begin selling in China in 2013. Our international network includes leading retailers such as Albert Heijn, Carrefour, Loblaws, Morrisons, Tesco and Woolworths. Our international business accounted for approximately 15% of our total revenues in 2012.

We have experienced significant growth and strong operating performance, reflecting our increased number of distribution points, our expanded product and service offerings, the growth in our consumer base and our continued focus on enhancing the value of our network for all participants. From 2008 to 2012, we increased our:

- Operating revenues from $361.8 million to $959.1 million, representing a CAGR of 27.6%;

- Adjusted operating revenues from $164.6 million to $448.3 million, representing a CAGR of 28.5%;

- Adjusted EBITDA from $38.5 million to $99.7 million, representing a CAGR of 26.9%;

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Net income from $15.5 million to $47.9 million, representing a CAGR of 32.5%; and

Adjusted net income from $22.7 million to $50.3 million, representing a CAGR of 22.1%.

In addition, from 2008 to 2012 we increased load value from $3.8 billion to $8.5 billion, selling store count from approximately 52,600 to approximately 100,700 and the number of content providers from approximately 450 to approximately 575.

For definitions of Adjusted operating revenues, EBITDA, Adjusted EBITDA and Adjusted net income and related reconciliations to net income or the most appropriate corresponding GAAP measure, please see Selected Consolidated Financial Data.

Description of Our Revenues

Commissions and Fees Commissions and fees consist of content provider commissions, consumer purchase fees, GPR load and reload fees and other transaction-based commissions. We account for total commissions and fees as revenues. The portion we pay to our distribution partners is accounted for as *Distribution partner commissions* in operating expenses.

Content Provider Commissions We earn the majority of our revenues from commissions paid by content providers for the marketing and distribution of their prepaid cards, which we refer to as closed loop gift cards. For closed loop gift cards and prepaid telecom cards, our commissions are based on a contractual percentage of the aggregate load value of the cards recognized during a defined period. This contractual percentage is individually negotiated with each content provider and is generally a fixed percentage. After a closed loop gift card or telecom card is activated, we have no further service obligations and recognize the commissions received as revenue at the time of activation.

Purchase Fees We generate a portion of our revenue from fees related to open loop gift cards, including our proprietary Visa gift card, American Express and MasterCard network-branded gift cards and GPR cards provided by Green Dot and NetSpend, the industry leaders in this product category, as well as PayPower, our own GPR card. The consumer pays a purchase fee upon activation of a network-branded card or the initial load to the GPR cards. These purchase fees vary based on the type of card purchased and the dollar amount of the load transaction. We serve as the program manager, in conjunction with the issuing banks, for our proprietary Visa gift card and PayPower GPR card and have ongoing customer service obligations after card activation. We recognize revenue for our proprietary Visa gift card purchase fee ratably in proportion to the historical redemption patterns of the card portfolio over the estimated life of the card (currently 12 months), which presently results in the recognition of approximately 90% of the purchase fee within four months of card activation. We recognize the initial load fee on the PayPower GPR card on a straight-line basis over the estimated life of the card (currently four months). For the American Express and MasterCard network-branded gift cards and the Green Dot and NetSpend branded GPR cards, we receive a contractual percentage of the consumer purchase fee, which is recognized as revenue at the time of card activation as we have no future customer service obligations.

Reload Fees The consumer pays a purchase fee and we earn the fee when consumers reload funds onto their PayPower GPR card or another GPR card through our REloadit network. Revenue is recognized when the reload is processed.

Transaction-Based and Other Fees We receive transaction-based fees from certain telecom partners related to the use of our proprietary network. These fees vary with usage or volumes and are recognized at the time our network is accessed. We also receive fees for certain services related to our local, regional and sports team card programs such as balance tracking, customer service calls and financial settlement. Revenue is recognized in the period the services are performed.

Program, Interchange, Marketing and Other Fees Program, interchange, marketing and other fees consist of post-activation program management fees, settlement network interchange fees, marketing revenues from our content providers, GPR service fees and other fees.

Post-Activation Program Management Fees We receive a program management fee from our issuing banks related to our proprietary Visa gift card. This fee is based on a contractually stated percentage of load value and represents a portion of our compensation for the overall management and customer support of our proprietary Visa gift card program. The fees are deferred and recognized over the estimated life of the card in proportion to historical redemption patterns. The fee percentage is subject to quarterly renegotiation and may be adjusted based on recent changes in the underlying redemption patterns, escheat obligations, regulations and other factors that change the underlying economics of the card portfolio.

Interchange Fees We earn payment network fees related to the cardholder s usage of our proprietary Visa gift card and PayPower GPR card. Merchants are charged by our issuing banks at varying rates established by Visa. These fees are contractually passed through to us by the issuing banks net of any fees paid to Visa. We recognize revenues when cardholders make purchases.

Marketing Revenues We receive funds from our content providers to promote their prepaid cards throughout our distribution partner network. We generally recognize revenue ratably over the period of the related marketing campaign.

GPR Service Fees We earn a monthly fee and other transaction-based service fees on the PayPower GPR card. These consumer-paid service fees are collected by reducing the card balance and are recognized as revenue at the time the card balance is reduced.

Other Fees In some instances, we may receive a portion of other fees such as account maintenance, interchange or referral fees for open loop cards and GPR cards other than our proprietary Visa gift card and PayPower GPR card. We also receive fees related to Safeway-branded gift cards and local, regional and sports team card programs. Typically, these fees are recognized when earned. For one open loop content provider, we receive a fee, under deferred payment terms, based on a percentage of load value and pay the content provider a fee (a portion of which is also under deferred payment terms) for meeting certain activation targets. We recognize the net amount of these fees upon activation.

Product Sales Product sales consist of our card production sales, secondary card market sales and telecom handset sales.

Card Production We provide card design, development and third-party production services for certain content providers that are separate from the standard content provider contract. We outsource the physical card production to a third party and charge the content provider actual cost plus a margin for managing this process. Revenue is recognized when the cards are received by our content providers, at our distribution partners locations or by us at our third-party warehouse.

Secondary Card Market We generate revenue through our wholly owned subsidiary, Cardpool, by acquiring previously owned closed loop gift cards at a discount from load value and then selling them at a mark-up over our costs (but still at a discount to load value) to consumers. Revenue is recognized when the cards are delivered to the purchaser.

Telecom Handsets We earn revenue from the sale of telecom handsets to our distribution partners to facilitate and supplement the sale of our prepaid telecom content providers airtime cards. Revenue is generally recognized upon handset shipment to or receipt by the distribution partner based upon the shipping terms.

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Description of Our Expenses

Distribution Partner Commissions Distribution partner commissions represent the amounts paid to members of our distribution partner network for their distribution services related to our content providers cards and our proprietary Visa gift card and PayPower GPR card. We compensate our distribution partners by paying them a negotiated share of the commission we receive from our content providers or the consumer purchase fee associated with open loop cards. The percentage share is generally fixed, but may vary based on annual load value per store location.

Processing and Services Processing and services costs are the direct costs of generating commissions and fees, and program, interchange, marketing and other fees and include costs of development, integration, maintenance, depreciation and amortization of technology platforms, card distribution, fulfillment and displays, card production for the Visa gift card and PayPower GPR card, data communication costs, customer support services, quality assurance functions, risk monitoring services, third-party processing, compensation costs for processing and services personnel and intercompany support charges from Safeway. These costs are expensed as incurred. However, for the Visa gift card and PayPower GPR card, card production costs and upfront transaction processing fees are capitalized and expensed based on the same redemption pattern as the related revenue. We also incur significant costs to develop new technology platforms and to add functionality to our existing technology platforms. Those costs are capitalized and included in *Property, equipment and technology, net* and amortized to *Processing and services* expense over the project s estimated useful life, which is typically five to seven years. Some costs related to operating our technology platform, including certain technology personnel costs and the cost of our in-store displays and merchandising, are fixed in nature, not increasing directly with increasing prepaid product sales, but certain costs will increase based on general growth of our business.

Sales and Marketing We incur costs, both discretionary and contractual, in the form of marketing allowances, direct advertising campaigns, general marketing and trade promotions to promote content providers prepaid cards and our Visa gift card and PayPower GPR card at our distribution partner locations. Sales and marketing expenses consist of program marketing and advertising costs, distribution partner program development expenses, compensation and travel costs for marketing and sales personnel, communication costs, mark-to-market charges related to equity instruments issued to certain distribution partners, facilities costs and outside consulting fees and are included in sales and marketing expense. Program development expenses are generally contractually fixed and do not increase based on volume of prepaid product sales. Other sales and marketing costs do not vary directly with the volume of prepaid product sales, but certain costs will increase based on general growth of our business.

Costs of Products Sold Costs of products sold include the direct costs of card production efforts, the costs to acquire previously issued prepaid cards and other direct costs related to our Cardpool secondary gift card market business and costs to acquire telecom handsets. Most costs of products sold are variable based on the volume of product sales.

General and Administrative General and administrative expenses include compensation and benefits for administrative staff, facilities costs, telecommunications costs and professional service fees. These costs do not vary directly with the volume of prepaid product sales, but certain costs will increase based on general growth of our business. General and administrative expenses may also include fair value adjustments to the Cardpool contingent acquisition liability, bad debt and legal expenses, which may cause significant fluctuations from period to period.

Key Operating Statistics

The following table sets forth key operating statistics that directly affect our financial performance for the years ended 2010, 2011 and 2012.

	2010	2011	2012
		(in thousands, except percentages, average load transaction value and selling stores)	
Load value	$ 5,511,596	$ 6,914,373	$ 8,474,285
Commissions and fees as a % of load value	9.1%	9.3%	9.3%
Distribution partner commissions paid as a % of commissions and fees	63.1%	64.2%	64.9%
Number of load transactions	154,551	184,245	216,214
Average load transaction value	$ 35.66	$ 37.53	$ 39.19
Selling stores	59,900	75,800	100,700
Adjusted operating revenues(1)	$ 265,716	$ 337,512	$ 448,280
Adjusted EBITDA(1)	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin(1)	22.5%	23.1%	22.2%
Adjusted net income(1)	$ 28,265	$ 38,920	$ 50,337

(1) Our Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income are non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company s performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. These measures, however, should be considered in addition to, and not as a substitute for or superior to, operating revenues, operating income, operating margin, cash flows, or other measures of the financial performance prepared in accordance with GAAP. For discussion on why we believe that Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income are useful measures of operational and financial performance of the business, please see footnote 7 to the table titled Other Operational and Financial Data in the section titled Selected Financial Data.

Load Value Represents the total dollar amount of value loaded onto any of our prepaid products during the period. The dollar amount and volume of card sales directly affect the amount of our revenues and direct costs. We measure and monitor Load value by distribution partner channel and content provider program. The significant growth in Load value over the past two years has been driven by increased consumer use of prepaid products, partly in response to distribution partner loyalty and incentive programs, expansion of product content and services we offer and expansion of Selling stores in our distribution partner network in the United States and internationally.

Commissions and Fees as a Percentage of Load Value Represents the total amount of *Commissions and fees* recognized during the period as a percentage of Load value for the same period. Commissions as a percentage of Load value is generally higher for closed loop and telecom products than the purchase and load fees as a percentage of Load value for open loop products. As a result, overall Commissions and fees as a percentage of load value is directly affected by the mix of Load value among our closed loop and open loop product offerings. This metric helps us understand and manage overall margins from our product offerings. The general increase in this percentage from 2010 to 2012 is due primarily to higher growth in Load value of closed loop gift cards as compared to open loop gift cards.

Distribution Partner Commissions Paid as a Percentage of Commissions and Fees Represents *Distribution partner commissions* expense divided by *Commissions and fees* revenue during the period. This metric represents the expense recognized for the share of content provider

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commissions and purchase or load fees we pay to our distribution partners as a percentage of total *Commissions and fees* revenue recognized during the period. Distribution partner commission share percentages are individually negotiated with our distribution partners and are independent of the commission rates negotiated between us and our content providers. The distribution partner commissions paid percentage is affected by changes in the proportion of Load value and resulting *Commissions and fees* revenue between distribution partners with differing share percentages.

Number of Load Transactions Represents the total number of load transactions (including reloads) for all of our prepaid products during the period.

Average Load Transaction Value Represents Load value divided by the Number of load transactions during the period.

Selling Stores Represents the approximate number of retail store locations selling one or more of our cards during the latest fiscal quarter within the period presented.

Adjusted Operating Revenues For a description and reconciliation to the most directly comparable measure calculated and presented in accordance with GAAP, please see the table titled Other Operational and Financial Data in the section titled Selected Consolidated Financial Data.

Adjusted EBITDA For a description and reconciliation to the most directly comparable measure calculated and presented in accordance with GAAP, please see the table titled Other Operational and Financial Data in the section titled Selected Consolidated Financial Data.

Adjusted EBITDA Margin For a description and reconciliation to the most directly comparable measure calculated and presented in accordance with GAAP, please see the table titled Other Operational and Financial Data in the section titled Selected Consolidated Financial Data.

Adjusted Net Income For a description and reconciliation to the most directly comparable measure calculated and presented in accordance with GAAP, please see the table titled Other Operational and Financial Data in the section titled Selected Consolidated Financial Data.

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Results of Operations

The fiscal periods presented in the accompanying tables below and throughout this Results of Operations section consist of the 52-week periods ended January 1, 2011, or 2010, December 31, 2011, or 2011, and December 29, 2012, or 2012.

The following table sets forth the revenue and expense amounts as a percentage of total operating revenues by the line items in our consolidated statements of income for 2010, 2011 and 2012.

	2010	% of Total Operating Revenues	2011	% of Total Operating Revenues	2012	% of Total Operating Revenues
	(in thousands, except percentages)					
OPERATING REVENUES:						
Commissions and fees	$ 499,260	86.4%	$ 639,633	85.1%	$ 786,552	82.0%
Program, interchange, marketing and other fees(1)	64,611	11.2%	87,551	11.6%	103,432	10.8%
Product sales	13,858	2.4%	24,622	3.3%	69,085	7.2%
Total operating revenues	577,729	100.0%	751,806	100.0%	959,069	100.0%
OPERATING EXPENSES:						
Distribution partner commissions	315,087	54.5%	410,781	54.6%	510,789	53.3%
Processing and services	95,694	16.6%	117,263	15.6%	137,105	14.3%
Sales and marketing	84,131	14.6%	101,581	13.5%	129,285	13.5%
Costs of products sold	12,167	2.1%	22,655	3.0%	66,572	6.9%
General and administrative	33,685	5.8%	39,404	5.2%	38,513	4.0%
Total operating expenses	540,764	93.6%	691,684	92.0%	882,264	92.0%
OPERATING INCOME(1)	36,965	6.4%	60,122	8.0%	76,805	8.0%
OTHER INCOME (EXPENSE):						
Interest and other income	789	0.1%	1,536	0.2%	1,297	0.1%
Interest expense	(70)	%	(5)	%	(11)	%
INCOME BEFORE INCOME TAX EXPENSE	37,684	6.5%	61,653	8.2%	78,091	8.1%
INCOME TAX EXPENSE	18,496	3.2%	25,154	3.3%	30,199	3.1%
NET INCOME BEFORE ALLOCATION TO NON-CONTROLLING INTEREST	19,188	3.3%	36,499	4.9%	47,892	5.0%
Add: Loss attributable to non-controlling interest (net of tax)		%		%	273	%
NET INCOME ATTRIBUTABLE TO BLACKHAWK(1)	$ 19,188	3.3%	$ 36,499	4.9%	$ 48,165	5.0%

(1) In 2009 and 2011, we entered into contract amendments with two of our issuing banks that substituted or adjusted a program management fee for monthly card fees on our proprietary Visa gift cards. Under GAAP, we recognized fee revenue of $23.4 million in 2009 and $4.4 million in 2011 related to these amendments. A portion of the fees recognized in 2009 and 2011 related to cards sold in earlier years. The amount of revenues recognized over the periods presented in our non-GAAP financial measures is not different than the aggregate amount of revenues recognized under GAAP and presented in the audited financial statements. The following table below presents Adjusted operating revenues, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted net income, four non-GAAP measures that adjust for this item and others. For a description of these items, please see the table titled Other Operational and Financial Data in the section titled Selected Consolidated Financial Data.

	2010	2011	2012
	(in thousands, except percentages)		
Adjusted operating revenues	$ 265,716	$ 337,512	$ 448,280

Adjusted EBITDA	$ 59,793	$ 78,109	$ 99,702
Adjusted EBITDA margin	22.5%	23.1%	22.2%
Adjusted net income	$ 28,265	$ 38,920	$ 50,337

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Executive Summary

Our recent results of operations reflect significant growth of our network due to our expanded product and service offerings and increased consumer use of our products and services. In 2012, we achieved operating revenue growth of 27.6%, operating income growth of 27.7%, net income growth of 31.2%, Adjusted EBITDA growth of 27.6% and Adjusted net income growth of 29.3% compared to 2011.

The increase in operating revenues of $207.3 million from $751.8 million in 2011 to $959.1 million in 2012 was broad-based, with a 23.0% increase in commissions and fees, an 18.1% increase in program, interchange, marketing and other fees and a 180.6% increase in product sales. Growth in commissions and fees accounted for 70.9% of the increase in operating revenues, driven primarily by increased load value of gift cards. We expect our commissions and fees to continue to be the most significant component of our operations for the foreseeable future as we scale our network and grow load value. As we develop our Cardpool business and expand distribution of telecom handsets, we expect product sales to become a larger percentage of total operating revenues.

Operating income increased by $16.7 million from $60.1 million in 2011 to $76.8 million in 2012. As a percentage of operating revenues, operating income remained constant at 8.0% in 2011 and 2012. Adjusted EBITDA increased by 27.6%, or $21.6 million, to $99.7 million in 2012 from $78.1 million in 2011. Adjusted EBITDA margin decreased to 22.2% in 2012 from 23.1% in 2011. This decrease reflected additional investment in our technology infrastructure.

Net income and Adjusted net income increased 31.2% and 29.3%, respectively, in 2012 as compared to 2011 due to higher operating income and a lower effective tax rate.

Fiscal Years Ended 2010, 2011 and 2012

Operating Revenues

The following table sets forth our consolidated operating revenues for the years ended 2010, 2011 and 2012.

	2010	2011	2012	Change 2010 - 2011		Change 2011 - 2012	
	(in thousands, except percentages)						
OPERATING REVENUES:							
Commissions and fees	$499,260	$ 639,633	$ 786,552	$ 140,373	28.1%	$ 146,919	23.0%
Program, interchange, marketing and other fees	64,611	87,551	103,432	22,940	35.5%	15,881	18.1%
Product sales	13,858	24,622	69,085	10,764	77.7%	44,463	180.6%
Total operating revenues	$577,729	$ 751,806	$ 959,069	$ 174,077	30.1%	$ 207,263	27.6%

Commissions and Fees

2012 Compared to 2011

Commissions and fees revenue increased 23.0%, or $146.9 million, to $786.6 million in 2012 from $639.6 million in 2011. This increase was primarily due to a 22.6%, or $1.6 billion, increase in load value. Commissions and fees as a percentage of load value remained relatively constant at 9.3% in both 2012 and 2011. The increase in load value from 2011 to 2012 was primarily due to a 17.4% increase in the total number of load transactions reflecting improved store productivity in the United States, primarily in closed loop gift cards, and expansion internationally.

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2011 Compared to 2010

Commissions and fees revenue increased 28.1%, or $140.4 million, to $639.6 million in 2011 from $499.3 million in 2010. This increase was primarily due to a 25.5%, or $1.4 billion, increase in load value and a slight increase in commissions and fees as a percentage of load value to 9.3% in 2011 from 9.1% in 2010. The increase in load value from 2010 to 2011 was primarily due to a 19.2% increase in the total number of load transactions reflecting improved store productivity in the United States, primarily in closed loop gift cards, and expansion internationally. The increase in commissions and fees as a percentage of load value was due to a shift in sales mix towards cards with higher commission rates.

Program, Interchange, Marketing and Other Fees

2012 Compared to 2011

Program, interchange, marketing and other fees increased 18.1%, or $15.9 million, to $103.4 million in 2012 from $87.6 million in 2011. This increase was driven primarily by a 30.5%, or $8.6 million, increase in marketing revenues, and by a 7.6%, or $2.5 million, increase in program management fees related to open loop cards reflecting a 17.2% increase in the load value of open loop cards, partially offset by $3.5 million in additional fees in 2011 resulting from contract amendments with our issuing banks related to cards sold in 2009 and 2010.

2011 Compared to 2010

Program, interchange, marketing and other fees increased 35.5%, or $22.9 million, to $87.6 million in 2011 from $64.6 million in 2010. This increase was driven primarily by a 20.2% increase in the load value of open loop cards, a 45.5%, or $11.8 million, increase in program management fees related to open loop cards and a 25.1%, or $5.7 million, increase in marketing revenues. The program management fees increase included $3.5 million in additional fees resulting from contract amendments with our issuing banks related to cards sold in 2009 and 2010.

Product Sales

2012 Compared to 2011

Product sales increased 180.6%, or $44.5 million, to $69.1 million in 2012 from $24.6 million in 2011. This increase was due to $36.5 million in additional revenue from Cardpool, which we acquired in the fourth quarter of 2011, an 85.5%, or $5.3 million, increase in telecom handset sales, and a 21.3%, or $2.7 million, increase in card production revenue.

2011 Compared to 2010

Product sales increased 77.7%, or $10.8 million, to $24.6 million in 2011 from $13.9 million in 2010. This increase was due to $5.9 million in revenue from our acquisition of Cardpool in the fourth quarter of 2011, a 26.1%, or $2.6 million, increase in card production revenue, and a 59.2%, or $2.3 million, increase in telecom handset sales.

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Operating Expenses

The following table sets forth our consolidated operating expenses for the years ended 2010, 2011 and 2012.

	2010	2011	2012	Change 2010-2011		Change 2011-2012	
			(in thousands, except percentages)				
OPERATING EXPENSES:							
Distribution partner commissions	$ 315,087	$ 410,781	$ 510,789	$ 95,694	30.4%	$ 100,008	24.3%
Processing and services	95,694	117,263	137,105	21,569	22.5%	19,842	16.9%
Sales and marketing	84,131	101,581	129,285	17,450	20.7%	27,704	27.3%
Costs of products sold	12,167	22,655	66,572	10,488	86.2%	43,917	193.8%
General and administrative	33,685	39,404	38,513	5,719	17.0%	(891)	(2.3%)
Total operating expenses	$540,764	$ 691,684	$ 882,264	$ 150,920	27.9%	$ 190,580	27.6%

Distribution Partner Commissions

2012 Compared to 2011

Distribution partner commissions expense increased 24.3%, or $100.0 million, to $510.8 million in 2012 from $410.8 million in 2011 primarily due to a 23.0%, or $146.9 million, increase in commissions and fees revenue. The increase in distribution partner commissions expense as a percentage of commissions and fees revenue from 64.2% in 2011 to 64.9% in 2012 was primarily due to an increased proportion of load value from sales through distribution partners with higher commission share percentages. Effective December 30, 2012, our distribution partner agreements with Safeway were amended to, among other things, extend the term to December 31, 2017 and decrease the share of distribution partner commissions retained by us. If this amendment had been in effect in 2012, distribution partner commissions expense would have increased by $8.3 million to $519.1 million, or 66.0% of commissions and fees revenue. This would have reduced our 2012 fiscal year adjusted operating revenue by $8.3 million and our net income by approximately $5.2 million. For further description, see below under Relationships with Safeway and Related Transactions Gift Card Alliance Partners Program Agreements.

We expect distribution partner commissions paid as a percentage of commissions and fees for the quarter ended March 23, 2013 to increase by 190 basis points (1.9 percentage points) from distribution partner commissions paid as a percentage of commissions and fees for the quarter ended March 24, 2012. The majority of this expected increase (approximately 100 basis points or 1.0 percentage points) was the result of increased commissions paid to Safeway pursuant to the amendment of our distribution partner agreements with Safeway, and the remainder was due to changes to the distribution partner mix and the territories in which our products are sold. We presently expect that these factors will continue to influence the percentage of commissions and fees paid to distribution partners in fiscal 2013.

2011 Compared to 2010

Distribution partner commissions expense increased 30.4%, or $95.7 million, to $410.8 million in 2011 from $315.1 million in 2010 primarily due to a 28.1%, or $140.4 million, increase in commissions and fees revenue. The increase in distribution partner commissions expense as a percentage of commissions and fees revenue from 63.1% in 2010 to 64.2% in 2011 was primarily due to an increase in the percentage of commissions shared with Safeway, our parent company, and an increased proportion of load value from sales through distribution partners with higher commission share percentages.

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Processing and Services

2012 Compared to 2011

Processing and services expenses increased 16.9%, or $19.8 million, to $137.1 million in 2012 from $117.3 million in 2011. The increase is primarily due to a 17.4% increase in the total number of load transactions and a 32.8% increase in the number of selling stores from 2011 to 2012. The $19.8 million increase includes $10.2 million in employee and contractor compensation, benefits and travel related costs, $4.1 million in depreciation and equipment expense related to capitalized software projects and related hardware, $3.0 million of in-store fixture amortization and $2.7 million in card production for Visa gift and PayPower GPR cards, offset by a net decrease of $0.2 million of other costs. Processing and services expenses decreased as a percentage of total operating revenue to 14.3% in 2012 from 15.6% in 2011 due to sales growth rates and leverage of expenses for existing selling store locations, supply chain, customer care and merchandising.

2011 Compared to 2010

Processing and services expenses increased 22.5%, or $21.6 million, to $117.3 million in 2011 from $95.7 million in 2010. The increase is primarily due to a 19.2% increase in the total number of load transactions and a 26.5% increase in the number of selling stores from 2010 to 2011. The $21.6 million increase includes $5.3 million in employee compensation, benefits and travel related costs, $4.9 million in merchandising, $3.9 million in depreciation expense related to capitalized software projects, $3.7 million in supply chain costs, $3.4 million of in-store fixture amortization and equipment expenses and $1.5 million in customer care costs. Processing and services expenses decreased as a percentage of total operating revenue to 15.6% in 2011 from 16.6% in 2010 due to sales growth rates and leverage of expenses for existing selling store locations, supply chain and technology infrastructure.

Sales and Marketing

2012 Compared to 2011

Sales and marketing expenses increased 27.3%, or $27.7 million, to $129.3 million in 2012 from $101.6 million in 2011. Program marketing and development expenses increased by $20.2 million from 2011 to 2012, partially offset by a $0.8 million decrease in mark-to-market expense related to equity instruments held by distribution partners. The remainder of the $8.3 million increase was attributable to increased employee compensation, benefits and travel related costs.

2011 Compared to 2010

Sales and marketing expenses increased 20.7%, or $17.5 million, to $101.6 million in 2011 from $84.1 million in 2010. Program marketing and development expenses increased by $10.7 million from 2010 to 2011, partially offset by a $2.9 million decrease in mark-to-market expense related to equity instruments held by distribution partners. The remainder of the $9.7 million increase was primarily attributable to a $6.5 million increase in employee compensation and benefits, a $1.3 million increase in travel and a $2.0 million increase in outside services. Offsetting these increases was a $0.2 million decrease in corporate marketing expenses.

Costs of Products Sold

2012 Compared to 2011

Costs of products sold increased 193.8%, or $43.9 million, to $66.6 million in 2012 from $22.7 million in 2011. Cardpool, which we acquired in the fourth quarter of 2011, accounted for $36.9

million of the increase. Also, telecom handset and other hardware costs increased by $4.9 million and card production costs increased by $2.0 million. Costs of products sold increased to 96.4% of product sales in 2012 compared to 92.0% in 2011 because Cardpool, which has lower margins than other product sales, increased its share of total product sales.

2011 Compared to 2010

Costs of products sold increased 86.2%, or $10.5 million, to $22.7 million in 2011 from $12.2 million in 2010. Our fourth quarter 2011 acquisition of Cardpool accounted for $6.2 million of the increase. Also, card production costs increased by $2.3 million and telecom handset and other hardware costs increased by $2.0 million. Costs of products sold increased to 92.0% of product sales in 2011 compared to 87.8% in 2010 due to lower margins for Cardpool relative to card production and telecom handset and other hardware margins.

General and Administrative

2012 Compared to 2011

General and administrative expenses decreased 2.3%, or $0.9 million, to $38.5 million in 2012 from $39.4 million in 2011, primarily due to a $3.0 million mark-to-market decrease in the fair value of the Cardpool contingent acquisition liability and a $3.5 million litigation settlement charge related to our patent litigation with e2Interactive in 2011. These decreases were offset by a $3.0 million increase in employee compensation, benefits and travel related costs and a $2.2 million increase in professional services.

2011 Compared to 2010

General and administrative expenses increased 17.0%, or $5.7 million, to $39.4 million in 2011 from $33.7 million in 2010, primarily due to an increase in employee compensation and a $3.5 million litigation settlement charge related to our patent litigation with e2Interactive, offset by a decrease in the cost of intercompany services provided by Safeway and bad debt expense. Bad debt expense decreased because the 2010 period included a $3.5 million charge related to a single distribution partner.

Other Income (Expense) and Income Tax Expense

The following table sets forth our consolidated other income (expense), and income tax expense and effective tax rates for 2010, 2011 and 2012.

	2010	2011	2012	Change 2010 - 2011		Change 2011 - 2012	
			(in thousands, except percentages)				
OTHER INCOME (EXPENSE):							
Interest and other income	$ 789	$ 1,536	$ 1,297	$ 747	94.7%	$ (239)	(15.6%)
Interest expense	(70)	(5)	(11)	65	(92.9%)	(6)	120.0%
Total other income (expense)	719	1,531	1,286	812	112.9%	(245)	(16.0%)
INCOME TAX EXPENSE	$ 18,496	$ 25,154	$ 30,199	$ 6,658	36.0%	5,045	20.1%
EFFECTIVE TAX RATE	49.1%	40.8%	38.7%	(8.3%)		(2.1%)	

Other Income (Expense)

Other income (expense) consists of interest and other income, other non-operating gains (losses) and interest expense. Interest and other income is earned primarily on *Overnight cash advances to Parent* balances and is calculated based on average overnight commercial paper rates. Interest and

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other income has fluctuated with the amount and duration of the *Overnight cash advances to Parent* and changes in commercial paper rates. Interest expense is generated primarily from notes payable to our parent.

Income Tax Expense

Income tax expense and related current and deferred income taxes receivable and payable are calculated assuming that we file a hypothetical stand-alone income tax return for both federal and state purposes. We have historically been included in Safeway s consolidated group for U.S. federal income tax purposes and in certain consolidated, combined or unitary groups for state and local income tax purposes. We are also party to a tax sharing agreement with Safeway, or the TSA, which is generally designed to approximate the tax liability that for (i) U.S. federal income tax purposes, would be incurred if we filed our own federal consolidated income tax return separate from the Safeway consolidated group and (ii) state and local income tax purposes, would represent our proportionate share of the tax liability shown due on any state or local combined, consolidated or unitary state or local income tax return filed by Safeway in which we or any of our subsidiaries were included. Effective December 30, 2012, we and Safeway amended and restated the TSA. Under the amended and restated TSA, we and Safeway generally make payments to each other such that, with respect to U.S. federal income tax returns for any taxable period in which we or any of our subsidiaries are included in Safeway s consolidated group for U.S. federal income tax purposes, the amount of taxes to be paid by us is determined, subject to certain adjustments, as if we and each of our subsidiaries included in such consolidated group filed our own consolidated federal income tax return. For state and local income tax purposes, the amended and restated TSA provides that we and Safeway will generally make payments to each other such that, with respect to state and local income tax returns for any taxable period in which we or any of our subsidiaries are included in Safeway s combined, consolidated or unitary group for state or local income tax purposes, the amount of taxes to be paid by us is determined, subject to certain limitations, by calculating the excess of any taxes shown due on any such return over the amount that would otherwise be due if the return were recalculated by excluding us and any of our included subsidiaries. Following this offering, we do not expect to be included in the Safeway consolidated group for U.S. federal income tax purposes and for some state and local income tax purposes.

We are charged for our portion of income taxes under the TSA and periodically settle this liability with Safeway through an intercompany obligation on our consolidated balance sheet. In 2010 and 2012, we paid Safeway $48.3 million and $22.5 million, respectively, for current and prior years taxes due under the TSA (we did not make any payments under the TSA in 2011). We will continue to reimburse Safeway for taxes and settle these amounts periodically until Safeway ceases to own at least 80% of our outstanding common stock (and at least 50% for certain consolidated, combined or unitary state and local tax returns), whereupon we will cease to be eligible for tax consolidation with Safeway. Differences have and may continue to arise between our hypothetical tax liability under GAAP and the TSA liability. To the extent any of these amounts represent a permanent difference, we record the amount in equity as an increase or decrease to *Additional paid-in capital,* rather than as an increase or decrease to tax expense, since these amounts will never be payable under the TSA.

2012 Compared to 2011

Our effective tax rate in 2012 was 38.7%, compared to 40.8% in 2011. Of the 2.1% decrease in the effective tax rate, 1.5% of the decrease resulted from the mark-to-market decrease in the fair value of the Cardpool contingent liability that is not deductible for tax purposes, and 0.3% of the decrease was the result of lower mark-to-market expense for an equity instrument held by a distribution partner.

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2011 Compared to 2010

Our effective tax rate in 2011 was 40.8% compared to 49.1% in 2010. Of the 8.3% decrease in the effective tax rate, 4.5% of the decrease resulted from a favorable change in California law modifying the sales apportionment factor for 2011, and 4.2% of the decrease was the result of lower mark-to-market expense for an equity instrument held by a distribution partner recorded in 2010 that was not deductible for tax purposes. Offsetting these two favorable decreases was a slight increase in our effective tax rate due to other individually immaterial non-deductible items in 2011.

Quarterly Results of Operations and Seasonality

Seasonal consumer spending habits, which are most pronounced in December of each year as a result of the holiday selling season, significantly affect our business. We believe this seasonality is important to understanding our quarterly operating results. A significant portion of gift card sales occurs in late December of each year during the holiday gifting season. As a result, we earn a significant portion of our revenues, net income and cash flows during the fourth quarter of each year. We also experience an increase in revenues, net income and cash flows during the second quarter of each year, which we primarily attribute to the Mother s Day, Father s Day and graduation gifting season and the Easter holiday. Depending on when the Easter holiday occurs, the associated increase could occur in either the first or second quarter.

The table below illustrates the quarterly load value for all our products for each of the last five fiscal years. Our fiscal year consists of a 52- or 53-week period ending on the Saturday closest to December 31. Consequently, our fiscal quarters consist of three 12-week periods and one 16- or 17-week period ending on a Saturday. Fiscal 2008 included 53 weeks (and the fourth quarter of 2008 included 17 weeks) and fiscal 2009, 2010, 2011 and 2012 included 52 weeks. 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.

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The following tables set forth unaudited consolidated statements of operations data for our four fiscal quarters of 2011 and 2012. We prepared our consolidated statements of operations for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this prospectus. In the opinion of our management, each statement of operations includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
				(in thousands)				
OPERATING REVENUES:								
Commissions and fees	$ 92,986	$ 127,986	$ 114,276	$ 304,385	$ 120,459	$ 156,904	$ 133,993	$ 375,196
Program, interchange, marketing and other fees	15,925	19,131	14,401	38,094	19,406	18,417	16,039	49,570
Product sales	3,094	3,128	5,423	12,977	11,634	14,701	14,619	28,131
TOTAL REVENUE	112,005	150,245	134,100	355,456	151,499	190,022	164,651	452,897
OPERATING EXPENSES:								
Distribution partner commissions	59,168	83,272	73,478	194,863	77,704	100,878	89,458	242,749
Processing and services	23,838	23,652	24,158	45,615	26,115	29,697	29,594	51,699
Sales and marketing	16,107	22,801	19,560	43,113	21,826	27,543	22,891	57,025
Costs of products sold	2,747	2,751	4,712	12,445	11,528	14,303	14,349	26,392
General and administrative	7,655	8,855	7,424	15,470	9,917	8,632	4,123	15,841
OPERATING EXPENSES	109,515	141,331	129,332	311,506	147,090	181,053	160,415	393,706
OPERATING INCOME (LOSS)	2,490	8,914	4,768	43,950	4,409	8,969	4,236	59,191
OTHER INCOME (EXPENSE):								
Interest and other income	202	204	219	911	407	303	262	325
Interest expense		(1)	(1)	(3)	(1)	(9)	(1)	
INCOME BEFORE INCOME TAX EXPENSE	2,692	9,117	4,986	44,858	4,815	9,263	4,497	59,516
INCOME TAX EXPENSE	1,043	3,476	1,821	18,814	1,940	3,442	1,494	23,323
NET INCOME BEFORE ALLOCATION TO NON-CONTROLLING INTEREST	1,649	5,641	3,165	26,044	2,875	5,821	3,003	36,193
Add: Loss attributable to non-controlling interest (net of tax)						33	88	152
NET INCOME ATTRIBUTABLE TO BLACKHAWK	$ 1,649	$ 5,641	$ 3,165	$ 26,044	$ 2,875	$ 5,854	$ 3,091	$ 36,345

Overall, our business experiences a seasonal pattern that historically has resulted in an increase in revenues during the second and fourth fiscal quarters, a significant sequential decrease in revenues from the fourth to first fiscal quarters and a modest sequential decrease from the second to third quarters. While *Distribution partner commissions* and some other expenses are directly related to volume of prepaid card sales, many of our expenses, including significant portions of technology infrastructure and personnel costs, are either fixed or less variable and are incurred ratably over the fiscal year. In addition, we generally increase in-store display and merchandising expenses in advance of the fourth fiscal quarter holiday shopping period.

Liquidity and Capital Resources

A significant portion of gift card sales occurs in late December of each year as a result of the holiday selling season. The timing of December holiday sales, cash inflows from our distribution partners and cash outflows to our content providers results in significant but temporary increases in our *Cash, cash equivalents and restricted cash*, *Overnight cash advances to Parent*, *Settlement receivables* and *Settlement payables* balances at the end of each fiscal year relative to normal daily balances. As a result, the year over year comparison of cash generated by operating activities and total changes in cash can vary significantly. We do not presently generate significant cash balances

from operations located outside of the United States, and we do not anticipate repatriating any excess cash balances held in foreign locations in the foreseeable future.

The following table sets forth the major sources and uses of cash for the last three fiscal years.

	2010	2011 (in thousands)	2012
Net cash provided by operating activities	$ 17,729	$ 225,152	$ 20,157
Net cash (used in) provided by investing activities	17,254	(133,654)	79,802
Net cash provided by (used in) financing activities	(12,118)	558	(82,020)
Effect of exchange rates on cash	$ 1,324	$ (18)	$ 1,052
Net increase in unrestricted cash and cash equivalents	$ 24,189	$ 92,038	$ 18,991

In 2010, 2011 and 2012, we financed our operations primarily through our cash flows from operations. Our business is seasonal and the cash generated in the month of December is significantly higher than any other month of the year. We lend a portion of our cash balances to our parent, Safeway, daily on an overnight basis and earn interest at market rates, as described further below under Relationship with Safeway and Related Transactions Overnight Cash Advances.

We believe that our projected unrestricted cash and cash equivalents and cash flow from operations will be sufficient to meet our operating needs for at least the next 12 months, including working capital and capital expenditures requirements.

Cash Flows from Operating Activities

The $20.2 million of net cash provided by operating activities in 2012 resulted from $47.9 million of net income, the adjustment for non-cash operating expenses of $35.4 million (including $18.4 million for depreciation and amortization, $17.0 million for program development cost amortization, $5.0 million for employee stock-based compensation and $2.4 million for distribution partner mark-to-market expense, partially offset by $4.7 million for deferred income taxes and $3.0 million for a mark-to-market decrease in the fair value of the Cardpool contingent acquisition liability), cash flow increases of $238.0 million, $14.7 million, $1.9 million and $4.5 million from changes in settlement payables, accounts payable and accrued liabilities, other liabilities and income taxes payable, respectively, and cash flow decreases of $260.3 million, $28.8 million, $7.7 million and $25.4 million from changes in settlement receivables, accounts receivable, prepaid expenses and other current assets and other assets, respectively.

The $225.2 million of net cash provided by operating activities in 2011 resulted from $36.5 million of net income, the adjustment for non-cash operating expenses of $34.4 million (including $15.1 million for depreciation and amortization, $13.3 million for program development cost amortization, $3.7 million for deferred income taxes, $3.3 million for distribution partner mark-to-market expense and $3.0 million for employee stock-based compensation, partially offset by a $3.6 million change in receivables allowances), cash flow increases of $222.4 million, $23.9 million and $20.6 million from changes in settlement payables, accounts payable and accrued liabilities and income taxes payable, respectively, and cash flow decreases of $67.5 million, $16.4 million, $9.3 million and $19.1 million from changes in settlement receivables, accounts receivable, prepaid expenses and other current assets and other assets, respectively.

The $17.7 million of net cash provided by operating activities in 2010 resulted from $19.2 million of net income, the adjustment for non-cash operating expenses of $39.3 million (including $11.1 million for depreciation and amortization, $11.4 million for program development cost amortization,

$2.8 million for changes in receivables allowances, $2.5 million for employee stock-based compensation, $6.1 million for distribution partner mark-to-market expense and $6.0 million for deferred income taxes), cash flow decreases of $34.9 million, $6.2 million, $2.3 million, $28.9 million, $12.0 million and $38.2 million from changes in settlement receivables, accounts receivable, prepaid expenses and other current assets, other assets, accounts payable and accrued liabilities and income taxes payable, respectively, and cash flow increases of $79.3 million and $2.6 million from changes in settlement payables and other liabilities, respectively.

Our Cardpool business is presently a small portion of our overall business. As this business grows, it will require working capital to fund cards acquired and held in inventory for resale. To date, this inventory has represented approximately two weeks of card sales.

Cash Flows from Investing Activities

We advance a portion of our U.S. cash balances at the end of every day to Parent, which invests these amounts in overnight investments. At the end of 2010, 2011 and 2012, *Overnight cash advances to Parent* were $504.0 million, $598.2 million and $495.0 million, respectively. However, the average daily *Overnight cash advances to Parent* during the year were $94.7 million, $93.5 million and $146.3 million for 2010, 2011 and 2012, respectively. Other than the change in *Overnight cash advances to Parent*, net cash used in investing activities consisted almost entirely of expenditures for property, equipment and technology of $19.6 million, $29.3 million and $23.8 million for 2010, 2011 and 2012, respectively. Another significant use of cash in the fourth quarter of 2011 was related to our acquisition of Cardpool. We made a net cash payment of $9.6 million to consummate the purchase and are obligated to make additional payments of up to $25.0 million over the next two years depending on when and if certain financial and operational milestones are achieved.

Cash Flows from Financing Activities

The net cash used in financing activities for 2010 was primarily attributable to the repayment of notes payable to our parent for prior years amounts borrowed and an insignificant amount was related to the exercise of stock options. The net cash provided by financing activities for 2011 was related to the exercise and/or repurchase of employee equity awards and was insignificant to our overall cash flows. The net cash used in financing activities of $82.0 million in 2012 was primarily attributable the payment of a $69.9 million dividend to our common shareholders, a payment of $9.4 million for our Cardpool acquisition liability and $2.7 million for the exercise and/or repurchase of employee equity awards and other activities.

Contractual Obligations and Commitments

Our contractual commitments will have an impact on our future liquidity and represent material expected or contractually committed future obligations as of year-end 2012. The following table summarizes our contractual obligations, including noncancellable commitments under certain contracts to provide marketing development funds and display fixtures for distribution partners totaling $106.0 million (which are expected to be directly utilized in generating load value); card sales, production and payment processing volume commitments totaling $46.2 million (which are expected to be directly utilized in generating revenues through the sale of open loop gift cards); future Cardpool contingent acquisition liability payments totaling $25.0 million (assuming fully earned at the earliest possible date); and office, warehouse and data center operating leases totaling $13.9 million. Of the $191.2 million in total commitments set forth below, $39.0 million are reflected as an accrued liability in our consolidated balance sheet as of year-end 2012.

Fiscal Year	Contingent Acquisition Liability	Volume and Purchase Commitments	Distribution Partner Commitments	Operating Leases	Total Contractual Commitments
			(in thousands)		
2013	$ 25,000	$ 16,885	$ 35,788	$ 4,697	$ 82,370
2014		18,156	26,327	3,106	47,589
2015		8,597	20,446	2,231	31,274
2016		2,540	9,693	2,240	14,473
2017			6,933	949	7,882
Thereafter			6,932	686	7,618
Total	25,000	46,178	106,119	13,909	191,206
Amounts accrued as of year-end 2012	20,588	18,422			39,010
Net unaccrued commitments	$ 4,412	$ 27,756	$ 106,119	$ 13,909	$ 152,196

Off-Balance Sheet Arrangements

From time to time, we enter into contracts containing provisions that contingently require us to indemnify various parties against claims from third parties. These contracts primarily relate to contracts with our card-issuing banks, under which we are responsible to the banks for any unrecovered overdrafts on cardholders accounts. Historically, overdraft amounts on cardholders accounts have been insignificant and are paid as incurred.

Relationship with Safeway and Related Transactions

Our relationship with Safeway is currently governed by various agreements, some of which are described here because they are material to our liquidity and capital resources. For additional information about our agreements with Safeway, please see Certain Relationships and Related Party Transactions Relationship with Safeway and Related Transactions.

Gift Card Alliance Partners Program Agreements

Safeway is one of our distribution partners. Under the gift card alliance partners program agreements, Safeway offers gift cards, prepaid telecom cards and handsets, and GPR cards provided by us for sale in its stores in the United States and Canada, and Blackhawk provides funds and services relating to the management, marketing and service of products and services offered through the gift card alliance partners program agreements as well as relating to the launch and implementation of pilot programs for new products and services. Under the gift card alliance partners program agreements, Safeway receives a portion of the commissions and other fees that we receive from our content providers and consumers in connection with the purchase, activation, load, reload and use of our products and services offered through Safeway stores. Prior to 2013, the portion of the distribution commission that we retained pursuant to these agreements was higher than the portion of commissions that we retained pursuant to our other distribution partner agreements and reflected additional services that we provided to Safeway compared to other distribution partners. Effective December 30, 2012, our gift card alliance partner program agreements with Safeway were amended to, among other things, extend the term to December 31, 2017 and increase the share of distribution partner commissions retained by Safeway. Under our amended distribution partner agreements, the services received and the commissions retained by Safeway are comparable to the arrangements with similarly situated distribution partners. If the amended terms had been in effect for 2012, amounts paid to Safeway in 2012 would have been $8.3 million higher. This would have reduced our 2012 fiscal year adjusted operating revenue by $8.3 million and our net income by approximately $5.2 million.

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Overnight Cash Advances

We advance a portion of our U.S. and Canadian cash balances at the end of every day to Safeway, which invests these amounts in overnight investments. These advances are made pursuant to unsecured promissory notes. Average daily borrowings by Safeway for this purpose were $93.5 million and $146.3 million for 2011 and 2012, respectively. Outstanding amounts at year-end 2011 and 2012 are presented as *Overnight cash advances to Parent* in the accompanying consolidated balance sheets.

Interest is calculated based on applicable short-term borrowing investment rates (generally commercial paper rates) accrued daily and paid annually. The average interest rate for 2010, 2011 and 2012 was 0.6%, 0.5% and 0.5%, respectively. Interest income under this note for 2010, 2011 and 2012 totaled $0.6 million, $0.4 million and $0.8 million, respectively.

Tax Sharing Agreement

We are party to a tax sharing agreement, or TSA, with Safeway. The TSA governs the respective rights, responsibilities and obligations of Safeway and us with respect to the payment of taxes, filing of tax returns, reimbursements of taxes, control of audits and other tax proceedings and other matters regarding taxes. For additional information about the TSA, please see Certain Relationships and Related Party Transactions Relationship with Safeway and Related Transactions Tax Sharing Agreement.

Guarantees

Safeway has, in limited instances, provided guarantees to certain content providers with respect to obligations of ours relating to distribution partner card sales. These guarantees have stated maximum amounts and expiration dates ranging from 2013 to 2016. These guarantees have a variety of termination provisions, some of which include (i) the initial public offering of our common stock, (ii) Safeway ceasing to own a specified percentage of our issued and outstanding voting stock, and (iii) issuance of a replacement letter of credit with a financial institution to cover such obligations. Certain of our content provider agreements may be terminated at the election of the content provider under certain circumstances if the related guarantee ceases to be in effect. We are currently in negotiations with certain of our content providers whose guarantees are expected to terminate upon the completion of this offering, and we anticipate that we will be able to obtain satisfactory guarantees or make alternative credit arrangements. See Cash Management and Treasury Services Agreement below.

Cash Management and Treasury Services Agreement

We have entered into a cash management and treasury services agreement with Safeway. This agreement sets forth the terms and conditions of the cash management and credit services provided to us by Safeway and permits Safeway to borrow cash from our operating accounts in excess of our immediate working capital and other operating requirements, calculated in accordance with the agreement, on an overnight basis to meet Safeway s short-term funding requirements. The services provided by Safeway include, among others, (i) assisting us in the investment of the excess cash described in the preceding sentence, to the extent it is not borrowed by Safeway, (ii) lending us an amount necessary to satisfy our short-term working capital requirements (as calculated in accordance with the agreement), up to an aggregate of $50 million in U.S. dollars and $10 million in Canadian dollars, such amounts to be lent under unsecured demand promissory notes described below under Certain Relationships and Related Party Transactions Relationship with Safeway and Related Transactions Working Capital Note , and (iii) providing guarantees for liabilities related to our operating activities for a certain period of time. The cash management and treasury services agreement will terminate three years following the effective date of this offering, unless earlier terminated by us or Safeway if (a) Safeway ceases to hold at least 50.1% of our outstanding common stock or (b) the other party s unsecured credit rating falls below investment grade or such party has entered into bankruptcy or other insolvency proceedings.

Critical Accounting Policies and Estimates

Critical accounting policies are those accounting policies that our management believes are important to the portrayal of our financial condition and results of operations and require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application, while in other cases management s judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. Significant estimates and assumptions affect, among other things, allowances for doubtful accounts and sales adjustments, useful lives of assets, card redemption patterns and lives, and valuation assumptions with respect to goodwill, contingent business acquisition liabilities, other intangible assets, common stock and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management s judgments and estimates.

Revenue Recognition

We recognize revenue when there is persuasive evidence of an arrangement; the service or product has been provided to the customer; collection of our commissions and fees is reasonably assured; and the amount of fees to be paid by the customer is fixed or determinable.

Commissions and Fees

We derive the majority of our revenues from commissions and fees paid by our content providers for distribution and program management of prepaid cards. Gross commissions are generally recognized as revenue at the time of card activation. For our proprietary Visa gift card and PayPower GPR card, we serve as the program manager operating in conjunction with our issuing banks. Consequently, all of the purchase fees for these cards are deferred and recognized ratably in proportion to historical redemption patterns over the estimated life of the card, presently 12 months for our proprietary Visa gift cards and four months for the GPR cards. Fees for reloading GPR cards are recognized when funds are transferred onto the card.

For the American Express and MasterCard network-branded gift cards and nonproprietary GPR cards, consumers pay a purchase fee in addition to the amount loaded onto the card. We receive a portion of the consumer fees for our marketing and distribution services provided to American Express and the MasterCard program manager. We recognize the gross fee paid on the cards at the point of sale when the consumer loads funds onto the cards.

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Program, Interchange, Marketing and other Fees

We generate revenues related to redemption processing and account maintenance that occurs after the initial activation and load onto a card for which we act as program manager. Monthly or transaction/usage based fees are charged on our proprietary Visa gift cards and GPR cards. Revenue for these cards is recognized when the fees are charged and deducted from card balances. When cardholders make purchases at merchants, we also earn and recognize a portion of the network interchange fees charged to the merchant by the issuing banks. We also have agreements with our issuing banks where the bank pays us a program management fee based on a percentage of the load value of activated cards. We recognize such fees in proportion to historical redemption patterns over the estimated card life, presently 12 months. The fee percentage is subject to quarterly renegotiation and may be adjusted based on changes in the underlying redemption patterns, escheat obligations, regulations and other factors that change the underlying economics of the card portfolio. Other fee revenue is generated primarily from marketing payments from our content providers which are reported on a gross basis and are recognized when services are rendered, items shipped or fees contractually earned.

Product Sales

We also generate revenue by selling previously issued closed loop gift cards at a discount to consumers, by selling telecom handsets through our distribution outlets and by providing some of our content providers with design, development and production services related to their individual prepaid card programs. Revenue is recognized on a gross basis when items are shipped or delivered, based on the underlying shipping terms.

Goodwill and Intangible Assets

Goodwill represents the excess of cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. Goodwill is not subject to amortization but must be periodically evaluated for impairment.

We test goodwill for impairment at the reporting unit level at least annually (on the first day of the fourth quarter), or whenever events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is below its carrying amount. A two-step process is required to evaluate impairment. In the first step, we compare the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit is less than its carrying value, we perform a second step to determine the implied fair value of goodwill associated with the reporting unit. If the carrying value of goodwill exceeds the implied fair value of goodwill, such excess represents the amount of goodwill impairment.

Under GAAP, a reporting unit is either the equivalent of, or one level below, an operating segment. We have concluded that we operate in one segment and have one reporting unit for impairment testing purposes.

Intangible assets consist of acquired patents, domain names, an exclusivity right and other intangibles, and are amortized on a straight-line basis over expected useful lives ranging from three to 13 years. For acquisitions, we classify acquired software technology as *Property, equipment and technology, net*.

Cost of Software Developed or Obtained for Internal Use

We capitalize our costs to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding and it is probable that the project will be completed and the software will be used as intended. Such costs are amortized

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on a straight-line basis over the estimated useful life of the related asset, typically estimated to be five years. Costs incurred prior to meeting these criteria are expensed as incurred. Costs incurred for enhancements that are expected to result in additional features or functionality are capitalized and expensed over the estimated useful life of the enhancements.

Income Tax Contingencies

Our parent company, Safeway, is subject to periodic audits by the Internal Revenue Service and other foreign, state and local taxing authorities with respect to tax returns which include Blackhawk, and we are subject to periodic audits by various foreign, state and local taxing authorities with respect to our applicable separate company tax returns. These audits may challenge certain of our tax positions, such as the timing and amount of income and deductions and the allocation of taxable income to various tax jurisdictions. We evaluate our tax positions and establish tax liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. These tax uncertainties are reviewed as facts and circumstances change and are adjusted accordingly. This requires significant management judgment in estimating final outcomes. Actual results could materially differ from these estimates and could significantly affect our effective tax rate and cash flows in future years.

Employee Stock-Based Compensation

We account for all stock-based awards to employees, including grants of restricted stock awards and units, employee stock options and stock appreciation rights, or SARs, as compensation based on the fair value of the award at the grant date.

We determine the fair value of our option awards at the date of grant using the Black-Scholes option pricing model. The resulting fair value, less estimated forfeitures, is amortized on a straight-line basis to expense over the requisite service period as the employee vests into the award. The Black-Scholes option pricing model incorporates certain assumptions, such as the estimated fair value of our common stock, expected volatility, the expected life of the option, the risk-free interest rate, the expected forfeiture rate and the expected dividend yield in order to arrive at a fair value estimate.

Estimated Fair Value of Common Stock We do not have a trading history for our common stock and the fair value is determined by our board of directors. For additional information about the factors and assumptions used by our board of directors to make this determination, please see Valuation of Common Stock.

Volatility We do not have a trading history for our common stock and the expected price volatility for our common stock was estimated based upon historical volatility for comparable publicly traded companies over a five-year period.

Expected Term The expected term was estimated using the simplified method allowed under SEC Staff Accounting Bulletin No. 110, Share-Based Payment.

Risk-free Rate The risk-free interest rate was based on the yields of U.S. Treasury securities with maturities similar to the expected term of the stock options for each stock option group.

Forfeiture Rate We estimated the forfeiture rate using our historical experience with forfeitures. We review the estimated forfeiture rates each period end and make changes as factors affecting the forfeiture rate calculations and assumptions change.

Dividend Yield Expected dividend yield is based on our dividend policy at the time the options were granted. Other than the December 2012 extraordinary cash dividend of $1.369 per share, we have never declared or paid any cash dividends and do not plan to pay cash dividends in the foreseeable future. Consequently, we have historically used an expected dividend yield of zero.

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The assumptions we use in the option pricing model are based on subjective future expectations combined with management judgment. If any of the assumptions used in the Black-Scholes option pricing model change significantly, compensation expense for future awards may differ materially compared to awards previously granted.

Valuation of Common Stock

Because there has been no public market for our common stock and in the absence of recent arm s-length cash sales transactions of our common stock with independent third parties, our board of directors determines the fair value of our common stock by considering at the time of grant a number of objective and subjective factors, including discounted cash flow analysis, comparable company analysis, regular periodic valuations from an independent third-party valuation firm, overall market conditions, repurchases of our common stock, and our current, historical and expected future operating performance. This approach is consistent with the methods outlined in the AICPA Practice Aid.

Valuation of Privately-Held-Company Equity Securities Issued as Compensation.

One of the factors considered by our board of directors is a periodic independent third-party valuation analysis, which is based on a combination of market and income approaches. Under the market approach, consideration is given to pricing information for similar public companies, referred to as the guideline (or comparable) publicly traded company methodology, and to relevant transactions involving the sales of similar companies, referred to as the mergers and acquisitions method. The income approach discounts expected future cash flows to their present value at a discount rate based upon our weighted-average cost of capital that considers the risk-free rate, as well as risks associated with an investment in the business. The projections used in connection with the market and income valuation approaches were based on our expected operating results and cash flows over the forecast period. A key component in determining the fair value of our common stock is developing an estimate of our enterprise value based on a weighting of the market and income approaches. In determining the enterprise value, we have historically placed greater weighting on the guideline public company method as compared to the mergers and acquisitions method and the income approach due to the number of public company comparables, how closely they relate to our company, our consistently positive EBITDA generation and our expected EBITDA growth over the next few years. Our peer group is comprised of a number of U.S. based publicly traded companies primarily focused on prepaid cards and processing of electronic payment transactions. Uncertainty and subjectivity are inherent in these fair value estimates. If different peer companies, discount rates and other assumptions had been used, the valuations would have been different.

Given our communications with prospective underwriters over the past 18 months about a potential initial public offering (IPO) of our common stock, we used the Probability-Weighted Expected Return Method (PWERM) to allocate the estimated enterprise value to our common stock in the June 30, 2011, December 31, 2011, June 16, 2012 and December 29, 2012 valuations. Under the PWERM methodology, the allocation of our enterprise value was based upon the timing and likelihood of various potential future liquidity scenarios at the applicable valuation date, including an early and late IPO, merger or strategic sale, or continued private company operations. Depending on the valuation period, an early IPO is defined as an IPO transaction occurring within three to nine months of the valuation date and a late IPO is defined as an IPO transaction occurring within six to 18 months of the valuation date.

The semi-annual independent third-party valuation as of June 30, 2011 indicated a $22.40 per share value of our common stock. For the PWERM analysis, we estimated the likelihood of the following scenarios:

Early IPO	40%
Late IPO	40%

Merger or sale 10%

Continued private company operations 10%

We believed that an IPO was the most likely scenario, but given the volatility in the public markets at the time and the fact that our parent company was controlling the timing and certainty of this event, it was difficult to reliably predict the timing. As a result, we equally weighted the early and late IPO (within nine months and 18 months, respectively) at 40%. We considered a merger or sale scenario and a continued private company operations scenario, but believed these were remote and assigned each a low likelihood of 10%. Our board of directors considered this valuation, along with the overall market conditions at the time, comparable company analysis, and our historical, current and expected future operating performance, including growths rates and margins as compared to the peer group, and approved a $22.40 per share value of our common stock. At the grant date of each stock award issued subsequent to the valuation date, our board of directors reassessed the appropriateness of the $22.40 per share value and concluded that no material events or changes in circumstances had occurred since the June 30, 2011 valuation date that would indicate a need to revise the $22.40 per share value of our common stock.

The semi-annual independent third-party valuation as of December 31, 2011 indicated a $19.86 per share value of our common stock. The decrease in fair value from $22.40 in the June 30, 2011 valuation to $19.86 was primarily due to a decrease in the valuation multiples of our comparable companies. For the PWERM analysis, we estimated the likelihood of the following scenarios:

Early IPO 60%

Late IPO 30%

Merger or sale 5%

Continued private company operations 5%

We increased the overall likelihood of an IPO scenario to 90% as we had commenced activities to prepare for an initial registration statement filing, but due to the same factors cited above, it was still difficult to reliably predict the timing. However, because we had commenced preparation activities, including discussions with investment banks, we weighted the early IPO scenario (within six months) at 60% and the late IPO scenario (within 12 months) at 30%. We reduced the likelihood for a merger or sale scenario and a continued private company operations scenario to 5% each. Our board of directors considered this valuation, along with the overall market conditions at the time, comparable company analysis, and our historical, current and expected future operating performance, and approved the new valuation of $19.86 per share of common stock. At the grant date of each stock award issued subsequent to the valuation date, our board of directors reassessed the appropriateness of the $19.86 per share value and concluded that no material events or changes in circumstances had occurred since the December 31, 2011 valuation date that would indicate a need to revise the $19.86 per share value of our common stock.

At the June 16, 2012 valuation date, our semi-annual independent third-party valuation results indicated a $20.10 per share value of our common stock. For the PWERM analysis, we estimated the likelihood of the following scenarios:

Early IPO 30%

Late IPO 60%

Merger or sale 5%

Continued private company operations 5%

We continued to believe that an IPO was the most likely scenario, but given the current weakness in the valuations of our comparable companies and in consultation with our parent company, we weighted the early IPO scenario (within four months) at 30% and the late IPO scenario (within nine months) at 60%. We considered a merger or sale scenario and a continued private company operations scenario, but believed these were remote and assigned each a low likelihood of 5%. Our board of directors considered this valuation, along with the overall market conditions at the time, comparable company analysis, and our historical, current and expected future operating performance, and approved the new valuation of $20.10 per share of common stock. At the grant date of each stock award issued subsequent to the valuation date, our board of directors reassessed the appropriateness of the $20.10 per share value and concluded that no material events or changes in circumstances had occurred since the June 16, 2012 valuation date that would indicate a need to revise the $20.10 per share value of our common stock.

At the December 29, 2012 valuation date, our semi-annual independent third-party valuation results indicated a $20.00 per share value of our common stock. The slight decrease in fair value from $20.10 in the June 16, 2012 valuation to $20.00 was primarily due to a decrease in the valuation multiples of our comparable companies. For the PWERM analysis, we estimated the likelihood of the following scenarios:

Early IPO	55%
Late IPO	35%
Merger or sale	5%
Continued private company operations	5%

We continued to believe that the likelihood of an IPO scenario was 90% and weighted the early IPO scenario (within three months) at 55% as we continued to move forward with the preparation of an initial registration statement. We considered a merger or sale scenario and a continued private company operations scenario, but believed these were remote and assigned each a low likelihood of 5%. Our board of directors considered this valuation, along with the overall market conditions at the time, comparable company analysis, and our historical, current and expected future operating performance, and approved the new valuation of $20.00 per share of common stock. At the grant date of each stock award issued subsequent to the valuation date, our board of directors reassessed the appropriateness of the $20.00 per share value and concluded that no material events or changes in circumstances had occurred since the December 29, 2012 valuation date that would indicate a need to revise the $20.00 per share value of our common stock.

From January 1, 2012 to April 2, 2013, we granted options and stock appreciation rights (SARs) to current and newly hired employees to purchase shares of Class B common stock with weighted average exercise prices at grant date (as adjusted for the December 2012 extraordinary cash dividend of $1.369 per share) and weighted average fair values as follows:

Grant Date	Options and SARs Granted	Grant Date Weighted Average Exercise Price	Dividend-Adjusted Weighted Average Exercise Price	Weighted Average Fair Value per Share of the Options and SARs at the Grant Date
January 1, 2012 to June 16, 2012	670,250	$ 19.86	$ 18.49	$ 8.12
June 17, 2012 to December 29, 2012	23,500	$ 20.10	$ 18.73	$ 8.46
December 30, 2012 to April 2, 2013	838,250	$ 20.00	$ 20.00	$ 8.26

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The assumptions used to value the January 1, 2012 through April 2, 2013 option grants and stock appreciation rights are as follows:

- Expected term 4.75 to 5.0 years;

- Expected volatility 46.6% to 48.3%;

- Risk-free interest rate 0.6% to 1.1%; and

- Expected dividend yield during expected term 0.0%.

The fair values of our restricted stock awards and restricted stock units are based on the estimated fair value of our common stock (as discussed above in this section) at the date of grant and are amortized to expense over the requisite service period. From January 1, 2012 to December 29, 2012, we issued 163,975 shares of restricted stock and restricted stock units at $19.86 per share and 14,750 restricted stock units at $20.10 per share. These restricted stock awards and restricted stock units vest annually over five years in equal increments. From December 30, 2012 to April 2, 2013, we issued 228,250 shares of restricted stock at $20.00 per share, of which 188,750 vest annually over four years in equal increments and 39,500 vest annually over five years in equal increments.

Options, SARs, restricted stock and restricted stock units can be called by us or put to us by the holder at fair value after the holder has exercised (or the restricted stock or restricted stock unit has vested) and has been subject to market risk (i.e., held the stock) for a certain period of time, in accordance with the terms of the stockholders agreement that we have entered into with our stockholders and optionholders. Due to this put right, exercised options, fully vested restricted shares and the vested portion of unexercised options and restricted shares are re-measured to their redemption value at each reporting date, and classified as *Redeemable equity* in our consolidated balance sheets.

Equity Instruments Issued to Distribution Partners

In conjunction with marketing and distribution service agreements, we have issued common stock and warrants to four of our distribution partners. These instruments contain services and/or performance conditions, and three of them provide the holder with a right to put the instrument back to us at fair value or its redemption value. Two of these instruments were issued in April 2013 without any related put rights. In addition, we are required under the terms of an investor agreement with one of these distribution partners to offer such partner a purchase right in connection with certain issuances of our securities, and, pursuant to such requirement, we will issue an additional warrant to such partner as a result of the issuance of one of the April 2013 instruments. Measuring the fair value of each of these instruments, determining the requisite service period over which to amortize the fair value and determining the appropriate classification in our consolidated balance sheets is complex and requires significant judgment.

For the equity instruments outstanding as of December 29, 2012, we initially measured the fair value of these instruments using a Black-Scholes option pricing model with input assumptions similar to our employee stock option grants, except for the expected term, which equals the terms of the service or warrant agreements. The fair value of each equity instrument is re-measured, or marked to market, at each reporting date to its fair value and expensed to *Sales and marketing* in our consolidated statements of income, generally over the requisite service or performance period. Due to the holder s put right, the fair value of three of these instruments is reflected as *Warrant and common stock liabilities* in our consolidated balance sheets. The redemption value of a fourth instrument is currently recorded in *Redeemable equity*, since the holder has a contingent put right, but has not yet achieved a measurement or performance commitment date. Once a measurement date is achieved, the instrument will be re-evaluated for liability classification under the relevant accounting literature.

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Increases in the valuation of our common stock, as discussed in Valuation of Common Stock above could affect our results of operations, and affect our cash flows if the holders choose to put the instruments to us.

The warrants issued in April 2013 are fully vested with no service or performance conditions, but are exercisable beginning on the earlier of 181 days after the date of this prospectus or a change in control. Upon the occurrence of such an event, we will measure the fair value of the warrants using a Black-Scholes option pricing model and record the full value of the award in *Additional paid-in capital* with an offset to *Intangible assets* and amortize the assets over the term of the related marketing and distribution services agreements to *Sales and marketing* expense.

For the equity instruments with put and call rights, such rights expire upon an initial public offering, spin-off or change in control, as defined in the related stockholder agreements. For two of these instruments, the occurrence of any of these events will result in immediate expense recognition of their remaining unamortized fair value. Upon completion of this offering, we will be required to record an expense with respect to the equity instruments held by these two distribution partners in an amount equal to the excess of the initial public offering price per share over the relevant put or exercise price of the instrument multiplied by the relevant number of equity securities, less the amount previously expensed, with an offsetting increase in *Stockholders equity*. The amount of this non-cash expense will be $6.0 million in the aggregate.

The table below sets forth our equity instruments issued to distribution partners.

Number of Shares	Date of Issuance	Exercise Price	Vested & Exercisable	Vested & Not Exercisable	Expiration Date
750,000	7/27/09	$ 10.52	750,000(1)		(2)
Up to 1,100,000(3)	1/5/11	$ 16.30		181,500(3)	(4)
Up to 22,449(5)	3/1/11	$ 16.30		3,704(5)	(6)
750,000	4/2/13	$ 20.00		750,000(7)	(8)
1,500,000	4/2/13	$ 20.00		1,500,000(9)	(10)

(1) Warrant has been net exercised contingent upon the completion of this offering (resulting in the issuance of 406,957 shares of Class B common stock).
(2) Expires on the earliest of the closing of this offering, July 26, 2019, a change of control and a termination (subject to certain exceptions) of the commercial agreement entered into in connection with the issuance of the warrant.
(3) Exercisable at any time between April 1, 2014 and the expiration date or in connection with a change of control occurring prior to April 1, 2014. Shares of Class B common stock for which the warrant is exercisable range from a minimum of 181,500 shares to a maximum of 1,100,000 shares, the exact number of which is determined based on future achievements of specified performance metrics tied to marketing commissions received by us pursuant to the commercial agreement with the holder of the warrant. The warrant was vested but not exercisable with respect to 181,500 shares as of December 29, 2012.
(4) Expires on the earlier of December 31, 2015 or 30 days following a termination (subject to certain exceptions) of the commercial agreement entered into in connection with the warrant issuance.
(5) Exercisable at any time between April 1, 2014 and the expiration date or in connection with a change of control occurring prior to April 1, 2014. Shares of Class B common stock for which the warrant is exercisable range from a minimum of 3,704 shares to a maximum of 22,449 shares, the exact number of which is determined based on the number of shares issuable pursuant to the warrant described under notes (3) and (4) above. The warrant was vested but not exercisable with respect to 3,704 shares as of December 29, 2012. The warrant was issued in satisfaction of our obligation to offer such partner a purchase right in connection with certain issuances of our securities, or the Purchase Right Obligation, pursuant to an investor agreement entered into in connection with a commercial agreement with such partner, which obligation was triggered by the issuance of the warrant to purchase up to 1,100,000 shares corresponding to note (3) above. The Purchase Right Obligation will terminate on the closing of this offering.
(6) Expires on the earlier of December 31, 2015 or 30 days following a termination (subject to certain exceptions) of a commercial agreement between us and the holder of the warrant.
(7) Exercisable for shares of Class A common stock on the earlier of 181 days after the date of this prospectus and a change of control. As a result of the issuance of this warrant, pursuant to the Purchase Right Obligation described in note (5) above, we will issue an additional warrant to purchase 15,306 shares of Class A common stock at an exercise price of $20.00 per share to the distribution partner described in note (5) above.

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(8) Expires on the earlier of March 31, 2018 and 10 business days following a termination of the commercial agreement entered into with the distribution partner.
(9) Exercisable for shares of Class A common stock on the earlier of 181 days after the date of this prospectus and a change of control.
(10) Expires on the earlier of June 30, 2018 and 10 business days following a termination of the commercial agreement entered into with the distribution partner.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively for reporting periods beginning on or after December 15, 2011. Our adoption of this standard in 2012 did not materially affect our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 requires that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in equity. Under either choice, items that are reclassified from other comprehensive income to net income are required to be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented. This amendment is effective for us in 2012 and has been applied retrospectively to the consolidated financial statements included in this prospectus. This amendment changed the manner in which we present comprehensive income, but had no impact on previously reported comprehensive income.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, or the revised standard. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. Our adoption of this standard in 2012 did not materially affect our consolidated financial statements.

The JOBS Act

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for companies that are not emerging growth companies.

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Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates. We do not hedge this exposure as, to date, it has not been significant. We also have exposure to interest rate risk to the extent we invest our cash with third-party financial institutions. The majority of our cash has been invested with our parent company through overnight advances. Investments with third-party financial institutions have not been significant.

Interest Rate Risk

We are also exposed to interest rate risk associated with the investing of available cash. We invest available cash in conservative short-term instruments and are primarily subject to changes in short-term interest rates.

Currency Risk

We currently have international operations in countries which include Australia, Canada, Mexico, the United Kingdom and other countries in the European Union. Commercial bank accounts denominated in the local currency for operating purposes are maintained in each country. The functional currency in each location is the local currency. Fluctuations in exchange rates of the U.S. dollar against foreign currencies can result, and have resulted, in foreign exchange translation gains and losses. We had unrealized foreign currency translation gains of approximately $1.1 million in both 2010 and 2012; and unrealized foreign currency translation losses of $1.5 million in 2011. Our realized foreign transaction gains and losses were immaterial in 2010, 2011, and 2012. If exchange rates on such currencies were to fluctuate 10%, we believe that our consolidated financial position, results of operations and cash flows would not be materially affected.

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BUSINESS

Overview

Blackhawk is a leading prepaid payment network utilizing proprietary technology to offer a broad range of gift cards, other prepaid products and payment services in the United States and 18 other countries. We believe our extensive network provides significant benefits to our three primary constituents: consumers who purchase the products and services we offer, content providers who offer branded gift cards and other prepaid products that are redeemable for goods and services and distribution partners who sell those products. For consumers, we provide convenience by offering a broad variety of quality brands and content at retail distribution locations and online, enhanced by customer promotions and loyalty incentive programs that may be offered by our distribution partners. For our content providers, we drive incremental sales by providing access to millions of consumers and creating new customer relationships. For our distribution partners, we provide a significant, high-growth and highly productive product category that drives incremental store traffic and customer loyalty. Our technology platform allows us to efficiently and seamlessly connect our network participants and offer new products and services as payment technology evolves. We believe the breadth of our distribution network and product content, combined with our consumer reach and technology platform, create powerful network effects that enhance value for our constituents and fuel growth in our business.

The Blackhawk Network

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 extensive network connects to more than 500 content providers and over 100,000 active retail distribution locations, providing access to over 160 million consumer visits per week. In addition, we sell physical and electronic gift cards to consumers through both leading online distributors and our website, GiftCardMall.com. In 2012, we processed a total load value of $8.5 billion and over 216 million load transactions.

We offer gift cards from leading consumer brands such as Amazon.com, Applebee s, iTunes, Lowe s, Macy s and Starbucks and from payment networks such as American Express, MasterCard and Visa. We also distribute prepaid telecom products offered by leading prepaid wireless telecom brands including AT&T, Sprint s Boost and Virgin Mobile brands, T-Mobile, TracFone and Verizon. In addition, we distribute GPR cards provided by Green Dot and NetSpend, the industry leaders in this product category, as well as PayPower, our own GPR card. REloadit, our proprietary reload network, allows consumers to reload funds onto certain of their previously purchased GPR cards. We have strong relationships with our content providers and typically negotiate multi-year contracts. 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. Our content provider relationships allow us to provide what we believe is the most extensive selection of gift card brands and prepaid products in a single shopping location for consumers seeking to purchase prepaid products both as gifts and for their own use.

We distribute our products across multiple high-traffic channels such as grocery, convenience, specialty and online retailers. Grocery is our largest channel and enjoys a high volume of frequent visits from all consumer demographics. 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 and Canada as reported by Supermarket News on January 30, 2012. These grocery retailers include Ahold, Giant Eagle, Kroger, Loblaws, Publix and Safeway. We also distribute our products in specialty retailers such as Bed Bath & Beyond, Lowe s and Staples, in convenience stores such as QuikTrip and Wawa, and in other retailers such as JCPenney and Kohl s. In addition to the United States, we distribute our products in 18 other countries, including Canada, the United Kingdom and Australia. We are expanding in Brazil and Korea and we also plan to begin selling in China in 2013. Our international network includes leading retailers such as Albert Heijn, Carrefour, Loblaws, Morrisons, Tesco and Woolworths. Our international business accounted for approximately 15% of our total revenues in 2012. Because of the wide array of quality content we offer and the high-growth, highly productive characteristics of our product category, we have been able to develop strong relationships with our distribution partners, generally with multi-year contracts containing varying degrees of exclusivity.

Since our founding in 2001, we have pioneered the distribution of gift cards through third-party retail channels. We provide prominent, in-store fixed location displays, including the Gift Card Mall and Prepaid Center, which carry gift cards and other prepaid products, respectively, covering a broad selection of leading consumer brands. Launched in 2004, our Gift Card Mall creates a highly visible, one-stop shopping destination that enhances consumer awareness and drives sales. In many of our points of distribution, we have expanded our footprint with secondary displays in checkout lanes and other high-traffic areas. Our distribution partners also implement marketing and merchandising programs that we develop to drive sales. In addition, when our distribution partners incorporate our products into their customer loyalty and reward programs it typically results in significant sales growth in those locations.

As mobile and digital commerce technologies continue to evolve, we have developed innovative capabilities and services to integrate prepaid products with mobile applications. For example, we facilitate the digital registration of gift cards, tracking of balances, delivery of gift card related offers, purchases of eGifts, exchange of gift cards and replacement card services. Our open platform can support a broad range of retailers, financial institutions, social networks and digital wallets. We believe our extensive relationships with retailers and content providers, as well as our sophisticated technology platform, position us to be an important provider of gift card solutions for a broad set of emerging, digital wallet offerings.

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We have invested over $100 million in our proprietary technology platform which connects content providers, distribution partners and transaction processors, and allows consumers to easily load, reload, redeem and manage prepaid cards. 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, allowing us to quickly connect to new distribution partners and content providers.

We have experienced significant growth since our inception in 2001 as we expanded our network. From 2008 through 2012, our revenues grew from $362 million to $959 million and our Adjusted net income grew from $22.7 million to $50.3 million, representing compound annual growth rates, or CAGR, of 27.6% and 22.1%, respectively.

Industry Overview

Gift cards and other prepaid products represent a large and quickly growing segment within the continuing shift towards electronic payments.

Over the last several decades, consumer payments have shifted significantly from paper-based to electronic and card-based forms. According to The Nilson Report (Issue 985), paper-based forms of payment, including cash and checks, are expected to decline as a percentage of total payment volume in the United States from 50% in 2005 to 31% by 2015. As paper-based forms of payment have declined, card-based and other electronic forms of payment have increased significantly. Prepaid card payments represent a significant and growing segment within electronic payments, with an estimated $483 billion of load value in the United States in 2011 growing at a projected 12% CAGR from 2011 to 2015 according to Mercator Advisory Group s U.S. Prepaid Cards Market Forecasts, 2012 2015 research report.

A broad array of prepaid products and payment services has been developed to address evolving consumer and merchant needs.

As card-based and other electronic forms of payment have evolved, different types of products and services have been developed to address specific consumer needs. These products include gift card products, prepaid telecom products and prepaid financial services products.

The chart below summarizes the estimated size and expected growth of the total prepaid card market as well as selected segments and products, according to Mercator Advisory Group.

Selected Prepaid Card Segment	Estimated Load Volume in 2011	Projected Load Volume in 2015	Projected Load Volume Compound Annual Growth Rate (2011 2015)
Third-Party Distributed Gift Cards(1)	$ 38 billion	$ 56 billion	10%
Prepaid Telecom Cards(2)	30 billion	39 billion	7%
GPR Cards(2)	57 billion	168 billion	31%
Sub-total	$ 125 billion	$ 263 billion	20%
Total Prepaid Cards(2)(3)	$ 483 billion	$ 758 billion	12%

(1) Sources: Prepaid Distribution Strategies in the United States by Mercator Advisory Group, 2012 and U.S. Prepaid Cards Market Forecasts, 2012-2015 by Mercator Advisory Group, 2012. Consists of closed loop gift cards sold through third-party in-store card malls, all open loop gift cards and digital media cards. We believe that the majority of all open loop gift and digital media cards distributed are third-party distributed.
(2) Source: U.S. Prepaid Cards Market Forecasts, 2012 2015 by Mercator Advisory Group, 2012.
(3) Includes all closed loop and open loop prepaid segments.

Gift Card Products. Gift cards have emerged as a leading segment of the prepaid market with growth primarily driven by changes in consumer gifting preferences. Studies in the United States by the Retail Merchants Association cite gift cards as the most requested holiday gift. According to the National Retail Federation, 81% of U.S. consumers intended to purchase at least one gift card during the 2012 holiday season. Retailers are increasingly embracing third-party distribution of gift cards as a means to capture market share and to increase traffic and average spending in their stores. Gift card products are generally categorized as closed loop or open loop cards.

Closed Loop. Closed loop gift cards are cards that can only be redeemed with the card content provider (for example, a Lowe s card, which is only redeemable at a Lowe s location or its website). These cards also include cards to purchase digital content such as Facebook and iTunes gift cards.

Open Loop. Open loop gift cards are branded by a network card association such as American Express, MasterCard or Visa, and can be redeemed at any merchant that accepts cards from the relevant association. Consumers buy these cards to give as gifts as well as for their own online purchases to protect themselves from potential credit card fraud or identity theft. These cards are also used extensively for consumer product rebate programs and employee incentive or reward programs.

Distribution of closed and open loop gift cards at third-party locations, such as through grocery, convenience and specialty retailers and other frequently visited retail outlets, has emerged as a convenient and quickly growing means for consumers to buy gift cards. Initially, closed loop gift cards were sold only by the issuing retailer at its own store locations. The development of third-party distribution networks allowed retailers to distribute gift cards through other high-traffic retail locations. This evolution has greatly expanded the market by enabling consumers to purchase a variety of gift cards in locations where they frequently shop. This has also resulted in greater consumer awareness of gift card products and created significant prospects for growth. Based on estimates by Mercator Advisory Group, the third-party distributed gift card segment represented $38.0 billion in load value in 2011 (comprised of $16.1 billion for closed loop gift cards, $14.9 billion for open loop gift cards and $7.0 billion for digital media cards) and is projected to grow at a CAGR of 10% from 2011 to 2015.

Prepaid Telecom. Historically, most cellular plans in the United States were based on multi-year, post-paid contracts for consumers who could demonstrate creditworthiness. The prepaid portion of the U.S. cellular telecom market has been expanding due to attractive flat-rate, no-contract pricing and the increasing availability of inexpensive, high-quality handsets. These factors are leading consumers who traditionally would have committed to multi-year, post-paid contracts to convert to prepaid cellular products and services. In addition, consumers who do not have qualifying credit histories use prepaid telecom products as a way to gain access to cellular services. Today, all major U.S. cellular network carriers offer prepaid plans and compatible handsets, including highly functional smartphones. Retailers, such as grocery chains, are leveraging this trend by offering prepaid telecom products, including handsets, to increase store traffic and generate additional sales. Based on estimates by Mercator Advisory Group, the wireless telecom card segment represented $30.4 billion in load value in 2011(comprised of $27.1 billion for prepaid mobile minutes cards and $3.3 billion for prepaid long distance cards) and is projected to grow at a CAGR of 7% from 2011 to 2015.

Prepaid Financial Services Products. General purpose reloadable, or GPR, cards are open loop prepaid cards that can be reloaded with value. GPR cards and reload services represent a large and high-growth segment of the prepaid industry, serving a diverse set of consumers and providing an alternative to traditional banking services. GPR cards are popular with underbanked consumers who are unable (due to economic circumstances or otherwise) or choose not to use a traditional bank for checking, debit card and credit card services. GPR cards also appeal to other consumer groups such as students, travelers and recipients of government program funds. The prepaid financial services products category includes GPR cards and associated reload services.

General Purpose Reloadable Cards. GPR cards are loaded with value at retail locations or online and function similarly to traditional bank debit cards. They can also be reloaded with additional funds, referred to as a reload transaction, from a variety of sources, including cash, debit or credit cards, electronic deposit of payroll checks or government program payments and transfers from other existing accounts. GPR cards provide a number of bank-like services such as direct deposit, ATM cash access and payment for products at point-of-sale locations or online where debit cards are typically accepted.

Reload Network. Continued use of a GPR card requires a means for consumers to load additional funds onto the card. Reload networks typically allow consumers to reload their cards at third-party retailers and online, as well as through direct deposit transfers. In addition to providing reload services through their own reload network, some GPR card issuers provide their customers with reload services through reload networks operated by third parties. Recent trends are toward reload networks being available in a greater number of retail locations and for the networks to allow reloading of GPR cards from many issuers.

The GPR card segment is estimated by Mercator Advisory Group to represent $57 billion in load value in 2011 and is projected to grow at a CAGR of 31% from 2011 to 2015.

Consumers increasingly view gift cards as convenient self-use products that often provide many advantages over traditional cash, debit and credit payment methods.

The trend towards self-use is redefining the scope of the addressable market in the gift card category. The increase in self-use is being driven primarily by loyalty and incentive programs offered by retail distributors, such as fuel points or in-store merchandise discounts. For example, a consumer may purchase a Macy s gift card at a grocery store to fund his or her own apparel purchases and also receive fuel points to be redeemed at the grocer s gas station or a partner gas station. We believe consumers will increasingly buy gift cards for their own, everyday purchases in order to take advantage of these reward offers. Another driver of self-use is the proliferation of merchants who sell products and digital content online. These merchants, such as Amazon.com, Facebook and iTunes, require an electronic form of payment to complete online transactions. Consumers who do not have access to credit cards can use prepaid products as a form of payment for these merchants. Consumers also use these cards to protect themselves from potential credit card fraud or identity theft.

Digital products and mobile payments are emerging as the next generation in prepaid technology, facilitating convenience and accessibility for consumers.

Many merchants now offer prepaid products that can be purchased online and then delivered electronically either to the purchaser or to a gift recipient through email or social media, such as Facebook. Similar to event tickets and airline boarding passes, electronically delivered gift cards, or eGift cards, have a unique bar code that can be scanned at retail point-of-sale systems, as well as a unique number and PIN code that authenticate the gift card for online redemption. Not only does this offer consumers greater convenience, but it also allows smaller merchants to offer gift cards without the cost of printing and distributing physical gift cards.

The rapid growth and adoption of mobile devices is creating a tremendous market opportunity for mobile digital wallets. As of February 2012, 46% of U.S. adults owned smartphones, an increase from 35% in May 2011, according to the Pew Research Center s 46% of American adults are smartphone owners research report. Worldwide mobile payment transactions are expected to grow to $617 billion in 2016 from $172 billion in 2012, according to Gartner s Forecast: Mobile Payment, Worldwide, 2009-2016 May 2012 research report. Mobile applications enable the use of mobile phones as a payment device at the point of sale, offering consumers significantly greater convenience and flexibility. Digital wallets are linked to consumers financial accounts, allowing access to credit, debit and prepaid forms of payments. Digital wallets also facilitate greater linkage to coupons, rewards and loyalty programs offered by retailers and content providers.

As mobile digital wallets continue to gain more widespread adoption, consumers will demand integrated solutions for management of their prepaid products. A broad range of market participants are vying to create digital wallet solutions, including technology companies such as Google, Isis, and PayPal, payment networks such as American Express, MasterCard, and Visa, financial institutions such as Citigroup, JPMorgan and Wells Fargo, retailer networks such as MCX and third-party service providers such as mFoundry. Platforms that can provide digital market participants with critical prepaid functionality and connectivity between consumers, retailers and payments networks will be best positioned to share in the rapid growth of this opportunity for mobile digital wallets.

Our Competitive Strengths

We believe that the following strengths contribute to our success and distinguish us from our competitors:

Leading Distribution. We have developed a network of over 100,000 active retail distribution locations across multiple channels, providing us with frequent access to a large number of consumers. Our diversified distribution capabilities include grocery stores, convenience stores and specialty and online retailers. Grocery is our largest channel and enjoys a high volume of frequent visits from all consumer demographics. 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 and Canada as reported by Supermarket News on January 30, 2012. These grocery retailers include Ahold, Giant Eagle, Kroger, Loblaws, Publix, Safeway and Supervalu. The combination of our broad consumer reach, investments in retail store displays and our customized value-add services, such as merchandising, marketing programs and direct-to-store fulfillment, results in a highly productive third-party prepaid distribution program. Our distribution partners have historically remained loyal to our program due to the high level of productivity of our card programs and our expanding range of prepaid products.

Breadth of Product and Service Offerings. We believe that our payment network offers consumers the most extensive assortment of gift cards and other prepaid products and payment services available in a single shopping location. We currently offer multiple categories of products and services, including gift cards, prepaid telecom cards and handsets, and GPR cards and reload services. Our gift card offerings provide access to over 500 consumer brands, retailers and other merchants. Many of our content provider agreements provide us with exclusive or other preferential distribution rights to the related content, sometimes limited to particular channels or more narrowly. Our extensive selection allows us to create a destination for our products in stores and tailor our displays to the attributes of our various selling channels and store locations. The power of the destination also allows us to attract an increasingly wider variety of specialty brands, which in recent years has expanded to include local merchants, trend-setting brands and major sports teams. The breadth of product and service categories and depth of our offerings in each category diversify our revenue streams and allow us to maintain strong market performance in the face of shifting consumer trends.

Innovation. We have a history of innovation, driven by our strong commitment to consumer research and new product testing. We pioneered the third-party distribution of gift cards through third-party retail channels. In 2001, we began distributing gift cards in Safeway grocery stores. In 2002, we expanded the program to other grocery stores. In 2004, we launched the Gift Card Mall destination displays. We believe we were the first to market, distribute and activate at point of sale prepaid Visa gift cards and GPR cards at third-party retail channels. In 2008, we launched GiftCardMall.com, a third-party online site for the sale of prepaid products. We believe we were the first to sell a wide variety of third-party gift card brands in high volume at online retailers such as Amazon.com. We have also developed innovative capabilities and services to integrate prepaid products with mobile applications. For example, we facilitate the digital registration of gift cards, tracking of balances, delivery of gift card related offers, purchases of eGifts, exchange of gift cards and replacement card services. We also entered the secondary gift card market with our 2011 acquisition of Cardpool, a gift card exchange that enables consumers to sell unused gift cards at a discount for cash and purchase gift cards at a discount. We intend to continue to expand the number of locations where consumers can sell unused gift cards to Cardpool, including through our grocery and other distribution channels. We also plan to integrate Cardpool technology with our digital wallet capabilities.

The development of these innovations has been supported by our extensive consumer research practices. Utilizing tools such as customer interviews, direct surveys and internet-based consumer research techniques, we are able to gain important insights into market trends and consumer purchasing behavior as well as test new product features and functions. We believe that our broad-based industry knowledge in combination with our dedication to consumer research and our proprietary technology platform will allow us to continue to innovate and enhance the value of our network for all participants.

Proprietary and Scalable Technology. We have a vertically integrated infrastructure, which includes our proprietary switching and redemption, processing, settlement and e-commerce systems. We believe that owning and operating our own technology platform provides us with economic and time-to-market advantages when introducing new products, features and network participants. Our systems are designed to be highly scalable and reliable, which enables us to respond to rising demand while ensuring high-quality service for our network participants.

We have made significant investments in our system interfaces and related processes in order to develop our network and accommodate the diversity of retailers point-of-sale systems and network environments. Today, our proprietary transaction switch connects to over 500 content providers issuance systems either directly or through their prepaid card processors and to our distribution partner store locations directly through their point-of-sale systems, through their merchant acquirers or through Blackhawk provided point-of-sale terminals. We believe it would require significant expertise and investments in time and money for others to replicate these systems and connections.

Strong Network Effects. The combination of our broad range of products and leading consumer brands, our extensive footprint of high-traffic distribution partners and our frequent access to a large consumer base creates strong, self-reinforcing network effects. We believe the growth in our product offerings, our distribution partners and our consumer base enhance the value we deliver to all network participants. For example, we are able to attract distribution partners because our extensive product offerings increase store sales and productivity. We are able to attract leading content providers because our high-traffic footprint allows them to grow gift card sales and increase access to consumers. As more content providers and distribution partners join our network, we attract more consumers with our expanding product offerings and convenient product locations. We believe our network would be difficult to replicate and allows us to drive innovation, create new prepaid products and services and adapt to evolving payment technologies.

Experienced Management Team. Our senior management team has extensive experience across a wide range of disciplines relevant to the payments industry, including technology, distribution, retail program management and financial services. Mr. Tauscher, our Chief Executive Officer, joined

Blackhawk in 2007 as a member of the board of directors and became Chief Executive Officer in 2010. Since 1979, he has held a variety of Chief Executive Officer and board membership roles at a wide range of companies, including high growth, technology and distribution related businesses. Ms. Roche, our President, joined Blackhawk in 2001 upon our founding and has participated extensively in the development of the prepaid card industry. Mr. Ulrich, our Chief Financial Officer and Chief Administrative Officer, joined Blackhawk in 2006 and has extensive experience in the technology and electronic payments industry, including his role as Chief Financial Officer of Xign Corporation.

Our Growth Strategy

Our objective is to maintain a leading position in the prepaid products industry by growing our business through the following strategies.

Increase Productivity of Our Distribution Partners. We believe there is a significant opportunity to enhance the productivity of our distribution partners, which will lead to greater sales at existing retail locations and drive incremental revenue for our business. We have developed best practices based on our distribution partners performance over time and we utilize these best practices to help our distribution partners measure and increase their productivity. For example, we regularly assist our partners in the development of expanded retail displays through our product display space planning and other in-store merchandising services. We also believe we help drive incremental sales for our distribution partners through marketing programs and direct-to-store fulfillment solutions. Finally, we have generally found that our most productive distribution partners are those who include prepaid card purchases in their loyalty and rewards programs, and we are actively working with our distribution partners to help support these programs.

The table below provides information regarding the relative productivity of our distribution partners grocery stores in the United States, measured by average load value per store. These stores represented approximately 18% of our active retail distribution locations and approximately 75% of our total load value for closed loop gift cards in 2012. From 2010 to 2012, the average load value per distribution partner grocery store in the United States for closed loop gift cards grew at a CAGR of 27%. As shown in the table, for 2012, grocery stores that we generally categorize as having expanded displays and enhanced marketing and merchandising generated on average approximately five times greater load value for closed loop gift cards per year compared to stores that we generally characterize as having basic displays and limited or no merchandising or marketing support. Furthermore, stores that we generally categorize as having expanded displays, enhanced marketing and merchandising and closed loop gift cards linked to well-developed loyalty or rewards programs generated on average approximately three times greater load value for closed loop gift cards per year compared to stores that we generally categorize as having expanded displays and enhanced marketing and merchandising but limited or no loyalty or rewards programs linked to gift cards. Due to, among other things, differences in consumer demographics, geography, store size, quality of execution, maturity and focus on our programs by our distribution partners, and relative priority of various promotional programs, we would not expect all U.S. grocery store locations to achieve these illustrative productivity gains by expanding displays and marketing programs or adopting loyalty programs, nor would we expect all locations to adopt these programs. Further, within each of these groups there is significant variation in performance. However, we believe that these programs provide meaningful opportunities to enhance the productivity of our existing distribution partners and to attract new distribution partners to our network.

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U.S. Grocery Store Productivity Example for Closed Loop Gift Cards

52 Weeks Ended December 29, 2012*

Typical Characteristics of Distribution Partner Store	Approximate Percent of Total U.S. Grocery Distribution Partner Stores	Approximate Percent of Total U.S. Grocery Store Load Value	Approximate Productivity Index (based on average load value per store)
n Basic displays n Limited or no in-store merchandising and marketing support n Limited or no gift cards linked to loyalty or rewards programs	50%	10%	20%
n Expanded displays n In-store merchandising and marketing support n Limited or no gift cards linked to loyalty or rewards programs	25%	20%	100%
n Expanded displays n In-store merchandising and marketing support n Gift cards linked to well-developed loyalty or rewards programs	25%	70%	290%

* This excludes grocery store locations not participating in the program at least nine months during fiscal year 2012.
The productivity index represents the average load value per store of each category against the average load value per store of distribution partner stores typically characterized by expanded displays, in-store merchandising and marketing support and limited or no gift cards linked to loyalty or rewards programs.

Expand Our Content, Products and Services. We believe we have the opportunity to increase our revenues by expanding the breadth of our content as well as the types of products and services that we offer.

Content. We believe there is meaningful opportunity to expand the content that is currently available at our points of distribution. For example, we are expanding our localization initiatives to deliver a customized mix of prepaid products tailored to individual markets, such as local restaurants, merchants and service providers. We are also enhancing our product offerings in categories that currently represent a small but growing part of our business such as digital media, gaming cards, telecom products and GPR cards. For example, we are introducing telecom destinations with an expanded offering of smartphones and associated prepaid telecom cards. We have found that introduction of new or expanded content, such as our telecom initiative, often increases the sales from our fixtures.

Products and Services. We believe there is an opportunity to expand the types of products and services we offer to consumers. For example, we have developed innovative capabilities and services to integrate prepaid products with mobile applications. We believe we will be an important provider of gift card solutions for a broad set of digital payment offerings which are being developed by major and emerging technology companies, payment networks, financial institutions, retailer networks and third-party service providers. We are also expanding our Cardpool business by introducing card acquisition in grocery and other distribution channels and integrating Cardpool technology with our mobile application.

We believe that our expanded products and services, along with broader content, will drive incremental revenue for our business and enhance the connectivity among our network participants.

Continue to Develop International Markets. We continue to expand our business in countries with strong growth potential and the appropriate payment and retail infrastructure to support prepaid products. For example, we have replicated the U.S. model in Canada, where we offer products through leading grocery and convenience stores. We also have international operations in Australia, the United Kingdom and other countries in the European Union, where we have contracted with leading distribution partners. We recently entered into an agreement with China Union Loyalty in China and are expanding in Brazil and Korea. We believe that our technology platform, industry expertise and proven distribution capabilities will allow us to grow in international markets.

Expand Our U.S. Distribution. We believe there is opportunity to expand our distribution to new retail partners in the United States. The strength of our network, the variety of our offered brands and the breadth of our products have made our displays a destination for consumers. In addition, we believe our products and services have created a highly profitable product category for many of our existing distribution partners, which presents a compelling value proposition for other potential distribution partners. For example, over the last several years, some of our content providers have also become our distribution partners, including Bed Bath & Beyond, JCPenney, Kohl s, Lowe s, Michaels and Staples.

Leverage Our Technology and Distribution Infrastructure to Drive Cost Efficiency. We believe that we have the opportunity to lower our costs through scale efficiencies, improved systems, cost discipline and continued process improvements. For example, as the overall scale of our operations has grown over the past three years, our processing and services expense has declined as a percentage of total revenues. We will continue to use established business processes to identify and execute initiatives to increase back-end integration and leverage infrastructure to increase the efficiency of our core prepaid card business.

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Products and Services

Our payment network allows us to offer and support a broad variety of prepaid products and services to consumers through our network of distribution partners and our online websites. 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 for subsequent redemption or use. We also provide the opportunity to reload existing reloadable prepaid products, including prepaid telecom accounts and GPR cards. The products and brands we offer include:

Product Category	Selected Brands
Closed Loop Gift Cards	
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
Open Loop Gift Cards	American Express, MasterCard, Visa
Prepaid Telecom Products	
Wireless Cards	AT&T, Sprint s Boost Network and Virgin Mobile brands, T-Mobile, TracFone, Verizon
Prepaid Handsets	Alcatel, LG, Motorola, Samsung
Prepaid Financial Services Products	
GPR Cards	Green Dot, NetSpend, PayPal, PayPower (our proprietary brand), Univision
GPR Reload Network	REloadit (includes AccountNow, Galileo, NetSpend, Precash and Ready Credit)

As of December 29, 2012, we had agreements with over 500 content providers. For the year ended December 29, 2012, only one content provider represented ten percent or more of our total operating revenues.

In addition to the above product categories, we also provide services to our partners and consumers including digital wallet services, access to a secondary market for prepaid cards through Cardpool, marketing services for content providers and card production.

Our products and service categories include:

Gift Card Products

Closed Loop (or Private-Branded) Gift Cards. We distribute gift cards in categories including digital media and e-commerce, dining, electronics, entertainment, fashion, home improvement and travel. We distribute leading brands with broad consumer appeal in each category. We believe we carry the most extensive selection of gift cards. These products typically carry no consumer fees, and funds associated with the cards generally do not expire. These products contributed 70% of total revenues for 2012.

Open Loop (or Network-Branded) Gift Cards. We distribute single-use, non-reloadable gift cards carrying the American Express, MasterCard and Visa brands. The cards are available in a selection of fixed denomination as well as variable-load amount versions and are displayed in a variety of occasion-based packaging. We also serve as a program manager for our proprietary Visa gift cards that we distribute. The network-branded cards carry consumer fees at the time of activation and certain cards have additional fees if the card is dormant for an extended period of time. Funds loaded on these cards can be redeemed at most merchant locations that accept the credit cards of the same network brand. These products contributed 14% of total revenues for 2012.

Prepaid Telecom Products

We distribute both prepaid handsets and a full range of prepaid wireless or cellular cards used to load airtime onto the prepaid handsets. We have a full range of prepaid handset offerings, ranging from basic cellphones to fully functional prepaid smartphones. We purchase our handsets from manufacturers and sell them for a markup at our distribution partner locations. We are currently expanding our handset offering and investing in updated displays that help consumers recognize the benefits of prepaid telecom programs over post-paid programs. 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. These products contributed 8% of total revenues for 2012.

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. By offering a full range of open loop GPR cards, we enable our retail distribution partners to become a destination for these products, which typically have been sold through mass retailers, drug and convenience stores and check cashing establishments. Our PayPower GPR card has 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. We charge a fee for initial load and reload transactions, monthly account maintenance fees and other transaction or account fees. In addition, we offer promotional programs and waive monthly account maintenance fees if certain conditions are met. GPR cards currently represent a small but growing portion of our total load value and total revenues. Sales of our PayPower cards, including reloads, comprised approximately 77% of GPR load volume for 2012.

GPR Reload Network. We offer a proprietary reload network named REloadit, which allows consumers to reload funds onto their previously purchased GPR cards. REloadit can be used to reload both our PayPower GPR card, as well as certain other third-party GPR cards, such as AccountNow and NetSpend cards. We expect to continue to expand the brands that can be reloaded through the REloadit network. 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. For 2012, sales from REloadit contributed less than 1% of total revenues.

The prepaid financial services products including all GPR cards, reloads and the REloadit product contributed approximately 1% of total revenues for 2012.

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Cardpool

Through our Cardpool subsidiary, we offer consumers a convenient and user-friendly online marketplace to sell unused gift cards that they do not want, and we continue to expand the number of locations where consumers can sell unused gift cards to Cardpool, including through our grocery and other distribution channels. In addition, consumers can purchase gift cards at a discount from Cardpool through its online sales website. Offering a prepaid card exchange and cards for purchase at a discount incentivizes self-use and moves the card into the hands of a consumer who intends to patronize the store. The Cardpool business contributed approximately 4% of total revenues for 2012.

Digital Wallet Services

We have developed a technology platform to integrate prepaid products with mobile applications. We believe that this platform will enable us to be an important provider of gift card solutions for a broad set of digital payment offerings which are being developed by major and emerging technology companies, payment networks, financial institutions, retailer networks and third-party service providers. This functionality equips the wallet provider with a single source services manager for a wide variety of prepaid cards, thereby avoiding the cost of making connections to every prepaid card issuer and processor. We have introduced a proprietary application called GoWallet which utilizes our platform and facilitates the digital registration of gift cards, tracking of balances, delivery of gift card related offers, purchases of eGifts, exchange of gift cards and replacement card services. We plan to expand GoWallet s features to include card exchange functionality, presentation and management of promotional offers, and redemption using proxy cards or smartphone interfaces.

Other Services

We receive marketing funds from our content providers to promote their prepaid cards throughout our distribution network. We offer production and packaging services to our prepaid card and prepaid telecom content providers. 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.

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Product Category Fee Structure

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

Products and Services	How We Earn Fees
Closed Loop Gift Cards	Content providers pay us a commission based on load value. We share these commissions with our distribution partners.
Open Loop Gift Cards	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 for our Visa gift cards and American Express pays us fees for certain ancillary services.
	We also earn a portion of merchant interchange fees when customers use our proprietary Visa gift card for purchases.
Prepaid Telecom Products	The telecom carriers pay us a commission based on load value. We share these commissions with our distribution partners.
	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.
Prepaid Financial Services Products	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 load value.
Other Fee Categories	Fees related to marketing prepaid cards for our content providers.
	Fees related to card production and packaging services for content providers.