BLACKHAWK NETWORK HOLDINGS, INC
Form 10-K
March 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 2, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35882

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	43-2099257 (I.R.S. Employer Identification No.)
6220 Stoneridge Mall Road Pleasanton, CA (Address of Principal Executive Offices)	94588 (Zip Code)

(925) 226-9990
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files). Yes ý No ¨

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

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

Large accelerated filer ý Accelerated filer ¨

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Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of June 19, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of voting stock held by non-affiliates of the registrant was $2.2 billion.

As of February 5, 2016, there were 55,801,000 shares of the Registrant's Common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K, which we refer to as this Annual Report, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We intend that these forward-looking statements be subject to the safe harbors created by those provisions .These statements contained in this Annual Report include, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “suggest,” “may,” “might, “project,” “will,” “would,” “should,” “could,” “can,” “predict,” “potential,” “continue,” “objective,” or the negative of these te variations on such terms of comparable terminology intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. The forward-looking statements contained in this Annual Report involve a number of risks, uncertainties, and assumptions, many of which are outside of our control. Factors that could cause actual results to differ materially from projected results include, but are not limited to, those discussed in “Risk Factors” included elsewhere in this Annual Report. Readers are expressly advised to review and consider those Risk Factors. Although we believe that the assumptions underlying the forward-looking statements contained in this Annual Report are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that the results anticipated by such statements will occur. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved. Furthermore, past performance in operations or trading price of our common is not necessarily indicative of future performance. We disclaim any intention or obligation to update, supplement, or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

As used herein, “Blackhawk,” the “Company,” “we,” “our,” “us,” and similar terms refer to Blackhawk Network Holdings, Inc unless the context indicates otherwise. The names “Blackhawk,” “Blackhawk Engagement Solutions,” “Cardpool,”“GiftCardMall,” “InteliSpend,” “Retailo,” “Parago,” “CardLab,” “Incentec,” “Giftcards.com,” “Achievers,” “NimbleCommerce” and other product or service names are trademarks or registered trademarks of entities owned by us.

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PART I.

ITEM 1. BUSINESS

Overview

Blackhawk is a leading prepaid payment network utilizing proprietary technology to offer a broad range of prepaid gift, telecom and debit cards, in physical and electronic forms, as well as related prepaid products and payment services in the United States and 23 other countries. We were founded in 2001 as a division of Safeway Inc. (Safeway) which later merged with Albertsons Holdings LLC in January 2015 (referred to hereinafter as “Albertsons/Safeway”). We were incorporated in Delaware as Blackhawk Network, Inc. in 2006 and changed our name to Blackhawk Network Holdings, Inc. later that year. In April 2013, we completed our initial public offering (the Offering) for the sale of 11,500,000 shares of our Class A common stock, all of which shares were sold by existing stockholders, primarily Safeway. On April 14, 2014, Safeway distributed its remaining 37.8 million shares of our Class B common stock to Safeway shareholders (the Spin-Off). In May 2015, we converted all outstanding shares of our Class B common stock into shares of Class A common stock on a one-for-one basis and renamed Class A common stock as common stock, which continues to trade under the symbol “HAWK”.

We believe our extensive network provides significant benefits to our key constituents: consumers who purchase or receive the products and services we offer; content providers who offer branded gift cards and other prepaid products that are redeemable for goods and services; distribution partners who sell those products; and business clients that distribute our products as incentives or rewards, or offer our incentive platform to their employees or sales forces. For consumers, we provide convenience by offering a broad variety of quality brands and content through physical and digital retail distribution locations or through loyalty, incentive and reward programs offered by our business clients. For our content providers, we drive incremental sales by providing access to millions of consumers and creating new customer relationships. For our retail distribution partners, we provide an important product category that can drive incremental store traffic and customer loyalty. For our business clients, we provide a wide array of services, software and prepaid products to enhance their customer loyalty, sales channel incentive and employee reward programs. Our technology platforms allow us to efficiently and seamlessly connect our network participants and offer new products and services as payment technologies evolve. We believe the breadth of our distribution network and product content, combined with our consumer reach and technology platforms, create powerful network effects that enhance value for our constituents.

We are one of the largest third-party distributors of gift cards in the world based on the value of funds loaded on the cards we distribute, which we refer to as transaction dollar volume. Our retail network connects to more than 700 content providers and over 215,000 active retail distribution locations, providing access to tens of millions of consumer visits per week. In addition, we sell physical and electronic gift cards or eGifts to consumers through leading online distributors and our websites GiftCardMall.com, GiftCardLab.com, Cardpool.com and GiftCards.com. Our retail channels accounted for over $14.6 billion in transaction dollar volume during fiscal 2015.

Through our acquisitions of InteliSpend Prepaid Solutions, LLC and its subsidiaries (collectively, InteliSpend) in 2013, Incentec Solutions, Inc. (Incentec), CardLab, Inc. and its subsidiaries (collectively, CardLab), Parago, Inc. and its subsidiaries (collectively, Parago) in 2014, Achievers Corp. and its subsidiaries (collectively, Achievers) in 2015, and Omni Prepaid LLC and its subsidiaries (collectively, Omni) and IMShopping, Inc. and its subsidiary (collectively, NimbleCommerce) in 2016, we now provide a broad variety of customized employee, consumer and sales channel incentives, loyalty and engagement solutions to hundreds of business clients. In January 2015, we formed Blackhawk Engagement Solutions as an umbrella for several of these businesses and collectively refer to all of these businesses as our “Incentives” business. In 2015, Blackhawk’s Incentives transaction dollar volume reached $2.0 billion.

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Distribution

Retail Distribution

Our retail distribution network consists of our physical distribution partners, our websites GiftCardMall.com, GiftCardLab.com, GiftCards.com, NimbleCommerce.com and third-party online and digital merchants.

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

Distribution Channel	Examples
Grocery	Ahold, Albertsons/Safeway, Giant Eagle, Kroger, Publix
Specialty	Bed Bath & Beyond, Best Buy, The Home Depot, Lowe’s, Michaels, Office Depot, Staples
Convenience	Kroger Convenience Stores, QuikTrip, Wawa
Other Retail	JCPenney, Kmart, Kohl’s, Sears
Digital	Amazon.com, eBay.com, GiftCards.com, Staples.com, PayPal.com, Samsung Pay
International	Albert Heijn, Australia Post, Carrefour, Coles, Loblaws, Morrisons, Rewe, Sobeys, Tesco, Woolworths

In the United States, our retail distribution network principally consists of grocery, specialty, convenience, other retail and digital or online retailers. Grocery retailers are especially well suited for selling a broad mix of prepaid products, since they primarily sell groceries and do not view the consumer-branded gift cards as competitive with the merchandise they sell in their own stores. As of January 2, 2016, we had over 45,000 active retail distribution locations in the U.S. across approximately 135 retail distribution partners.

Outside the United States, we have followed a similar strategy of contracting with leading grocery chains and other retail channels, including convenience store chains which are higher trafficked internationally than in the U.S. We expanded our international presence through our 2013 acquisition of Retailo AG and its subsidiaries (collectively, Retailo and now renamed Blackhawk Network GmbH), a leading third-party gift card distribution network in Germany, Austria and Switzerland. In certain countries, including Japan, Indonesia, South Korea and South Africa, we distribute through sub-distributors that contract with in-country retailers for sale of our products. As of January 2, 2016, our products were sold in over 170,000 active retail locations outside the U.S. across approximately 290 retail distribution partners. Revenue from international sales totaled 24.9%, 24.0% and 18.7% of our total operating revenues for 2015, 2014 and 2013, respectively, (see Note 12—Segment Reporting and Enterprise-Wide Disclosures for information on long-term assets internationally).

Our largest retail distribution partner during each of the last three fiscal years was Kroger, where consumers activated prepaid products or purchased telecom handsets that generated 12.1%, 14.4% and 15.1% of our total worldwide operating revenues for the fiscal years 2015, 2014 and 2013, respectively. Giant Eagle and Albertsons/Safeway each generated less than 10% of revenues in 2015 and generated 7.1% and 10.8% of our 2014 total operating revenues, respectively, and 10.7% and 13.9% of our 2013 total operating revenues, respectively.

We typically enter into contracts with our retail distribution partners ranging from three years to five years in length. The agreements generally contain varying degrees of exclusivity for our distribution of prepaid products in their stores. They also provide, among other things, that we will pay our distribution partner a negotiated commission based on a percentage of the content provider commission or purchase fee we receive upon the sale of our various products and services. We believe our extensive gift card content, some of which is exclusive, coupled with frequent marketing promotions and the relatively high productivity for the space utilized, creates a powerful incentive for our retail distribution partners to remain loyal to our program.

Our products are sold through our retail distribution partners through prominent, in-store fixed location displays, typically branded as Gift Card Mall in the United States, Gift Card Store in Canada and similar names in other

countries. We offer a wide variety of displays, including four-sided and two-sided rotating displays, as well as checkout line horizontal displays. Our primary displays are typically three-sided grocery aisle “end caps” that are seven feet tall and display up to 80 pegs of prepaid cards on each side, for a total of 4,800 cards when fully stocked. In many stores, our products are displayed in multiple locations including near checkout lanes and floral and greeting card sections of stores.

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

Loyalty, Engagement and Incentive Products Distribution

Our consumer incentives business provides rebate processing and prepaid product fulfillment services. We deliver employee channel incentives and related software services that allow businesses to connect with employees and sales channel personnel. We also provide prepaid card fulfillment services to enterprise business clients and reseller clients for their incentives programs. We provide these services, collectively, to nearly 1,000 business clients. Businesses also use our products for employee reward programs, such as safety incentives, wellness incentives, spot recognition and service awards. In addition, over 5,000 unique customers purchased customized network branded prepaid cards and merchant gift cards through our IncentiveCardLab.com website in 2015 and in 2016 we added the OmniCard.com business incentives website through the Omni acquisition.

Products and Services

Prepaid products that we offer at retail are “activated” when a consumer loads funds (with cash or with a debit or credit card payment) at a retail store location or online. We also provide reloads for reloadable prepaid products, including prepaid telecom accounts and general-purpose reloadable (GPR) cards. We typically negotiate multi-year contracts with our content providers. For many of our content providers, we have various types of exclusivity provisions related to certain of the retail channels through which we distribute their products. As of January 2, 2016, we had agreements with over 700 content providers.

Our Incentives business provides software, consulting services, program management, reward processing and reward fulfillment to our business clients. The majority of rewards are fulfilled using a prepaid open loop card.

Apple Inc. is our largest content provider and represented 13.7%, 13.6% and 14.7% of our total operating revenues for 2015, 2014 and 2013, respectively. No other content provider represented more than 10% of our total operating revenues during these periods.

For information on revenues and segment profit for our three reportable segments, see Note 12—Segment Reporting and Enterprise-Wide Disclosures in the notes to our consolidated financial statements.

Retail Products

Gift Card Products

Closed Loop (Private-Branded) Gift Cards. Closed loop (private-branded) gift cards are generally described as merchant-specific prepaid cards, used for transactions exclusively at a particular merchant's locations or a group of stores affiliated with a particular merchant (such as franchise locations). We distribute closed loop gift cards in categories including digital media and e-commerce, dining, electronics, entertainment, fashion, gasoline, home improvement and travel. In 2015, we acquired Didix Gifting & Promotions B.V. and its subsidiaries (collectively, Didix), a provider of leisure themed and promotional gift cards. Gift cards that we distribute for sale directly to consumers in physical or online locations carry no consumer fees, and funds associated with the cards generally do not expire. These products contributed 60% of total operating revenues for 2015.

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Product Category	Selected Brands
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	Southwest Airlines
Other Retail	Barnes & Noble, Bed Bath & Beyond, Sears, Target, Toys"R"Us

Open Loop (Network-Branded) Gift Cards. Open loop (Network-Branded) gift cards are prepaid gift cards associated with an electronic payment network (such as Visa, MasterCard, American Express, or Discover), and are honored at multiple, unaffiliated locations (wherever cards from these networks are generally accepted). They are not merchant-specific. We distribute single-use, non-reloadable open loop gift cards carrying the American Express, MasterCard and Visa brands in our retail channels. We also serve as a program manager for our proprietary Visa gift cards that we distribute. Funds loaded on these cards by consumers at retail locations generally do not expire and can be redeemed at most merchant locations that accept the credit cards of the same network brand. These products contributed 15% of total operating revenues for 2015.

Prepaid Telecom Products

We distribute a full range of prepaid wireless or cellular cards used to load airtime onto the prepaid handsets. We also purchase handsets from manufacturers and sell them for a markup to our retail distribution partner locations. 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 and Verizon. Prepaid telecom cards and handsets contributed 5% of total operating revenues for 2015.

Prepaid Financial Services Products (Open Loop Reloadable)

We program manage and distribute a proprietary, bank-issued GPR card that we have branded PayPower. We distribute GPR cards provided by Green Dot and NetSpend, the industry leaders in this product category. GPR cards have features similar to a typical bank checking account, including fee-free direct deposit, in-store and online purchasing capability wherever a credit card is accepted, bill payment and ATM cash access. Fees are charged to consumers for initial load and reload transactions, monthly account maintenance and other transactions, some of which are waived if certain conditions are met. We offer a proprietary reload network named Reloadit, which allows consumers to reload funds onto their previously purchased GPR cards, including our PayPower GPR card and certain other third-party GPR cards. In 2014, we began distributing Green Dot's Money Pack product, which Green Dot discontinued during 2015 but plans to re-introduce in 2016 with updated features. The prepaid financial services products contributed 1% of total operating revenues for 2015.

Loyalty, Engagement and Incentive Products

Through Blackhawk Engagement Solutions, we provide (i) solutions to allow businesses to manage consumer incentive programs, including online or mail-in rebate processing, (ii) a hosted software platform for managing sales person and sales channel incentive programs, (iii) bulk prepaid card ordering systems to allow business and incentive program resellers to use prepaid cards as part of their own incentive and reward programs, and (iv) direct-to-participant fulfillment services for prepaid cards, checks and merchandise. Our prepaid products for the incentives business include open loop single-use incentive cards, open loop reloadable incentive cards that allow multiple incentives and rewards to be loaded onto a recipient's card, restricted authorization network incentive cards that permit redemption at only selected merchants and closed loop gift cards. Funds on open loop incentive cards that are offered by businesses as incentives, rewards, or promotions generally have expiration dates ranging from 90 days to one year from the date of card activation.

Through our acquisition of Achievers in 2015, we provide a hosted-software platform for enterprise customers to implement employee engagement programs. The functions and content of the programs can be configured for each customer's requirements and are designed similarly to a social media application. Our solutions include mobile applications as well as web-based tools for both employers and employee-participants to give monetary-based and non-monetary recognition for various achievements, behavior or milestones. Points earned through Achievers' engagement solution can be redeemed by recipients for prepaid cards or merchandise.

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We also sell customizable open loop incentive cards and closed loop incentive cards through our IncentiveCardLab.com and OmniCard.com websites.

Revenues from Incentives products accounted for 12% of total revenues for 2015.

Cardpool Exchange Services

Through our gift card exchange business Cardpool, we offer consumers an online marketplace and various retail locations to sell unused gift cards that they do not want and an online sales website to purchase gift cards at a discount that others have sold to Cardpool. Cardpool contributed 6% of total operating revenues for 2015.

Digital Services for Online and Mobile Applications

We have developed a technology platform to integrate prepaid products with other parties' online, digital and mobile applications. In addition, we have developed application program interfaces, or APIs, to allow other payment services companies, financial institutions, social networks and retailers with whom we contract to incorporate functions such as balance inquiry, registration of gift cards, delivery of gift card offers and purchase of eGifts into their online and mobile applications. Revenue contribution from the digital services business is incorporated into the operating revenues for the related businesses.

Other Services

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

We provide card production and processing services to some of our prepaid gift and telecom content providers. These services accounted for 1% of total operating revenues in 2015.

Description of Revenue Types

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

For a retail open loop card transaction, the consumer purchases a Visa, MasterCard or American Express branded gift card from our retail distribution partner who collects the transaction dollar volume and a purchase fee. For bank-issued cards, the retail distribution partner then forwards to us the transaction dollar volume and purchase fee, less the retail distribution partner's share of the purchase fee. We then remit the transaction dollar volume of each card to the issuing bank, retaining the balance of the consumer purchase fee. The cardholders can access the value they loaded on an open loop card by using the card to pay for goods or services at any merchant that accepts the network-branded card. For such transactions, the issuing bank transfers funds through the network association to the merchant's bank following the consumer's purchase. The process is virtually the same with respect to American Express gift cards. In addition to the portion of the consumer purchase fee, we earn program management fees from issuing banks that are based on unspent card balances, as well as interchange fees, account service fees and, in some countries, card expiration fees resulting from the balances on expired cards.

For our Incentives business, we typically earn client purchase fees for the sale of incentive cards; fees for processing and fulfillment; program management fees from issuing banks that are based on expected balances remaining on cards after expiration or non-use, interchange and other fees from issuing banks; commissions on the redemption of certain open loop incentive cards using our proprietary restricted authorization network; monthly or period fees for client use of our management software; and miscellaneous program management and integration fees. Our Achievers business also earns revenue from redemption of employee rewards for merchandise or prepaid products.

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

Products and Services	How We Earn Fees
Closed Loop Gift Cards	Content providers pay us commission and fees based on transaction dollar volume. We share commissions with our retail distribution partners. Consumers pay a flat fee upon card activation depending on transaction dollar volume. We share this fee with our retail distribution partners and content providers.
Open Loop Gift Cards	Our issuing banks pay us additional program management fees and other fees for our Visa gift cards, based, in part, on unspent balances. 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 transaction dollar volume. We share these commissions with our retail distribution partners. We purchase handsets from manufacturers and sell them with a markup to our retail distribution partners. Our retail 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 retail distribution partners. In addition, we earn account maintenance fees, interchange and other transaction fees based on consumers’ continued use of these cards. We earn a flat fee for each third-party GPR card we sell. We share this fee with our retail 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 retail distribution partners. For third-party GPR cards, this fee is also shared with the third-party GPR content provider.
Loyalty, Incentive and Reward Products	We earn fees when we sell incentive cards to our business clients. We earn fees for processing and fulfillment of consumer rebates. Our issuing banks pay us additional program management fees and other fees for our open loop incentive cards. We earn a portion of merchant interchange fees when consumers use our open loop incentive cards for purchases. We earn additional commissions when consumer make purchases using our restricted authorization network cards. We earn revenues when employees redeem points for merchandise or

	prepaid cards. We earn subscription or periodic fees for use by customers of Blackhawk Engagement Solutions' or Achievers software.
Cardpool Exchange Services	We earn a markup on the sale of pre-owned closed loop gift cards, which we purchase from consumers at a discount to the amount of funds remaining on a card.
Other Fee Categories	Content providers pay us marketing funds to support programs that we coordinate with our retail distribution partners for the in-store or online promotion of their gift cards. We earn revenue for card production and packaging services for content providers. We earn fees related to certain closed loop card programs. We earn a split and/or fees on merchant promotions purchased through the nimblecommerce.com website.

Technology

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

Our product and service offerings are enabled by our technology platform in the following ways:

Gift Cards. We have made a significant investment in direct connections to our retail distribution partners over the past ten years to ensure high reliability of the gift card activation transaction at the point of sale. We process activation transactions primarily through direct connections to the card processing systems of our content providers or their service providers. In addition, for our proprietary Visa gift cards sold in the U.S. and UK, Germany and Netherlands, we process all post-activation transactions, including redemptions, directly on our proprietary cloud-based processing platform.

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

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

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

Incentives. Blackhawk Engagement Solutions platforms include software used by business clients for purchase and management of incentives and rewards, a consumer rebate processing platform that digitizes all rebate claims submitted and applies automated program rules for validation of claims, Achievers' hosted "Aspire" software platform that provides a social media-like interface for employee engagement, and reward fulfillment platforms that allow us to immediately fulfill approved rewards with checks, prepaid cards, or merchandise. We also provide reports and analytical tools for our business clients to evaluate the effectiveness of their programs. Most open loop incentive cards we issue are also processed on our proprietary cloud-based processing platform.

Over the past three years, our capital expenditures related to the development of these technology platforms, other card management platforms and related hardware totaled over $116 million, including over $51 million in 2015. Over the past two years, we have also acquired multiple platforms as a result of the acquisitions that make up our Incentives business.

We believe our technology capabilities, enhanced by the platforms we acquired to provide scalable loyalty, incentive and reward solutions, provide us with significant competitive advantages and cannot be easily replicated. Our systems are designed to be secure, highly reliable and scalable. Our technology capital expenditures included expenditures for hardware, licensed software and internally developed software for processing and switching technologies, mobile applications and enhancements to our enterprise resource planning and other infrastructure systems.

Sales and Marketing

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

marketing in connection with our financial services products, GiftCardMall.com, GiftCardLab.com, GiftCards.com, IncentiveCardLab.com, OmniCard.com and Cardpool.com. For our incentive business clients, we provide research papers, consumer and employee analyses and other tools and services to develop their incentive and reward programs.

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Operations and Customer Service

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

Our services also include a customer service function that utilizes both in-house and third-party call centers to support our proprietary open loop products (gift, GPR and incentive), and general fulfillment and card activation for our retail distribution channel, online gift card sales and our business incentive and reward channel. Our in-house call centers are located in Reno, Nevada, in San Salvador, El Salvador and in Mirimichi, Canada. We employ second level customer and partner support personnel at our corporate headquarters in Pleasanton, California, and our various regional offices. We utilize Interactive Voice Response systems, web-based support and email support in our customer service efforts. We also operate a Network Operations Center at our corporate headquarters to monitor all systems and partner connections worldwide.

Bank Partners

We derive a material amount of our revenue from our program-managed proprietary open loop products, which include our proprietary Visa gift, PayPower GPR and open loop incentive cards. For the year ended January 2, 2016, these programs represented 20.2% of our total operating revenues. The issuing banks for these programs, as well as issuing banks for other network-branded card programs that we program manage, provide Federal Deposit Insurance Corporation (FDIC) insured depository accounts tied to prepaid open loop cards, access to ATM networks, membership in the card associations and other banking functions. The issuing banks hold cardholder funds, charge applicable fees on certain products and collect interchange fees charged to merchants when cardholders make purchase transactions using prepaid open loop cards. Our issuing banks remit some or all of those fees to us plus additional fees for our program management services.

In the United States, we currently serve as program manager for four issuing banks for our proprietary open loop products: MetaBank, Sunrise Bank, N.A., CenterState Bank and The Bancorp Bank. MetaBank has been an issuing bank for both our proprietary Visa gift cards and Visa-branded PayPower GPR cards since 2007, was an issuing bank for our incentive and reward products for InteliSpend and Parago, and will continue as an issuing bank for incentive and rewards products for our Incentives business. For the year ended January 2, 2016, the MetaBank program represented 15.2% of our total operating revenues. Sunrise Bank, N.A. has been an issuing bank for our proprietary Visa gift card program since November 2011. The Bancorp Bank has been an issuing bank for our Visa-branded PayPower GPR cards since May 2012, was and remains an issuing bank for CardLab.

Outside the United States, we contract with several issuing banks for open loop products that we program manage. For the year ended January 2, 2016, these programs represented approximately 1.8% of our total operating revenues. Please see "Risk Factors—Risks Related to Our Business and Industry—We rely on relationships with card issuing banks for services related to products for which we act as program manager, and our business, results of operations and financial condition could be materially and adversely affected if we fail to maintain these relationships or if we maintain them under new terms that are less favorable to us." A data security breach could expose us to costly government enforcement actions, liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues" for additional information.

Competition

Due to the breadth of our product offerings and distribution channels, we face a number of competitors across different business sectors domestically and internationally in our Retail Products business, including some competitors whose products we distribute in select locations. Many of our existing competitors with respect to our closed loop and open loop business are larger than we are and have greater resources, larger and more diversified customer bases and greater name recognition than we do. Our competitors include Visa, Western Union, MoneyGram, Green Dot, NetSpend, Euronet and InComm. New companies, or alliances among existing companies, may be formed that rapidly achieve a significant market position. Our Incentives business competes with others who provide rebate and incentive processing services such as Young America, ACB and other providers of traditional travel and merchandise incentives and awards such as Maritz, Aimia and OC Tanner as well as companies focused on employee incentives such as Globoforce. Our incentives and rewards business also competes with other prepaid products companies for fulfillment of awards including Citibank Prepaid Solutions, InComm, and multiple other prepaid card providers for the incentives business. We also face competition from companies who are developing new prepaid access technologies and from businesses outside of the prepaid industry, including traditional providers of financial services such as banks and money services providers, and card issuers that offer credit cards, private label retail cards and gift cards. Some of these competitors offer digital solutions that do not require plastic cards for redemption by the consumer and allow for the sale of prepaid cards through new or existing online and mobile channels.

Overall, our ability to continue to compete effectively will be based on a number of factors, including customer service, quality and range of products and services offered, price, reputation, customer convenience and other considerations. For additional information about competition, please see “Risk Factors—Risks Related to Our Business and Industry—We face intense competitive pressure, which may materially and adversely affect our revenues and profitability. Continued consolidation within our industry could increase the bargaining power of our current and future clients and vendors and further increase our client concentration or reduce competition among our third-party vendors. 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 the contracted commission when such a content provider renews its agreement with us or a decline in demand for their products, or our failure to maintain existing exclusivity arrangements with certain 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” and “—If our retail distribution partners fail to actively and effectively promote our products and services, or if they implement operational decisions that are inconsistent with our interests, our future growth and results of operations may suffer.”

Seasonal Variations

Our business is significantly affected by seasonal consumer spending habits, which are most pronounced in December of each year as a result of the holiday selling season. 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. 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.”

Intellectual Property

The technologies used in the payments industry are protected by a wide array of intellectual property rights. Our intellectual property is important to our continued success. Like other companies in our industry, we rely on patent, trademark and copyright laws and trade secret protection in the United States and other countries, as well as employee and third-party nondisclosure agreements and other methods to protect our intellectual property and other proprietary rights. We also license technology from third parties which provide various levels of protection against technology infringement by third parties.

We pursue the registration of our intellectual property rights, such as domain names, trademarks, service marks and patents, in the United States and in various other countries. We own dozens of registered trademarks, including the Blackhawk Network, Reloadit, InteliSpend, Parago, Achievers, Omni Prepaid and Everywhere gift card trademarks. We also have many pending trademark applications. Through agreements with our retail distribution partners and customers, we authorize and monitor the use of our trademarks in connection with their activities with us.

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As of January 2, 2016, we own, or are the exclusive licensee of, over 65 patents in various countries providing coverage for systems and methods relating to prepaid product loads and reloads, ewallet services, eGift card transactions, swipe/scan reload, packaging, card design, processing, online services, card exchange, and fraud prevention in eGift card transactions. These patents expire at various dates, ranging from 2016 to 2033. We own over an additional 140 patent applications in various countries for various card assemblies and packaging, security features, activation and processing methods, and online prepaid services and have licensed exclusive rights that arise from ten patent applications. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. We believe a robust patent portfolio to protect our intellectual property rights and proprietary systems will become increasingly important as the prepaid industry continues to expand.

Regulation

We operate in an ever-evolving and complex legal and regulatory environment. We, the products and services that we offer and market, and those for which we provide processing services, are subject to a variety of federal, state and foreign laws and regulations, including, but not limited to:

- federal anti-money laundering laws and regulations, including the USA PATRIOT Act (the Patriot Act), the Bank Secrecy Act (the BSA), anti-terrorist financing laws and anti-bribery and corrupt practice laws and regulations in the U.S., and similar international laws and regulations;
- state unclaimed property laws and money transmitter or similar licensing requirements;
- federal and state consumer protection laws, including the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the CARD Act), and the Durbin Amendment to Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), and regulations relating to privacy and data security; and
- foreign jurisdiction payment services industry laws and regulations.

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

Our subsidiary, Blackhawk Network California, Inc. (Blackhawk Network California), is a registered money services business subject to reporting and recordkeeping requirements related to anti-money laundering compliance obligations arising under the Patriot Act and its implementing regulations. In addition, the Prepaid Access Rule promulgated by the Financial Crimes Enforcement Network (FinCEN) of the Treasury Department under its authority to implement the BSA, imposes certain obligations, such as registration and collection of consumer information, on “providers” of certain prepaid access programs, including the prepaid products issued by the banks for which we serve as program manager. FinCEN has taken the position that, where the issuing bank has principal oversight and control of such prepaid access programs, no other participant in the distribution chain, including us as the program manager, is required to register as a provider under the Prepaid Access Rule. On November 4, 2013, FinCEN affirmed that it did not expect Blackhawk to register as a provider under the Prepaid Access Rule for Blackhawk’s bank-issued products. In order to qualify for certain exclusions under the Prepaid Access Rule, some of our content providers were required to modify operational elements of their products, such as limiting the amount that can be loaded onto a card in any one day. In addition, pursuant to the Prepaid Access Rule, we and some of our retail distribution partners have adopted policies and procedures to prevent the sale of more than $10,000 in prepaid access (including closed loop and open

loop products that fall under the monetary thresholds outlined above) to any one person during any one day.

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Anti-Terrorism and Anti-Bribery Regulation. We are also subject to an array of federal anti-terrorism and anti-bribery legislation. For example, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) administers a series of laws that impose economic and trade sanctions against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other entities that pose threats to the national security, foreign policy or economy of the United States. As part of its enforcement efforts, OFAC publishes a list of individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries, as well as those such as terrorists and narcotics traffickers designated under programs that are not country-specific and with whom U.S. persons are generally prohibited from dealing.
The Foreign Corrupt Practices Act, or FCPA, prohibits the payment of bribes to foreign government officials and political figures and includes anti-bribery provisions enforced by the Department of Justice and accounting provisions enforced by the Securities and Exchange Commission (the SEC). The statute has a broad reach, covering all U.S. companies and citizens doing business abroad, among others, and defining a foreign official to include not only those holding public office but also local citizens affiliated with foreign government-run or -owned organizations. The statute also requires maintenance of appropriate books and records and maintenance of adequate internal controls to prevent and detect possible FCPA violations. Please see "Risk Factors—Risks Related to Our Business and Industry—Abuse of our prepaid products for purposes of financing sanctioned countries, terrorist funding, bribery or corruption could cause reputational or other harm that could have a material adverse effect on our business, results of operations and financial condition" for additional information.
Consumer Protection. We are subject to various federal, state and foreign consumer protection laws, including those related to unfair and deceptive trade practices as well as privacy and data security, which are discussed under "Risk Factors—Risks Related to Our Business and Industry—Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition" and "—A data security breach could expose us to costly government enforcement actions, liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues."
Federal Regulation. At the federal level, Congress and federal regulatory agencies have enacted and implemented new laws and regulations that affect the prepaid industry, such the CARD Act and FinCEN's Prepaid Access Rule. Moreover, there are currently proposals before Congress that could further substantially change the way banks, including prepaid card issuing banks and other financial services companies, are regulated and are permitted to offer their products to consumers. Products of certain non-bank financial services companies, including money transmitters and prepaid access providers, are now regulated at the federal level by the Consumer Financial Protection Bureau (the CFPB), which began operations in July 2011, bringing additional uncertainty to the regulatory system and its impact on our business. Please see "Risk Factors—Risks Related to Our Business and Industry—We are increasingly facing more stringent anti-money laundering rules and regulations, compliance with which may increase our costs of operation, decrease our operating revenues and disrupt our business," "—Abuse of our prepaid products for purposes of financing sanctioned countries, terrorist funding, bribery or corruption could cause reputational or other harm that could have a material adverse effect on our business, results of operations and financial condition," "—Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition," and "—Failure by us to comply with federal banking regulation may subject us to fines and penalties and our relationships with our issuing banks may be harmed" for additional information.
State Unclaimed Property. For some of our prepaid products, we or our issuing banks are required to remit unredeemed funds to certain (but not all) states pursuant to unclaimed property laws. However, unclaimed property laws are subject to change. Please see "Risk Factors—Risks Related to Our Business and Industry—Costs of compliance or penalties for failure to comply with or changes in state unclaimed property laws and regulations and changes in state tax codes could have a material adverse effect on our business, financial condition and results of operations" for additional information.
Money Transmitter Licenses or Permits. Most states regulate the business of sellers of traveler's checks, money orders, drafts and other monetary instruments, which we refer to collectively as money transmitters. While many states expressly exempt banks and their agents from regulation as money transmitters, others purport to regulate the money transmittal businesses of bank agents or do not extend exemptions to non-branch bank agents. We have historically

taken the position that state money transmitter statutes do not apply to our core prepaid card distribution business. Nonetheless, in connection with our open loop business, we rely on the money transmitter licenses of Blackhawk Network California in connection with our bank-issued products in some of those states; and for our core retail distribution business, Blackhawk Network, Inc., is licensed in connection with gift card distribution in two states, Maryland and West Virginia.

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Blackhawk Network California is a licensed money transmitter in 47 U.S. jurisdictions and Puerto Rico. The remaining U.S. jurisdictions do not currently regulate money transmitters or have determined that we do not need to be licensed in connection with our current businesses. In those states where we are licensed, we are subject to direct supervision and regulation by the relevant state banking departments or similar agencies charged with enforcement of the money transmitter statutes and must comply with various restrictions and requirements, such as those related to the maintenance of certain levels of net worth, surety bonding, selection and oversight of our authorized delegates, permissible investments in an amount equal to our outstanding payment obligations with respect to some of the products subject to licensure, recordkeeping and reporting, and disclosures to consumers. We are also subject to periodic examinations by the relevant licensing authorities, which may include reviews of our compliance practices, policies and procedures, financial position and related records, various agreements that we have with our issuing banks, retail distribution partners and other third parties, privacy and data security policies and procedures, and other matters related to our business. As a regulated entity, Blackhawk Network California incurs significant costs associated with regulatory compliance. We anticipate that compliance costs and requirements will increase in the future for our regulated subsidiaries and that additional subsidiaries will need to become subject to these or new regulations. Please see “Risk Factors—Risks Related to Our Business and Industry—If we fail to maintain our existing money transmitter licenses or permits, or fail to obtain new licenses or permits in a timely manner, our business, results of operations and financial condition could be materially and adversely affected” for additional information.
Privacy. In the ordinary course of our business, we collect and store personally identifiable information about Cardpool customers, holders of our proprietary Visa gift, PayPower GPR and open loop incentive cards. This information may include names, addresses, email addresses, social security numbers, driver’s license numbers and account numbers. We also maintain a database of cardholder data for our proprietary Visa gift card relating to specific transactions, including account numbers, in order to process transactions and prevent fraud. These activities subject us to certain privacy and information security laws, regulations and rules in the United States, including, for example, the privacy provisions of the Gramm-Leach-Bliley Act and its implementing regulations, various other federal and state privacy and information security statutes and regulations, and the Payment Card Industry Data Security Standard. These federal and state laws, as well as our agreements with our issuing banks, contain restrictions relating to the collection, processing, storage, disposal, use and disclosure of personal information, and require that we have in place policies regarding information privacy and security. We have in effect a privacy policy, as well as business processes, relating to personal information provided to us in connection with requests for information or services, and we continue to work with our issuing banks and other third parties to update policies and programs and adapt our business practices in order to comply with applicable privacy laws and regulations. Certain state laws also require us to notify affected individuals of certain kinds of security breaches that contain their personal information. These laws may also require us to notify state law enforcement, regulators or consumer reporting agencies in the event of a data breach. Please see “Risk Factors—Risks Related to Our Business and Industry—Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition” and “—A data security breach could expose us to costly government enforcement actions, liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues” for additional information.
Foreign Regulation. We are subject to regulation by foreign governments and must maintain permits and licenses in certain foreign jurisdictions in order to conduct our business. Our Blackhawk Network (UK) Limited subsidiary is regulated as an electronic money institution in the United Kingdom, and in 2012, it began issuing an open loop product. We have “passported” the money license to Germany and the Netherlands under EU regulations. Foreign regulations also present obstacles to, or increased costs associated with, our expansion into international markets. For example, in certain jurisdictions we face costs associated with repatriating funds to the United States, administrative costs associated with payment settlement and other compliance costs related to doing business in foreign jurisdictions. We are also subject to foreign privacy and other regulations. These foreign regulations often differ in kind, scope and complexity from U.S. regulations. Please see “Risk Factors—Risks Related to Our Business and Industry—We are subject to added business, political, regulatory, operational, financial and economic risks associated with our international operations” for additional information.

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

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

Employees

As of January 2, 2016, we had 2,331 employees. We are not subject to any collective bargaining agreement and have never been subject to a work stoppage. We believe that we have maintained good relationships with our employees.

Corporate and Available Information

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 Annual Report and should not be considered to be part of this Annual Report.

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

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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

Our revenues have grown rapidly, increasing from $1.4 billion in 2014 to $1.8 billion in 2015, representing a growth rate of 24.6%. 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 and corporate preferences and demand for the products and services that we offer;
- our ability to retain and attract new retail and corporate customers, both in-store and online;
- our ability to maintain and expand our distribution network and business partners;
- our ability to maintain and expand the supply and variety of products and services that we distribute and offer;
- our ability to increase the productivity of our distribution partners’ stores, including through in-store execution of marketing, loyalty and merchandising programs;

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- 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 banks that issue open loop prepaid cards (card issuing banks) and other industry participants;
- pricing pressure in the face of increasing competition and other market forces;
- regulatory changes or uncertainties 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 card 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 fluctuations.

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 future growth and profitability depend upon our continued expansion within the markets in which we currently operate and the further expansion of these markets. As part of our strategy to achieve this expansion, we look for acquisition opportunities, investments and alliance relationships with other businesses that will allow us to increase our market penetration, technological capabilities, product offerings and distribution capabilities. We may not be able to successfully identify suitable acquisition, investment and alliance candidates in the future, and if we do, they may not provide us with the value and benefits we anticipate.

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

The success of our business depends in large part upon our relationships with retail distribution partners. During 2015, 2014 and 2013, products sold through our top five largest retail distribution partners accounted for approximately 32.2%, 36.4% and 43.2% of our operating revenues, respectively. Many of our retail 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 all or a portion of their agreements with us on less favorable terms or establish direct relationships with our content providers. In addition, a distribution partner may file for bankruptcy or otherwise sell off or wind-down its business. There is no assurance that we will be able to continue our relationships with these distribution partners on the same terms, or at all, in future periods. Among other things, many of our distribution partner agreements contain varying degrees of exclusivity for us as the provider of prepaid products in their stores, and it is important to our competitive positioning to maintain those exclusive relationships. Our operating results could be materially and adversely affected if any of our significant distribution partners terminates, fails to renew or fails to renew on similar or more favorable terms, its agreement with us; and any publicity regarding such loss could harm our reputation, making it more difficult to attract and retain other distribution partners. 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 the contracted commission when such a content provider renews its agreement with us or a decline in demand for their products, or our failure to maintain existing exclusivity arrangements with certain 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 economic or other 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 (Apple Inc.) represented 13.7%, 13.6% and 14.7% of our total operating revenues in 2015, 2014 and 2013, respectively.

Some of our contracts with content providers require a bank letter of credit to secure a portion of our payment obligations. Failure to provide adequate security or our failure to demonstrate our credit worthiness to certain content providers, or to prospective new content providers, may adversely affect our ability to maintain our relationships with our content providers or adversely affect our cash flows. Please see Risk Factor titled “Our credit and collateral agreements with Wells Fargo Bank, National Association, and other financial institutions contain certain restrictions that limit our flexibility in operating our business and, in the event of a default, could have a material adverse impact on our business and results of operations.”

Our ability to grow our business depends, in part, on our ability to expand our product offerings by adding new content providers. Some prospective content providers could have exclusive relationships with our competitors. In addition, some of our agreements with content providers prohibit us from offering products of those providers’ competitors. If we are not able to attract new content providers due to exclusivity arrangements, competition or other factors, our business may suffer.

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

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

We rely on card issuing banks for critical services, such as membership in the Visa card association and provision of FDIC-insured depository accounts tied to our program-managed open loop card programs, including gift cards, incentive debit cards and GPR cards. MetaBank is one of the card issuing banks for our proprietary open loop card programs and, in 2015, was the card issuing bank for the substantial majority of such programs. The MetaBank program represented approximately 15.2%, 11.6% and 9.6% of our total operating revenues for 2015, 2014 and 2013, respectively. 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. We cannot provide any assurance that we will continue to achieve comparable financial terms related to these programs if we are required or

elect to reduce or eliminate new card issuances through MetaBank. In addition, we may not be able to renew our existing agreements with similar terms or in its entirety with card issuing banks or enter into relationships with additional banks on acceptable terms, or at all. Furthermore, consumer spending patterns may change, resulting in a decrease of the unredeemed card balance which, in turn, could adversely affect our program revenues from our issuing banks, results of operations and financial condition.

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We have agreements with Sunrise Bank, N.A. as a second card issuing bank for proprietary Visa gift cards and with The Bancorp Bank (Bancorp) as a second card 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 card issuing bank for a substantial majority of our proprietary Visa gift cards, and we cannot provide any assurance that we will continue to achieve comparable financial terms related to these programs. In addition, there has been increased regulatory scrutiny of products and services that are offered by card issuing banks in general (including our card issuing banks) in conjunction with third parties. For example, Bancorp entered into a Stipulation and Consent to the Issuance of a Consent Order with the Federal Deposit Insurance Corporation (the FDIC) which became effective on June 5, 2014. While Bancorp took that action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to its Bank Secrecy Act (BSA) Compliance Program, the Stipulation and Order has in certain cases limited our ability to expand our offering of Bancorp-issued GPR cards. There can be no assurance that we will continue to be able to rely on Bancorp as a secondary card issuing bank for new distribution of GPR cards. As another example, on January 5, 2015, the FDIC published industry guidance in the form of Frequently Asked Questions with respect to the categorization of deposit liabilities as “brokered” deposits. The FDIC determined that, subject to certain limitations, many funds obtained from consumers as part of the purchase of GPR cards sold to members of the public at retail stores qualify as brokered deposits. Only a “well capitalized” depository institution may accept brokered deposits without prior regulatory approval; and an “adequately capitalized” depository institution may accept brokered deposits only with prior regulatory approval.

As a result of the increased regulatory scrutiny, generally, we have also faced increased compliance costs. To the extent that our card issuing banks continue to face increased regulatory pressure, we may face further increased compliance costs and limits on our product offerings, among other consequences. If any material adverse event were to affect MetaBank, Sunrise Bank, N.A., Bancorp or any other card issuing bank with whom we have a relationship, including a decline in their financial condition, a determination that they were not sufficiently capitalized to allow them to utilize us or our distribution network for selling GPR cards, a decline in the quality of their services, loss of their deposits, their failure or inability to comply with applicable banking and financial regulatory requirements, a systems failure or their inability to pay us fees or outstanding receivable balances, then our business, results of operations and financial condition could be materially and adversely affected.

If our retail distribution partners fail to actively and effectively promote our products and services, or if they implement operational decisions that are inconsistent with our interests, our future growth and results of operations may suffer.

Approximately 72.4% of our 2015 operating revenues were derived from sales of our products and services at the locations of our retail distribution partners. Our success depends heavily on the prepaid products selected for display by our distribution partners and how our distribution partners actually display and promote the prepaid products, which we can influence and 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 transaction dollar volume 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, 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, or implement changes in their systems that disrupt the integration with our processing systems, 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 at such partners. A part of our growth strategy is to continue to expand inclusion and promotion of our products in 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. Fuel price declines or reduction of the fuel discount by our distribution partners, could cause customer participation in these loyalty programs to decline. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

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We operate in a highly and increasingly regulated environment, and failure by us or our partners and clients 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 and issuing banks 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 Patriot Act), the BSA, anti-terrorist financing laws and anti-bribery and corrupt practice laws and regulations and similar international laws and regulations;
- federal and state consumer protection laws and regulations;
- federal economic sanctions laws overseen by the Office of Foreign Assets Control (OFAC);
- state unclaimed property (escheat) laws and money transmitter licensing requirements;
- data protection laws and regulations; and
- foreign jurisdiction payment services industry laws and regulations.

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

The laws and regulations applicable to our business, and to the businesses of our content providers and distribution partners, are often unclear and may differ or conflict among 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, distribution partners or other customers 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 card issuing banks, and any failure to perform those functions properly could result in contractual claims brought against us by our card issuing banks or actions brought by regulatory agencies.

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.

In the U.S., we are subject to the BSA, as amended by the Patriot Act, and we are subject to similar laws in other markets, including the Proceeds of Crime (Money Laundering) and Terrorist Financing Act in Canada. In the U.S., Blackhawk Network California is a registered money services business subject to reporting requirements related to anti-money laundering compliance obligations arising under the Patriot Act and its implementing regulations. A more aggressive enforcement of the BSA and other 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. In addition our compliance with the relevant requirements requires significant personnel resources, as well as extensive contact with legal counsel and consultants to stay abreast of applicable law and regulations which results in additional costs. Each of these could have a material adverse effect on our business, results of operations and financial condition.

We are subject to examination by the Internal Revenue Service as we are a "money services business" under the BSA. To the extent that we fail to comply with the BSA, we are subject to enforcement jurisdiction by the Financial Crimes Enforcement Network of the Department of the Treasury and potentially other federal and state regulatory agencies, and we may incur fines and penalties as well as harm our relationships with our issuing banks, all of which could have

a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

In addition, on November 13, 2014, the CFPB issued a proposed rule to regulate prepaid accounts (the Proposed Rule). The Proposed Rule would cover the GPR cards that we program manage and distribute, our Reloadit product, and potentially certain other products we distribute. With respect to covered products, the Proposed Rule would mandate; (i) extensive pre-purchase and post-purchase disclosures; (ii) expanded electronic billing statements; (iii) adherence to the requirements of Regulation E, including requirements regarding limitations on customer liability and billing error resolution; (iv) adherence to certain requirements of Regulation Z for prepaid accounts that permit negative balances (including overdraft features); and (v) public posting of account agreements. While we believe that application of certain Regulation E provisions to GPR products is appropriate, other components of the Proposed Rule 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. Although many in the industry have advocated changes to the Proposed Rule, there can be no assurance that the ultimate rule will incorporate the changes advocated. Other aspects of Regulation E compliance could impose additional obligations on our card issuing banks or us, which could increase our costs of operations or make our card issuing banks unwilling to engage in the GPR business.

We also may become subject to further regulation by the CFPB, which on July 17, 2012, 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 and prepaid cards within the definition of larger participant as well as whether we will be considered a larger participant subject to CFPB regulatory, supervisory and enforcement powers. 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.

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Nonbank entities providing consumer financial products or services are subject to the CFPB's regulatory and enforcement authority and, as a result, the CFPB may conduct examinations or request information from supervised entities. If the CFPB determines that there is a need to examine us or requests significant information from us, it could increase our costs of operation or disrupt our business.

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

If we fail to comply with federal banking regulation, we may be subject to fines and penalties and our relationships with our card issuing banks may be harmed.

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

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

Data Protection and Security Regulation of privacy, data protection and security could increase our costs, as well as negatively impact our growth.

We are subject to regulations related to privacy, data protection and information security in the jurisdictions in which we do business. The regulatory framework for data protection and information security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future.

For example, in October 2015, the Court of Justice of the European Union invalidated the "Safe Harbor" pact between the United States and the European Union, under which companies were allowed to move personal data on EU residents to US-based computer servers without breaching EU data-protection rules. In doing so, the Court permitted national European regulators to suspend personal data transfers if the companies did not provide sufficient privacy regulations. Following the order by the Court of Justice of the European Union, some national regulators have, in fact, ordered companies to stop some transfers of personal data of their users to the United States. The United States and the European Commission recently agreed to a new framework for transatlantic data flows called the "EU-U.S Privacy Shield." The text of the new framework was released on February 29, 2016 and it will require additional approvals by regulators in Europe and/or the United States before becoming effective. We will need to assess the specific requirements of the Privacy Shield to determine whether we can comply with the new framework. If we are unable to comply with the EU-U.S. Privacy Shield, or if the Privacy Shield does not become effective, we will need to develop alternative solutions to ensure that data transfers from the E.U. to the U.S. provide adequate protections to comply with the E.U. Data Protection Directive. If we fail to develop such alternative data transfer solutions, one or more national data protection authorities in the European Union could bring enforcement actions seeking to prohibit or suspend our data transfers to the U.S. and we could also face additional legal liability, fines, negative publicity, and

resulting loss of business.

Failure to comply with these laws, regulations and requirements related to privacy, data protection and information security could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business, as well as have an impact on our reputation. New requirements in these areas, either from new regulations or laws or any additions or changes (as well as the manner in which they could be interpreted or applied) may also increase our costs and could impact aspects of our business such as fraud monitoring.

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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.

Certain 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. In certain instances, we are responsible for compliance with applicable state unclaimed property laws and 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 program-managed bank-issued products for our retail and incentive businesses.

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 issue. We also earn program management and other fees from the banks that issue our program-managed open loop gift and incentive 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 10.2%, 6.6% and 4.0% of total revenues in 2015, 2014 and 2013, respectively.

Unclaimed property laws vary from state to state and apply differently to different types of products. State regulators could interpret definitions in escheatment statutes and regulations in a manner that may adversely affect unredeemed balances that the issuing banks provide us as program management and other fees. Should such state regulators choose to do so, they may initiate collection or other litigation action for unreported abandoned property. Such actions may, among other things, seek to assess fines and penalties. In addition, states may periodically revise their unclaimed property laws to increase state revenues relating to collection of unclaimed property. Moreover, states may also revise their tax codes to introduce new or higher taxes relating to our products and services. Thus, changes in law or regulatory activity, 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 monetary instruments, which we refer to collectively as money transmitters. While a large number of states expressly exempt banks and their agents from regulation as money transmitters, others purport to regulate the money transmittal businesses of bank agents or do not extend exemptions to non-branch bank agents. We have historically taken the position that state money transmitter statutes do not apply to our core prepaid card distribution business. Nonetheless, in connection with our open loop business, we rely on the money transmitter licenses of Blackhawk Network California in connection with our bank-issued products in some of those states; and our core distribution business operated by our wholly-owned subsidiary Blackhawk Network, Inc. is licensed in connection with gift card distribution in two states, Maryland and West Virginia.

Blackhawk Network California is a licensed money transmitter in 47 U.S. jurisdictions and in Puerto Rico. The remaining U.S. jurisdictions either do not currently regulate money transmitters or do not regulate our current businesses. If our regulated subsidiaries fail to maintain their existing licenses or permits, or fail to obtain new licenses or permits in a timely manner, our business, results of operations and financial condition could be materially and adversely affected.

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

Changes in laws and regulations, or the interpretation or enforcement thereof, 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;
- affect our Cardpool exchange partners' willingness to do business with us;
- reduce the amount of revenues that we derive from unredeemed prepaid products;

- cause loyalty, awards and promotional cards to be treated like other prepaid cards; and

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

Any of these potential changes 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 further protect consumers and help detect and prevent money laundering, terrorist financing and other illicit activities. Please see the Risk Factor titled "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."

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 Federal Reserve Bank (the FRB) the power to regulate debit card interchange fees. On June 29, 2011, the FRB issued its final rule that, among other things, 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 qualifying issuing banks with less than $10 billion in assets, including some of our issuing banks, are exempt from the rule. However, to the extent that one or more of our GPR products or issuing banks lose their exempt status, the interchange rates applicable to transactions involving those GPR products or issuing banks could be affected, which would decrease our revenues and profit and could have a material adverse effect on our financial condition and results of operations. Please see the Risk Factor titled "We rely on relationships with card issuing banks for services related to products for which we act as program manager, and our business, results of operations and financial condition could be materially and adversely affected if we fail to maintain these relationships or if we maintain them under new terms that are less favorable to us."

Additionally, the Durbin Amendment requires that certain prepaid access products be accessible through two unaffiliated payment networks, which we refer to as the network exclusivity requirement. We and the issuing banks and program managers for these open-loop gift and GPR cards made changes in response to the requirement, which increased certain of our costs. After 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, our issuing banks and other program managers made further changes to address each set of FAQs.

In addition, additional changes and proposed changes to other laws and regulations, both domestically and internationally, may materially increase our costs of operation, decrease our operating revenues and disrupt our business. Please see the Risk Factors titled "Failure to comply with, or further expansion of, consumer protection regulations could have a material adverse effect on our business, results of operations and financial condition" and "We are subject to added business, political, regulatory, operational, financial and economic risks associated with our international operations."

We face intense competitive pressure, which may materially and adversely affect our revenues and profitability. Continued consolidation within our industry could increase the bargaining power of our current and future clients and vendors and further increase our client concentration or reduce competition among our third-party vendors.

The prepaid industry is highly competitive. We face a number of competitors across different sectors both domestically and internationally. We 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, offers, marketing and processing, secondary card exchange and, business-to-business transactions involving corporate incentives, rebates and consumer promotions, including some competitors with whom we contract for various products or services. We also face competition from e-gift and digital gift card providers and sellers, as those form factors grow in popularity. We also face competition from companies that are developing new prepaid access technologies and products and from businesses outside of the prepaid industry, including processors, providers of financial services such as banks and money services businesses, and card issuers that offer credit cards, private label retail cards and gift cards.

We operate a reload network, branded as the Reloadit network, which currently competes with other reload networks, including those for Green Dot, NetSpend and InComm. The nature of that competitive pressure has changed due to fraud issues. 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 or our partners and reduce the use and acceptance of our prepaid access products and services” for additional information.

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Many of our current or potential competitors have longer operating histories and greater name recognition than we do. Some have larger or more diversified customer bases. 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, lower our fees from business clients, 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.

In addition, if our clients merge with entities that are not our clients, our clients may switch to competitors if the acquiring corporation has a pre-existing relationship with them or clients may otherwise cease to exist, thereby negatively impacting our existing agreements and projected revenues with these clients. Continued consolidation within our industry could increase the bargaining power of our current and future clients and vendors and further increase our client concentration or reduce competition among our third-party vendors.

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

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

- the addition or loss of one or more significant distribution partners or content providers;
- consumer spending patterns and preferences;
- business spending patterns and preferences;
- general economic conditions affecting consumer spending;
- the overall business condition of our distribution partners and content providers;
- the development and expansion of new product and service offerings by our competitors;
- changes in pricing and fee structures, whether driven by competitive factors, issuing banks, card associations, regulatory requirements or otherwise;
- changes to our product and service offerings or changes in the way our products and services are sold, whether due to regulatory requirements or otherwise;
- changes in our product and service mix;
- changes in regulations or changes in interpretations of existing regulations;
- the institution of new, or the adverse resolution of pending, litigation or regulatory investigations applicable to us;
- business and service interruptions resulting from natural disasters, fraud, security breach or cyber attack, 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.

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

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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 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 2015, we derived approximately 19.2% of our annual revenues in the last four weeks of our fiscal year. A significant portion of gift card sales occurs in late December of each year as a result of the holiday selling season. As a result, we earn a significant portion of our revenues and generate a higher portion of our net income during the fourth fiscal quarter of each year. The timing of December holiday sales, cash inflows from our distribution partners and cash outflows to our content providers also results in significant but temporary increases in our cash flow and certain balance sheet items at the end of each fiscal year relative to normal daily balances. We also experience an increase in revenues and cash flows in the second fiscal quarter of each year, which we primarily attribute to Mother's Day, Father's Day, the graduation gifting season and the Easter holiday. Depending on when the Easter holiday occurs, the associated increase could occur in either our first or second fiscal quarter. Adverse events that occur during the second or fourth fiscal quarter could have a disproportionate effect on our results of operations for the entire fiscal year.

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

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

Our corporate incentives, rebates and consumer promotions business could suffer if there is a decline in demand for certain types of programs, or for prepaid cards as customer rewards, consumer rebates and channel and employee rewards under such programs.

Business demand for incentive programs in general or some of our programs in particular may stagnate or decline if business promotional strategies change (e.g., from rebates to instant discounts) or if broader economic downturns cause businesses or employers to either end or significantly reduce their use of incentive programs and prepaid cards in connection with them. In addition, businesses may choose an alternative form of incentive (e.g., markdowns, instant discounts, coupons, or alternative forms of reward programs). Consumer or employee perception of certain types of incentive and reward programs may decline, which may cause businesses to use alternate promotional strategies. Consumer or employee perception of prepaid cards as valued incentives or rewards may decline, which may deter businesses from using such cards for reward, rebate, engagement or incentive purposes in general and through our program in particular. Consumer perceptions of gift cards and changes in gifting technologies could harm our incentives business as discussed in the risk factors titled "Our closed loop and open loop gift card business could suffer if there is a decline in the attractiveness of gift cards to consumers" and "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." Finally, legislative, regulatory, or judicially-imposed limitations on promotional strategies or use of prepaid cards in connection with incentive programs may also result in decline in the use of certain types of incentive programs, the use of prepaid cards as a reward option under such

programs, or a decline in consumer perception of such programs. Decline or stagnation in business demand for, or use of prepaid cards or consumer acceptance of and demand for, prepaid cards as rewards, incentives or rebates, or a failure of demand to grow as expected, could have a material adverse effect on our business, results of operations and financial condition.

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Our ability to increase our revenues from prepaid financial services products, including GPR cards, will depend, in large part, upon the overall 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 or there could be a change in an issuing bank's ability to qualify for an exemption from certain portions of the Dodd-Frank Act's interchange provisions. Negative publicity surrounding other prepaid financial products and service providers could adversely affect our business or our industry as a whole. "Victim-assisted" fraud using financial services products has become more prevalent and either measures taken to reduce such fraud or regulations requiring additional consumer protections could adversely impact our business in this area. See the Risk Factor titled "Fraudulent and other illegal activity involving our products and services could lead to reputational and financial harm to us or our partners and reduce the use and acceptance of our prepaid access products and services."

Predictions by industry analysts and others concerning the growth of prepaid financial services as an electronic payment mechanism may overstate the growth of an industry, segment or category, and investors should not rely upon them. The projected growth may not occur or may occur more slowly than estimated. If consumer acceptance of prepaid financial services does not continue to develop or develops more slowly than expected, or if there is a shift in the mix of payment forms, such as cash, credit cards and traditional bank debit cards, away from our products and services, our business, results of operations and financial condition could be materially and adversely affected. In addition, we have signed agreements with third parties to provide a private-branded GPR solution. In some cases, we incur costs to launch such programs before we are assured of the volume of sales of these GPR cards, and if we are not able to recover these costs, our business, results of operations and financial condition could be adversely affected.

Our operating revenues could be materially and adversely affected by declines in consumer confidence or spending, or changes in consumer 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 in general or for the products and services we offer. Adverse economic conditions in the United States or other regions where we conduct business may reduce the number and transaction dollar volume 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. As consumer preferences for gift card purchasing changes, the number and transaction dollar volume of prepaid cards will change and could decline, 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, content providers and other customers 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. As part of our operations, we rely on technologies and software - some of which we develop and some of

which are supplied by third parties - that may contain errors, viruses or defects. Our success depends on our ability and the ability of our partners and respective vendors to process and facilitate these transactions in an efficient, uninterrupted and error-free manner.

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Our transaction processing systems and websites (or those of our content providers, distribution partners or third-party processors) may experience service interruptions, delays 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, civil unrest, political instability or military activity, terrorism, security breach or cyber attack, physical break-in or accident. Additionally, we rely on service providers for the timely transmission of information to or across our data network. If a service provider fails to provide the communications capacity or services we require, the failure could interrupt or delay our services. In the event of a service interruption, delay or degradation of our transaction processing systems, the preventive measures we have taken, including the implementation of disaster recovery plans and back-up systems, may not be successful, and 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 costly government enforcement actions, 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, card and other information in connection with the sale and use of our prepaid products and services. The encryption software and 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 in recent years by advances in computer capabilities and the increasing sophistication of hackers, and companies that store, process and transmit similar information have been specifically and increasingly targeted by sophisticated criminals in an effort to obtain the information and utilize it for fraudulent transactions. We regularly experience unauthorized attempts to access our systems. While we have multiple security measures in place to both prevent and detect intrusions, rapid advances in computer capabilities and the increasing sophistication of hackers may expose us to unauthorized access. Also, the encryption software and other technologies we use to protect the storage, processing and transmission of confidential customer, card data and other confidential information may not be effective protection.

The banks that issue our program-managed cards, as well as our other content providers, distribution partners and third-party processors and certain vendors, also may experience similar security breaches involving the receipt, transmission and storage of our confidential customer and other information. Improper access to our or these third parties' systems or databases could result in the theft, publication, deletion or modification of confidential customer information and/or card data, including theft of funds on the card or counterfeit reproduction of the cards. If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we could be exposed to government enforcement actions, costs associated with data breach notifications, and private litigation. In addition, consumers could lose confidence in our ability to protect their personal information, which could cause them to stop buying prepaid products that we offer. A significant data security breach involving company employees could hurt our reputation, cause us recruiting and retention challenges, increase our labor costs and affect how we operate our business.

A data security breach of our or our partners' systems could lead to theft and fraudulent activity involving our products and services, monetary loss or penalties, 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 legislation or 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.

As a merchant that accepts debit and credit cards for payment and as a company that program manages and processes open loop gift card transactions carrying card network brands, we are subject to the Payment Card Industry Data

Security Standard (“PCI DSS”) issued by the Payment Card Industry Security Standards Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. Our removal from networks’ lists of PCI DSS compliant service providers could mean that existing customers, sales partners or other third parties may cease using or referring our services or the banks that issue our program-managed cards could terminate our existing processing arrangements with them. Also, prospective customers, sales partners or other third parties may choose to terminate negotiations with us, or delay or choose not to do business with us. In addition, the card networks could refuse to allow us to process through their networks, impose fines or require us to take steps to remediate our data security.

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We and our web customers, as well as those of other companies, may be targeted by parties using fraudulent “spoof” and “phishing” emails or using fraudulent websites that have cloned websites, to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses or other malware through “trojan horse” programs to our customers’ computers. Spoof or phishing emails and cloned websites appear to be legitimate emails sent by, or legitimate websites operated by, our company. However, these emails or cloned websites may direct recipients to false websites or request confidential information that can be utilized by third parties and 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 in an account. Despite our efforts to mitigate “spoofing”, “cloning” and “phishing” through product improvements, website enhancements, user education and other means, these tactics remain threats that may damage our brands, discourage use of our websites or products, and increase our costs.

We maintain insurance coverage that may cover certain aspects of cyber risks, including coverage for damages suffered by others resulting from actual or alleged act, error or omission in performance of a professional service; damages suffered by others resulting from a failure of computer security, including liability caused by theft or disclosure of confidential information, unauthorized access, unauthorized use, denial of service or transmission of virus; costs to restore or recreate electronic data, computer systems resources, and information assets- including electronically stored credit card numbers and customer databases - damaged due to a network security failure caused by a computer attack; business interruption in certain circumstances; costs to respond to a data privacy or security incident; and cost for investigations brought by PCI in connection with failure to protect private information and/or failure of network security possibly resulting from PCI DSS non-compliance. Nonetheless, such insurance coverage may be insufficient to cover all losses we incur as a result of a data breach or fraud resulting from cyber risks, which could have a material adverse effect on our business, results of operations and financial condition.

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, indemnification and regulatory matters arising in the ordinary course of business. We also are 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 or our partners and reduce the use and acceptance of our prepaid access products and services.

Issuers of prepaid products have suffered significant losses in recent years with respect to the theft of cardholder data that has been illegally exploited. 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 certain customer programs they believe may involve illicit activity by retail criminals. Although we have 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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Our Reloadit product, which allows the consumer to use the PIN method of reloading GPR cards, has been the subject of fraudulent activity in less than one percent of our sales of the Reloadit product. The most prevalent form of fraud related to this product involves a scammer calling an unsuspecting consumer, convincing the consumer to buy a Reloadit product and providing the scammer with information that allows the scammer to transfer the funds to the scammer’s own GPR card. This kind of victim-assisted fraud, in which a willing victim purposely gives away his or her personal information to a stranger, has proven difficult to stop. One of our competitors has chosen to discontinue its PIN-based reload programs and move fully to a “card swipe” reload process, where the cardholder must be present in the store and swipe the actual GPR card in order to reload funds. We have implemented significant measures to prevent and mitigate different types of fraud, including victim-assisted fraud, and have secured and developed certain technology to enhance our fraud protections for vulnerable populations and to deter scammers from targeting the Reloadit product as a useful vehicle to commit fraud. Nevertheless, our progressive fraud mitigation strategy may not be successful, which could 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 new legislation or greater regulation, or lead to civil or criminal proceedings and liability, all of which would increase our compliance costs or increase our direct or indirect expenses associated with fraud and illegal activity, and also could cause us to discontinue or materially change the Reloadit product.

In addition, fraudulent or criminal activity involving “spoofing”, “cloning” and “phishing” that appears related to our products or services could harm our business, as discussed in the Risk Factor titled “A data security breach could expose us to costly government enforcement actions, liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues.”

A 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.

Prior to customers’ purchases of our gift card products and GPR cards, we, or our content providers or our distribution partners generally bear losses due to theft and fraudulent access based on which party's card processing systems are at fault. Following activation, whether a cardholder bears the loss of any theft, fraudulent access or other loss of a card depends upon the issuer’s cardholder terms and conditions and protective provisions imposed by applicable laws, regulations or system rules. 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 time frame.

Any changes we make to our product and service offerings to prevent fraudulent or illegal activities could have a material adverse effect on our business, results of operations and financial condition.

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

We and the banks that issue our program-managed cards are subject to Visa and MasterCard 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.

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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 qualifying issuing banks with less than $10 billion in assets, which currently include MetaBank, Sunrise Bank, N.A. and Bancorp, will apply to our program-managed cards, it remains possible that the card associations and network organizations could reduce the interchange fees applicable to transactions conducted by the holders of cards issued by these banks. If interchange rates decline, whether due to actions by the payment networks, our issuing banks or existing or future legislation or regulation, or the interpretation or enforcement thereof, we may need to adjust our fee structure to offset the loss of interchange revenues. Any price increase in our products and services may make it difficult to acquire customers, to maintain or expand card usage and customer retention, and we consequently could suffer reputational damage and become subject to greater regulatory scrutiny. We may also need to discontinue certain products or services. As a result, our business, results of operations and financial condition could be materially and adversely affected.

Our retail distribution partners' noncompliance or delays in complying with industry security standards related to credit and debit cards could negatively impact sales of our products, results of operations and financial condition.

Technological changes continue to significantly impact the financial services and payment services industries, such as continuing development of technologies in the areas of smart cards, radio frequency and proximity payment devices, electronic wallets and mobile commerce, among others. The payment networks' rules and regulations are generally subject to change, and they may modify their rules and regulations from time to time. Our retail distribution partners' inability to react timely to changes in the rules and regulations or their interruption or application, may result in substantial disruption to our business and negatively impact our results of operations.

For examples, payment processors Europay, MasterCard and Visa, or "EMV," set a deadline of October 2015 for retailers to install and implement in their point-of-sale systems new terminals that would accept credit and debit cards that have an imbedded chip on them. The chip is used in the transaction checkout instead of the magnetic strip and has information about the card holder and a unique transaction identification number that can only be used once. This chip-on-card technology prohibits fraudulent duplication of credit and debit cards and helps eliminate one of the primary sources of fraud at point of sale.

There are significant risks in delayed application of the EMV chip card standards to our retail distribution partners, which may have adverse implications for our business. Namely, if a retailer did not achieve EMV-compliance by October 2015, all liability for payment fraud losses incurred by such retailer shifted from the banks issuing the credit and debit cards to the EMV-non-compliant retailers. In response, some of our EMV-non-compliant retail distribution partners have taken measures in their stores to limit their exposure to liability for fraud losses by limiting or controlling the sales of higher denomination gift cards. While we have been assisting retailers in implementing alternative fraud prevention practices such as identity verification and credit card authentication, the actions taken by retailers to limit their liability for fraud losses during a transition to EMV compliance could have a material adverse impact on our results of operations and financial condition.

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

Our ability to continue our expansion, to provide our products and services to a growing number of content providers, distribution partners and business clients, as well as to enhance our existing products and services and offer new products and services, is dependent on our ability to apply our existing information technology or to develop new applications to meet the particular service needs of the growing markets. We may not have adequate financial or technological resources to develop effective and secure services and distribution channels that will satisfy the demands of these growing markets. We may fail to integrate the variety of technology platforms acquired pursuant to our recent series of acquisitions. If we are unable to manage the technology associated with our business effectively,

we could experience increased costs, reductions or outages in system availability or performance and losses of our network participants. As a result of such, we may not be able to continue to grow our revenues and earnings.

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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, 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. In the past, we successfully defended litigation asserting that we had infringed a third party's patents. There can be no assurance that any future assertions of

infringement or misappropriation will not result in liability or damages payable by us.

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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. For example, on July 31, 2014, Protegrity Corporation asserted that Blackhawk's PayPower product may infringe the claims of ten patents owned by Protegrity. While we evaluated Protegrity's assertions and believe them to be meritless, Protegrity has initiated litigation against other parties, primarily banks. Consequently, there can be no assurance that these assertions will not lead to litigation, 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 previously incurred legal fees and costs to defend a number of our partners in connection with matters alleging patent infringement in connection with activation of prepaid cards.

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 stop using the technology or other intellectual property rights then in use, in which case we may have to develop, license or otherwise use other non-infringing technology. 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 platforms, our customized employee incentive and recognition solutions, and our technology related to gift card exchange. In addition, the Blackhawk brand, our Gift Card Mall, GiftCards.com and our other proprietary brands such as the Achievers' Employee Success Platform, PayPower and Reloadit are important to our business. We rely on a combination of patent, trademark and copyright laws, trade secret protection and confidentiality agreements to protect our intellectual property and other proprietary rights, all of which offer only limited protection. Some of our technology and other intellectual property may not be protected by intellectual property laws, particularly in foreign jurisdictions. The loss of our intellectual property or the inability to secure or enforce our intellectual property rights could have a material adverse effect on our business, results of operations and financial condition.

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

Substantially all of our third-party distribution business is conducted through distribution partners. Our distribution partners collect payment from consumers and then remit these funds to us. In select cases, we have agreed to pay our closed loop content providers whether or not the distribution partners have paid us. In other limited cases in our third-party distribution business, we have relationships with intermediaries which are 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, in most cases we are liable for payments to the telecom provider regardless of any nonpayment by distribution partners. For our online e-commerce business, we collect payment from customers and the amount could be charged back to our company in the case of non-payment by the customer. A charge back occurs when a consumer refuses to pay a charge on his or her credit card account for a variety of reasons, including product returns, billing errors and fraudulent charges.

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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 fiscal year-end January 2, 2016, we estimate that we had settlement risk of $212 million, or 33.9% of total Settlement receivables. We are not insured against these risks. We have in the past experienced settlement losses when a distribution partner or intermediary service provider failed to remit payment to us. These losses over the past three fiscal years have been immaterial. While we have undertaken additional efforts to minimize the impact of our distribution partners, content providers' or intermediaries' adverse financial conditions on Blackhawk and its content providers, there is no assurance that these efforts will adequately mitigate potential losses. In the past few years, several of our distribution partners have faced adverse financial conditions, including a few which filed for bankruptcy or receivership protection. While none of the current bankruptcy or receivership matters is individually or collectively material, significant settlement losses resulting from the adverse financial conditions of our distribution partners or intermediaries or due to other factors whether or not directly related to our business (such as economic downturns) could have a material adverse effect on our business, results of operations and financial condition.

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

In addition to issuing banks, we rely on third-party vendors to provide certain services relating to our business, including software engineering, customer service, warehousing and distribution, in-store merchandising, card production, transaction processing functions, customer verification services and credit validation. Some of our third-party vendors providing software engineering services to us operate internationally from locations that are subject to disruptions, some of which are out of our or their control, including those discussed under the risk factor titled “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 profitability depends on the ability of these third-party vendors and service providers to deliver their products and services in a timely manner and in accordance with our specifications, as well as on our effective oversight of their performance. It would be difficult to replace some of our third-party vendors in a timely manner, and in particular, our sole warehousing and distribution provider for the United States and Canada and the software developers for our proprietary platforms, if they were unwilling or unable to provide us with these services in the future, and consequently 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 commercially acceptable terms, or at all. Also, to the extent that any third-party vendor fails to deliver services, either in a timely, satisfactory manner, or at all, our business, results of operations and financial condition could be materially and adversely affected.

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

On February 3, 2016, we acquired IMShopping, Inc. and its subsidiary (collectively, IMShopping), a provider of e-commerce solutions. On January 6, 2016, we acquired Omni Prepaid, LLC and its subsidiaries (collectively, Omni), a provider of digital and physical prepaid gift card solutions and customized prepaid incentive and reward solutions. On September 14, 2015, we acquired the outstanding stock of Didix Gifting & Promotions B.V. and its subsidiaries (collectively, Didix), a provider of leisure themed gift and promotion cards. On June 30, 2015, we acquired Achievers Corp. and its subsidiaries (collectively, Achievers), a provider of employee recognition and rewards solutions designed to help companies increase employee engagement. 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;
- potential regulatory restrictions on revenue streams of acquired businesses;
- 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;
- integration of the acquired companies' technology and platforms into our environment;
- liability for activities of the acquired company prior to the acquisition, including violations of law, commercial disputes, escheat 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 IMShopping, Omni, Didix, and Achievers or any future acquisition or investment, we might not realize the anticipated benefits of that acquisition or investment and we might incur unanticipated costs, liabilities or otherwise suffer harm to our business generally. The difficulties and challenges of successful integration of any acquired company are increased when the integration involves multiple acquired companies or companies with operations or material vendors outside the United States. Consequently, we may not be able successfully to integrate our recently acquired companies or to achieve anticipated cost saving across channels and infrastructure.

To the extent that we pay the consideration for any future acquisitions or investments in cash, or any potential earn outs, it would reduce the amount of cash available to us for other purposes. Such payments also may increase our cash flow and liquidity risk and could result in increased borrowings under our credit agreement. See the Risk Factor titled "Our debt could adversely impact our operating income and growth prospects and make us vulnerable to adverse economic and industry conditions." 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 or intangible assets 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 Talbott Roche, our President and Chief Executive Officer; William Tauscher, our Chairman of the Board and Head of International; and Jerry Ulrich, our Chief Financial and Administrative Officer, are at-will employees. This means that they may terminate their employment with us at any time. Consequently, our future success will depend, to a significant extent, on our ability to identify, attract and retain key personnel, namely our management team and experienced sales, marketing, technical and systems management personnel, as well as finance, legal and compliance personnel. Qualified individuals are in high demand, particularly in the San Francisco Bay Area, where our principal offices are located, and we may incur significant costs to attract and retain them. In addition, we may experience difficulty assimilating our newly hired personnel and assimilating personnel from acquisition activity, which could have a material adverse effect on our business, results of operations and financial condition. Competitors have in the past and may in the future attempt to recruit our top management and employees. If we fail to identify, attract and retain key personnel, our business, results of operations and financial condition could be materially and adversely affected.

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

We currently conduct business in the United States and 23 other countries (with our international business accounting for approximately 24.9% of our total revenues in 2015), and an important element of our business strategy is the expansion of our business in our existing and new international markets. In addition, we operate a call center in El Salvador and contract with software engineers in Vietnam and Ukraine. 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 laws and regulations that impose greater compliance obligations and costs;
- foreign currency fluctuations;
- differing and potentially adverse tax laws and interpretations;

- foreign tax authorities requiring tax collection or withholding from non-residents of the foreign jurisdiction;

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- higher costs associated with doing business internationally, such as costs associated with, tax planning, repatriating funds to the United States, administrative costs associated with payment settlement and other compliance costs related to doing business in foreign jurisdictions;
- difficulties in staffing and managing international operations;
- restrictions on the transfer of funds among countries and back to the United States;
- differing levels of social and technological acceptance of prepaid products and services;
- limitations on the level of intellectual property protection;
- trade sanctions, political unrest, terrorism, war and epidemics or threats of any of these events;
- lack of acceptance of our distributed products or of prepaid products generally;
- the potential for disputes with our business partners; and
- competitive environments that favor local businesses.

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

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

Our credit and collateral agreements with Wells Fargo Bank, National Association, and other financial institutions contain certain restrictions that limit our flexibility in operating our business and, in the event of a default, could have a material adverse impact on our business and results of operations.

Effective on March 28, 2014, we terminated the cash management and treasury services agreement with Safeway and entered into a credit agreement with a group of lenders led by Wells Fargo Bank, National Association in an initial aggregate commitment amount of up to $525 million, consisting of a combination of revolving loans, letters of credit and term loans. Since March 28, 2014, we have amended the credit agreement four times, with the cumulative effect being to make available to our company up to $400 million of revolving loans and letters of credit (including up to $50 million in foreign-currency denominated letters of credit) and up to $464 million of term loans, thus increasing our credit facility to an aggregate commitment amount of $864 million. The credit agreement, as amended (the Credit Agreement), and other related agreements contain customary restrictions on us and our subsidiaries. Subject to a number of important exceptions, these limitations include covenants that limit or restrict us and our subsidiaries from:

- incurring additional indebtedness or modifying subordinated indebtedness;
- granting liens on or with respect to any of our property;
- making investments;
- consolidating or merging with, or acquiring, another business;
- selling or disposing of our assets;
- paying dividends and making other distributions to our stockholders;
- entering into certain transactions with our affiliates;
- redeeming our stock;
- amending our charter documents;
- changing the nature of our business;
- entering into sale-leaseback agreements; and
- disposing of our interests in certain subsidiaries.

Our obligations under the Credit Agreement are secured by security interests in and liens on all of our present and future assets and those of certain current and future subsidiaries (other than our regulated assets). In addition, the Credit Agreement contains financial covenants that require us to maintain specified financial ratios and satisfy certain financial condition tests. This may require that we take action to reduce our debt or to act in a manner contrary to our business objectives.

The breach of any of these covenants would result in default under the Credit Agreement. Any default, if not waived, could result in our lenders terminating commitments to make loans or extend other credit to us. In the event of default, the lenders also could accelerate and declare all or any obligations immediately due, and could take possession of or liquidate collateral. If any of these events occur, we may be unable to appropriate sufficient funds to refinance the Credit Agreement on favorable terms, if at all, which could have a material adverse effect on our business, results of operations and financial condition. In addition, the termination of the Credit Agreement may adversely affect our ability to maintain our relationships with our content providers or adversely affect our cash flows. Please see the Risk Factor titled “We rely on relationships with card issuing banks for services related to products for which we act as program manager, and our business, results of operations and financial condition could be materially and adversely affected if we fail to maintain these relationships or if we maintain them under new terms that are less favorable to us.”

Our debt could adversely impact our operating income and growth prospects and make us vulnerable to adverse economic and industry conditions.

Our indebtedness could make it more challenging for us to obtain additional financing to fund our business strategy and acquisitions, debt service requirements, capital expenditures and working capital. It could also increase our vulnerability to interest rate changes and general adverse economic and industry conditions. This could limit our flexibility in planning for or reacting to changes in our business and our markets and place us at a competitive disadvantage relative to our competitors that have less debt.

Future economic and credit market conditions may limit our access to additional capital, at a time when the Credit Agreement would otherwise permit additional financing, or may preclude our ability to refinance our existing indebtedness. If our lenders suffer from declining financial conditions, their ability to fund their commitments may be adversely affected, in which case we could be required yet unable to obtain replacement financing on similar or acceptable terms, if at all. A deterioration in the credit markets generally could further affect our ability to access sufficient financing or capital. Such limitations could have a material adverse impact on our operations and thus on our operating income, growth prospects and financial condition.

Our balance sheet includes significant amounts of goodwill and intangible assets. The impairment of a significant portion of these assets would negatively affect our business, financial condition and results of operations.

As a result of our acquisitions, a significant portion of our total assets consist of goodwill and intangible assets. Combined goodwill and intangible assets, net of amortization, accounted for approximately 20.7% and 20.5% of the total assets on our balance sheet as of January 2, 2016 and January 3, 2015, respectively. We may not realize the full value of our intangible assets and goodwill. We expect to engage in additional acquisitions, which may result in our recognition of additional intangible assets and goodwill. We routinely evaluate whether all or a portion of our goodwill and other intangible assets may be impaired. If it is determined that an impairment has occurred, we would be required under current accounting rules to write-off the impaired portion of goodwill and such intangible assets, resulting in a charge to our earnings. An impairment of a significant portion of goodwill or intangible assets could have a material adverse effect on our business, financial condition and results of operations.

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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 in turn could have a material adverse effect on our business, results of operations and financial condition.

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

Risks Related to Ownership of Our Common Stock

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

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control. Factors that may contribute to fluctuations in the market prices of our common stock include:

- failure to sustain an active, liquid trading market for our shares;
- 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;
- the gain or loss of significant distribution partners, content providers, or business clients;
- actual or anticipated developments in our business or our competitors' businesses, such as announcements by us or our competitors of significant contracts, acquisitions or strategic alliances, or in the competitive landscape generally;
- 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 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 as well as our other resources and could have a material adverse effect on our business, results of operations and financial condition.

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We incur significant costs as a public company and laws and regulations applicable to public companies may divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also incur costs associated with the Sarbanes-Oxley Act of 2002 (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. The rules and regulations associated with being a public company also may 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 common stock, fines, sanctions and other regulatory action and potentially civil litigation.

We are 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 prices of our common stock.

We are 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. This assessment must 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 provide any guarantee that there will not be material weaknesses or 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 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.

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 common stock depends, 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.

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

Our amended and restated certificate of incorporation and amended and restated bylaws 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:

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- 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 may have an effect to prevent the minority stockholders from electing director candidates;

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- 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;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- 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, 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;
- 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 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. As a result of the Spin-Off, we became subject to Section 203 of the Delaware General Corporation Law. Under Section 203, a corporation may not, in general, engage in a business 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 specifies 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.

We may need to raise additional capital to support our business in the future, and this capital may not be available on acceptable terms or at all, which may prevent us from growing our business.

We may need to raise additional funds to finance our future capital needs, including developing new products and technologies, operating expenses, and to make repayments under the Credit Agreement. If our unrestricted cash and cash equivalents balances and any cash generated from operations are insufficient to meet our future cash needs, we will need to access additional capital to fund our operations. We may also need to raise additional capital to take advantage of new business or acquisition opportunities. We may seek to raise capital by, among other things, issuing additional shares of our common stock or other equity securities or debt securities. If we raise additional funds through the sale of equity securities, these transactions may dilute the value of our outstanding common stock. If we decide to issue debt securities, such securities may have rights, preferences and privileges senior to our common stock. We may be unable to raise additional funds on terms favorable to us or at all. If financing is not available or is not available on acceptable terms, we may be unable to fund our future needs and we may be required to modify our operating plans to take into account the limitations of available funding, which would harm our ability to maintain or grow our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

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ITEM 2. PROPERTIES

Our principal executive offices are located in Pleasanton, California, in an approximately 149,000-square-foot commercial office building, which we subleased from Safeway. In February 2016, we terminated our sublease of such premises with Safeway and entered into a lease agreement with 6200 Stoneridge Mall Road Investors LLC (the Lease Agreement). The Lease Agreement will expire on April 30, 2027, with an option to extend the term for an additional five years.

We also maintain leased offices in Phoenix, Arizona; Mesa, Arizona; Colorado Springs, Colorado; Reno, Nevada; Wall, New Jersey; Fenton, Missouri; Lewisville, Texas; Addison, Texas; and other small local sales, support and/or marketing offices and fulfillment and order processing facilities in San Francisco, California, Emeryville, California and White Bear Lake, Minnesota in the United States. Internationally, we have primary offices in leased facilities in Toronto, Mexico City, London, Sydney, Cologne, Amsterdam and Melbourne and have leased a facility for a near-shore call center in San Salvador, El Salvador. We operate our data centers in co-location facilities provided by third parties in Santa Clara, California and Kent, Washington. We believe that our existing facilities are adequate to support our existing operations and that, as needed, we will be able to obtain suitable additional facilities on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

We are involved from time to time in various legal proceedings arising in the ordinary course of business, including the matter described below. Although the outcome of any pending matters, including the matter described below, and the amount, if any, of our ultimate liability and any other forms of remedies with respect to these matters, cannot be determined or predicted with certainty, we currently do not believe that it is probable that the resolution of any of these matters would result in any liability that would have a material adverse effect on our results of operations or financial condition.

On March 30, 2015, Greg Haney in his capacity as Seller Representative for CardLab, Inc. filed a lawsuit against us in the Delaware Chancery Court (CardLab, Inc. v. Blackhawk Network Holdings, Inc., Case No. 10851). The complaint generally alleges that we failed to disclose material information relating to a potential earn-out payment in connection with our acquisition of CardLab, Inc. in 2014. We believe that the suit is without merit and that the likelihood of loss is remote, and we intend to vigorously defend ourselves against these claims. On June 8, 2015, we filed a motion to dismiss the complaint. On June 22, 2015, the plaintiff filed an amended complaint. We believe that the amended complaint does not impact our evaluation of the merits of this lawsuit. On July 7, 2015, we filed a motion to dismiss the case in its entirety. All briefing has been completed, the oral hearing was conducted on November 4, 2015. On February 26, 2016, the Court granted the motion to dismiss in part, dismissing two claims of the amended complaint. Our answer to the remaining claims is due March 11, 2016.

We transact business in non-U.S. markets and may be subject to disputes and tax audits by foreign tax authorities that may result in assessments or demands for tax collection or withholding related to non-residents card providers from time to time. For example, in two instances, we are disputing the position taken by foreign tax authorities who have either provided a preliminary assessment or denied refunds. A failure to prevail in these disputes would result in us accruing liabilities of up to $12 million.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II. OTHER INFORMATION
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
Price Range of Our Common Stock
Our Class A common stock has traded on the NASDAQ Global Select Market under the symbol "HAWK" since April 19, 2013.
Following Safeway's distribution of its remaining shares of our Class B common stock to Safeway shareholders in April 2014, our Class B common stock traded separately from our Class A common stock under the symbol "HAWKB." In May 2015, we converted all outstanding shares of our Class B common stock into shares of Class A common stock on a one-for-one basis and renamed Class A common stock as common stock, which continues to trade under the symbol "HAWK."
The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock for the fiscal years ended on January 2, 2016 and ended on January 3, 2015.

	High	Low
Fiscal Year Ended January 2, 2016		
Quarter ended March 28, 2015	$40.57	$32.98
Quarter ended June 20, 2015	$41.47	$33.59
Quarter ended September 12, 2015	$46.13	$33.59
Quarter ended January 2, 2016	$48.40	$39.09

	Class A		Class B	
	High	Low	High	Low
Fiscal Year Ended January 3, 2015				
Quarter ended March 22, 2014	$29.73	$21.65	N/A	N/A
Quarter ended June 14, 2014	$27.50	$23.18	$26.20	$22.49
Quarter ended September 6, 2014	$29.33	$25.13	$28.71	$24.35
Quarter ended January 3, 2015	$40.51	$27.26	$39.08	$26.47

On February 5, 2016, the closing price per share of our common stock as reported on the NASDAQ was $37.01 per share.
Stockholders
As of February 5, 2016, there were approximately 8,367 holders of record of our common stock. The number of stockholders of record is based upon the actual number of stockholders registered at such date and does not include holders of shares in "street names" or persons, partnerships, associates, or corporations, or other entities identified in security listings maintained by depositories.
Dividend Policy
No cash dividend was paid for the two most recent fiscal years. 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. The terms or our Credit Agreement may restrict our ability to declare and pay cash dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Cash Flows from Financing Activities" and Note 4—Financing for additional information.
Equity Compensation Plan Information
For equity compensation plan information refer to Item 12 in Part III of this Annual Report.

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Performance Graph

The following graph shows a comparison from April 19, 2013 (the date our common stock commenced trading on the NASDAQ Global Select Market) through December 15, 2015 of the total cumulative return of our common stock with the total cumulative return of the NASDAQ Composite Index (the NASDAQ Composite), and the NASDAQ Financial Index (NASDAQ Financial) from March 31, 2013. The figures represented below assume an investment of $100 in our common stock and the reinvestment of the full amount of all dividends and are calculated at the closing price of $26.01 on April 19, 2013 and at the closing price of the last stock trading day of each fiscal year in the NASDAQ Composite and NASDAQ Financial. Data for the NASDAQ Composite and NASDAQ Financial assume reinvestment of dividends. The comparisons in the graph are historical and are not intended to forecast or be indicative of possible future performance of our common stock.

This performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or the liabilities of Section 18 of the Exchange Act, and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation language in those filings.

Recent Sales of Unregistered Securities

In May 2015, we issued 301,662 shares of our common stock to a distribution partner as a result of its cashless exercise of outstanding warrant originally issued on January 5, 2011, as amended on March 31, 2015. In December 2015, we issued 859,757 shares of our common stock to another distribution partner as a result of its cashless exercise of outstanding warrants originally issued on March 1, 2011 (as amended on November 30, 2015), April 2, 2013 and April 30, 2013, respectively. The issuance was exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering.

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Issuer Purchases of Equity Securities

The following table summarizes purchases of our ordinary shares made by or on behalf of us or any of our "affiliated purchasers" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during each fiscal period during the period starting on September 12, 2015 and ending on January 2, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
September 12, 2015 to October 10, 2015	387	$ 42.46	—	$ —
October 11, 2015 to November 7, 2015	247	$ 43.43	—	$ —
November 8, 2015 to December 5, 2015	959	$ 44.64	—	$ —
December 6, 2015 to January 2, 2016	422	$ 46.74	—	$ —
Total	2,015	$ 44.51	—	$ —

(1) This table does not include shares of common stock that we withheld in order to satisfy minimum tax withholding requirements in connection with the vesting of restricted stock units or exercise of options or stock appreciation rights. The numbers represent the shares of common stock that we withheld in order to satisfy minimum tax withholding requirements in connection with the vesting of restricted stock awards.

(2) Average price paid per share of common stock does not include brokerage commissions.

(3) We do not have any share repurchase program.

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ITEM 6. SELECTED 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 Annual Report. 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 Annual Report. Our historical results are not necessarily indicative of our future results.

We use a 52-week 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-week or 17-week period. The fiscal years presented in the tables below consist of the 52-week period ending January 2, 2016, or 2015, and the 53-week period ended January 3, 2015, or 2014, and the 52-week periods ended December 28, 2014, or 2013, December 29, 2013, or 2012, and December 31, 2011, or 2011.

We derived the statement of operations data for 2015, 2014, and 2013 and the balance sheet data for 2015 and 2014 from our audited consolidated financial statements included elsewhere in this Annual Report. We derived the statement of operations data for 2012 and 2011 (which we adjusted for certain reclassifications) and our balance sheet data for 2012 and 2011 (which we adjusted for certain reclassifications) from our audited financial statements not included in this Annual Report.

	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
OPERATING REVENUES:					
Commissions and fees	$1,259,801	$1,107,782	$904,796	$786,552	$639,633
Program, interchange, marketing and other fees	373,532	220,257	141,735	103,432	87,551
Product sales	167,745	116,924	91,557	69,085	24,622
Total operating revenues	1,801,078	1,444,963	1,138,088	959,069	751,806
OPERATING EXPENSES:					
Partner distribution expense (4) (5)	874,043	762,245	618,490	519,090	417,522
Processing and services	301,228	218,674	157,868	137,105	117,263
Sales and marketing	260,638	189,408	150,516	120,984	94,840
Costs of products sold	154,625	110,917	86,357	66,265	22,567
General and administrative	95,176	66,856	50,830	41,370	38,901
Transition and acquisition (1)	7,639	2,134	2,111	—	332
Amortization of acquisition intangibles (1)	27,550	19,705	3,349	424	170
Change in fair value of contingent consideration (6)	(7,567)	(3,722)	(14,740)	(2,974)	89
Total operating expenses	1,713,332	1,366,217	1,054,781	882,264	691,684
OPERATING INCOME (1) (4) (5) (6)	87,746	78,746	83,307	76,805	60,122
OTHER INCOME (EXPENSE):					
Interest income and other income (expense), net	(1,970)	(184)	241	1,297	1,536
Interest expense (3)	(13,171)	(5,647)	—	(11)	(5)
INCOME BEFORE INCOME TAX EXPENSE	72,605	72,915	83,548	78,091	61,653
INCOME TAX EXPENSE	26,796	27,490	29,862	30,199	25,154
NET INCOME BEFORE ALLOCATION TO NON-CONTROLLING INTERESTS	45,809	45,425	53,686	47,892	36,499
Net loss (income) attributable to non-controlling interests (net of tax)	(200)	122	418	273	—
	$45,609	$45,547	$54,104	$48,165	$36,499

NET INCOME ATTRIBUTABLE TO BLACKHAWK NETWORK HOLDINGS, INC.					
EARNINGS PER SHARE:					
Basic	$0.84	$0.86	$1.04	$0.93	$0.71
Diluted	$0.81	$0.83	$1.02	$0.93	$0.70
Weighted average shares outstanding—basic	54,294	52,531	51,164	50,045	50,225
Weighted average shares outstanding—diluted	56,313	54,309	52,402	50,045	50,877

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	As of Year-End				
	2015	2014	2013	2012	2011
	(in thousands)				
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and restricted cash (1) (7) (8) (13)	$917,765	$916,615	$550,380	$181,633	$162,642
Overnight cash advances to Safeway (7) (9)	—	—	—	495,000	598,157
Settlement receivables (7) (10)	626,077	526,587	813,448	510,863	249,028
Deferred income taxes, net (2)	320,906	(5,241)	(3,616)	12,170	7,488
Total assets (1) (2) (7)	3,112,956	2,449,109	1,964,348	1,533,457	1,298,041
Settlement payables (7) (10)	1,605,021	1,383,481	1,484,047	1,231,429	990,436
Note payable (3)	361,708	373,754	—	—	—
Notes payable to Safeway (11)	4,129	27,678	—	—	17,915
Warrant and common stock liabilities (4)	—	—	—	26,675	24,943
Total liabilities (3) (7)	2,378,858	2,161,330	1,736,184	1,435,810	1,183,174
Redeemable equity (12)	—	—	—	34,997	30,112
Total stockholders' equity (2) (4) (5) (12) (13)	734,098	287,779	228,164	62,650	84,755

(1) In 2015, we completed our acquisitions of Achievers and Didix, for which we paid $144.6 million in cash, partially offset by $29.1 million in cash received. We recognized goodwill and intangible assets of $186.1 million and assumed liabilities (excluding deferred income taxes) of $76.1 million. In 2014, we completed our acquisitions of Parago, CardLab and Incentec, for which we paid $281.2 million in cash, partially offset by $41.1 million in cash received. We recognized goodwill and intangible assets of $304.3 million and assumed liabilities (excluding deferred income taxes) of $100.5 million. In 2013, we completed our acquisitions of Retailo and InteliSpend. We paid $166.5 million in cash, partially offset by $46.8 million of cash received and trading securities sold for cash. We also recognized goodwill and intangible assets of $171.0 million and assumed liabilities of $79.3 million. Amortization expense related to these intangible assets for all these acquisitions totaled $27.6 million, $19.5 million and $2.9 million in 2015, 2014 and 2013, respectively, which we report in Amortization of acquisition intangibles. We also incurred acquisition-related expenses totaling $2.2 million, $1.8 million and $2.1 million related to these acquisitions, in 2015, 2014 and 2013, respectively, which we include in Transition and acquisition expense. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Use of Liquidity” and Note 2—Business Acquisitions in the notes to our consolidated financial statements.

(2) On January 30, 2015, Safeway announced that it had been acquired by AB Acquisition LLC (the Merger). As a result of the Merger, our Spin-Off is taxable to Safeway and Safeway’s stockholders. Under our second Amended and Restated Tax Sharing Agreement with Safeway (the SARTSA), any corporate-level income tax incurred as a result of the Spin-Off is borne by Safeway. The SARTSA provides that, since the Spin-Off is taxable, we and Safeway will make an election that results in a step-up in the tax basis of our assets (the Section 336(e) Election) that will be amortized as a tax deduction. As a result of the Section 336(e) Election, we recognized $363.9 million of deferred income tax assets with offset to Additional paid-in capital and Safeway contributed $8.2 million of notes payable related to Safeway's funding to us for income tax payments to certain states resulting from our Spin-Off.

(3) In 2014, we entered into our Credit Agreement with a group of banks, which, as amended, includes a term loan of $475 million (of which we drew down $100 million in January 2016 and of which we repaid $11.3 million in 2015) and a revolving credit facility of $400 million. Interest expense under the Credit Agreement totaled $13.7 million and $5.7 million in 2015 and 2014, respectively. No amounts were outstanding under the revolving credit facility at year-end 2015 and 2014. See Note 4—Financing in the notes to our consolidated financial statements.

(4)

Before our Offering, two equity awards to retail distribution partners contained put and call rights. We had recorded Warrant and common stock liabilities related to these equity awards, which represented the potential cash settlement obligation. In 2013, our Offering terminated these put and call rights, which eliminated the performance conditions. Accordingly, we expensed the remaining unamortized fair value of $6.0 million in Partner distribution expense with an offsetting increase to Additional paid-in capital and reclassified Warrant and common stock liabilities to Additional paid-in capital. See Note 9—Equity Awards Issued to Retail Distribution Partners in the notes to our consolidated financial statements.

(5) In 2013, we issued fully vested warrants to two retail distribution partners that contained no performance or service conditions, and, in 2015, we increased the shares issuable under a warrant to another retail distribution partner with no performance or service conditions. We recorded the initial measurement of the fair value of the instruments of $22.3 million in 2013 and $3.1 million in 2015 in Additional paid-in capital with an offset to Intangible assets. Amortization expense related to these warrants, recorded in Partner distribution expense, totaled $4.7 million, $4.5 million $3.0 million in 2015, 2014 and 2013, respectively. See Note 9—Equity Awards Issued to Retail Distribution Partners in the notes to our consolidated financial statements.

(6) In 2015 and 2014, we recorded mark-to-market decreases of $7.6 million and $3.7 million in the estimated fair value of our CardLab contingent consideration liability and, in 2013 and 2012, mark-to-market deceases of $14.7 million and $3.0 million, respectively, in the estimated fair value of our Cardpool contingent consideration liability. See Note 5—Fair Value Measurements in the notes to our consolidated financial statements.

(7) 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 retail distribution partners and cash outflows to our content providers results in significant but temporary increases in our Cash and cash equivalents, Overnight cash advances to Safeway, Settlement receivables and Settlement payables balances at the end of each fiscal year relative to normal period end balances. The timing of our fiscal year-ends for 2015 and 2014 allowed for an additional week of settlement of our Settlement receivables and Settlement payable balances. 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.”

(8) Includes $3.2 million and $5.0 million at year-end 2015 and 2014, respectively, of restricted cash related to our acquisition of CardLab and $9.0 million, $9.0 million and $8.8 million of restricted cash at year-end 2012, 2011, and 2010, respectively, for an escrow account in accordance with a stock purchase agreement with one of our distribution partners. After our Offering, this cash became unrestricted and was reclassified to Cash and cash equivalents.

(9) Overnight cash advances to Safeway represent cash amounts that Safeway borrowed from us and invested on an overnight basis for our benefit. At year-end 2013, Safeway did not borrow any cash, and, at year-end 2014, we had terminated the agreement under which Safeway borrowed cash from us.

(10) Settlement receivables generally represent amounts due from our retail 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.

(11) At year-ends 2015 and 2014, Notes payable to Safeway represented amounts due to Safeway for Safeway's funding to us for our income tax payments to certain states resulting from our Spin-Off. As a result of Safeway's acquisition by AB Acquisition, LLC on January 30, 2015, these notes, adjusted for anticipated state tax refunds, were contributed to equity. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Sources of Cash” and Note 1—Income Taxes and Note 14—Related Party Transactions in the notes to our consolidated financial statements. In 2011 and 2010, Notes payable to Safeway represented amounts due under various notes when Safeway was our Parent.

(12) Redeemable Equity represented the redemptive value for equity instruments issued to employees and a retail distribution partner that contained provisions requiring us, at the option of the holder, to repurchase the instrument. We adjusted the redemption value of redeemable equity from Stockholders’ equity. Our Offering terminated these rights, and we reclassified redeemable equity to Stockholders’ equity.

(13) On December 14, 2012, our Board declared a one-time extraordinary cash dividend of $1.369 per common share for stockholders of record as of December 18, 2012, and we paid $69.9 million related to this dividend on December 21, 2012.

For further discussion of items (1) and (3) through (6), please see the “Reconciliation of Non-GAAP Measures” table as well as the discussion of Adjusted operating revenues, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Operating Statistics.”

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the section titled "Selected consolidated financial data" and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. You should review the "Risk Factors" and "Special note regarding Forward-Looking statements" sections of this Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a leading prepaid payment network utilizing proprietary technology to offer a broad range of prepaid gift, telecom and debit cards, in physical and electronic forms, as well as related prepaid products and payment services. We distribute our prepaid products to consumers through our retail distribution partners and online through our websites or websites operating by third-party distribution partners. We also provide prepaid products and related services to business clients. Our prepaid products include closed loop gift cards which are redeemable at a specific merchant, open loop gift and incentive cards which are redeemable where the network association (Visa, MasterCard, American Express, or Discover) are accepted, prepaid telecom cards, and general-purpose reloadable cards and related reload services. Our constituents include consumers who purchase or receive the products and services we offer; content providers who offer branded gift cards and other prepaid products that are redeemable for goods and services; distribution partners who sell those products; and business clients that distribute our products as incentives or rewards, or offer our incentive platform to their employees or sales forces.

We earn revenues in the form of commissions from our content providers for the sale of their prepaid cards at our retail distribution partners and share a portion of such commission with the retail distribution partner, as well as additional revenues for marketing programs at the retail distribution partners. We also earn revenues from the sale of our open loop gift and incentive cards for which we act as program manager for issuing banks. For these products, we earn the purchase fee when sold to a consumer at our retail distribution partners (a portion of which we also share with such retail distribution partners) and earn fees when sold to certain of our business clients, as well as various program revenues, primarily derived from unspent consumer funds, and interchange when consumers make purchases. We also earn revenues from our business clients by providing services, including rebate processing of consumer incentives and employee and sales channel reward platforms. We also earn revenues by selling previously sold gift cards through our Cardpool gift card exchange, providing prepaid cards and merchandise as rewards to our business clients' employees and sales channel personnel, providing card production services to our content providers and selling telecom handsets to our retail distribution partners to enhance their prepaid telecom card offerings. See Item 1—Business—Description of Revenue Types, "—Critical Accounting Policies and Estimates" and Note 1—Revenue Recognition in the notes to our consolidated financial statements for additional information.

We report the portion of the commissions or consumer purchase fees for the sale of prepaid products to consumers which we share with our retail distribution partners in Partner distribution expense. Our costs of revenues, which we report in Processing and services expense, include costs for our program-managed open loop gift and incentive programs, including card production, customer service and redemption processing; costs to maintain our technology infrastructure, including depreciation and amortization of capitalized internal-use software and related hardware, personnel costs of our technology and operations personnel, data center leases, and data connectivity and activation processing costs; costs for maintaining our retail distribution partner network, including in-store fixture amortization and merchandising and supply chain costs; and other costs related to providing our services to our constituents. We also incur costs, included in Costs of products sold, for the costs of acquiring cards for our Cardpool exchange, for prepaid products and merchandise for certain of our business clients reward programs and for our card production services and telecom handsets. We incur Sales and marketing expenses for our marketing programs at our retail distribution partners, as well as sales and account management for our business clients, retail distribution partners and content providers.

Our US Retail segment derives its revenues from the sale of prepaid cards to consumers in the US through our physical retail distribution partners, online through third-party distributors and through our online Cardpool exchange platform. Our US Retail segment also earns revenues from its card production services and sales of telecom handsets. Our growth in US Retail from 2013 to 2015 reflects increases in store productivity, the addition of new retail distribution partners, the growth of our third-party online sales and the growth in Cardpool.

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Our International Retail segment derives its revenues from the sale of prepaid cards to consumers internationally, primarily in the Americas, the European Union, South Africa and the Asia-Pacific region through our physical retail distribution partners. In certain countries, such as Japan, South Africa and South Korea, we enter into sub-distributor relationships with in-country distributors which take on many of our fulfillment and related services which we generally provide. Our growth internationally reflects our 2013 acquisition of Retailo to expand our presence in Germany, the addition of new retail distribution partners, expansion into new countries, growing consumer acceptance of prepaid products and the addition of new prepaid products, particularly our open loop products. Finally, our acquisition of Didix in 2015 expanded the contents of close-loop gift cards that consumers may redeem, such as leisure themed and promotional gift cards

We have developed our Incentives & Rewards segment primarily from acquisitions. We aligned the businesses that we acquired through our acquisitions of InteliSpend in 2013 and Parago and Incentec in 2014 to drive synergies by restructuring them into Blackhawk Engagement Solutions, which provides software, services and prepaid products to business clients for their loyalty, incentive and reward programs. These services include rebate processing for consumer incentives and software platforms for employee and sales channel rewards. Additionally, we integrated the platform acquired through our acquisition of CardLab into our e-Commerce segment which provides customized incentive cards online to our business clients. Finally, in 2015, we acquired Achievers which provides employee recognition and rewards solutions designed to help companies increase employee engagement primarily in the U.S. and Canada.

Key Operating Statistics

The following table sets forth key operating statistics that directly affect our financial performance for the years ended 2015, 2014 and 2013:

	2015		2014		2013	
	(dollars in thousands, except per share amounts)					
Transaction dollar volume	$16,624,633		$13,539,495		$9,914,403	
Prepaid and processing revenues	$1,528,462		$1,263,271		$990,228	
Prepaid and processing revenues as a % of transaction dollar volume	9.2	%	9.3	%	10.0	%
Partner distribution expense as a % of prepaid and processing revenues	57.2	%	60.3	%	62.5	%
Selling Stores	215,000		198,000		181,700	
Adjusted operating revenues (1)	$934,108		$682,718		$519,598	
Adjusted EBITDA (1)	$193,949		$144,620		$114,168	
Adjusted EBITDA margin (1)	20.8	%	21.2	%	22.0	%
Adjusted net income (1)	$131,617		$96,530		$59,108	
Adjusted diluted earnings per share (1)	$2.33		$1.77		$1.11	

(1) Our Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share 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.

Transaction Dollar Volume—Represents the total dollar amount of value loaded onto any of our prepaid products and rebates processed during the period and gross billings to Achievers' business clients. The dollar amount and volume of card sales and rebates processed directly affect the amount of our revenues and direct costs. We measure and monitor Transaction dollar volume by retail distribution partner channel, content provider program and business client program. The significant growth in Transaction dollar volume over the past two years has been driven by expansion of our distribution network, including the addition of new retail distribution partners and expansion into new countries;

our acquisitions of Achievers and Didix in 2015, Parago and CardLab in 2014 and InteliSpend and Retailo in 2013; and increased consumer use of prepaid products, partly in response to retail distribution partner loyalty and incentive programs, as well as the expansion of product content and services we offer.

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Prepaid and Processing Revenues as a Percentage of Transaction Dollar Volume—Represents the total amount of Commissions and fees and Program, interchange, marketing and other fees, adjusted to exclude marketing revenues from our content providers (that is, total revenues generated by our prepaid products and services) recognized during the period as a percentage of Transaction dollar volume for the same period. Our prepaid product revenues vary among our various product offerings: closed loop gift and prepaid telecom cards generate the highest rates due to the content provider commissions; open loop gift cards and incentive and reward products and services also generate high rates due to program management fees, interchange and other fees included in Program, interchange, marketing and other fees in addition to the consumer and client purchase fees included in Commissions and fees; financial services products generate the lowest rates due to higher average transaction values. This metric helps us understand and manage overall margins from our product offerings.

Partner Distribution Expense as a Percentage of Prepaid and Processing Revenues—Represents partner distribution expense divided by prepaid product revenues (as defined above under Prepaid product revenues as a percentage of transaction dollar volume) during the period. This metric represents the expense recognized for the portion of content provider commissions and purchase or load fees shared with our retail distribution partners (known as distribution partner commissions), as well as other compensation we pay our retail business partners and certain business clients. The other compensation includes certain program development payments to our retail distribution partners, compensation for the distribution of our open loop products and expense recognized for equity awards issued to certain retail distribution partners. We present this expense as a percentage of prepaid and processing revenues to present the overall portion of our revenues from the sale of our prepaid products and services that we share with our retail distribution partners and business clients. The substantial majority of this expense is distribution partner commissions which are based on a percentage of the gross content provider commissions and consumer purchase fees. These percentages are individually negotiated with our retail distribution partners and are independent of the commission rates negotiated between us and our content providers. Partner distribution expense percentage is affected by changes in the proportion of Transaction dollar volume i) among our various products (as we share significantly lower amounts of revenues included in Program, interchange, marketing and other fees generated by our open loop gift, open loop incentive and financial services products), ii) among our various regions (as commission share percentages differ from region to region, particularly those with sub-distributor relationships) and iii) among retail distribution partners (as the commission share percentage is individually negotiated with each retail distribution partner).

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.

We regard Adjusted operating revenues, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share 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, Adjusted net income and Adjusted diluted earnings per share measures are prepared and presented to eliminate the effect of items from EBITDA, Net income and Diluted earnings per share that we do not consider indicative of our core operating performance within the period presented. Adjusted net income and Adjusted diluted earnings per share are adjusted to include certain significant cash tax savings that we consider important for understanding our overall operating results. Adjusted operating revenues are prepared and presented to offset 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, Adjusted net income and Adjusted diluted earnings per share 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, Adjusted net income and Adjusted diluted earnings per share are useful to evaluate our operating performance for the following reasons:

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adjusting our operating revenues for commissions paid to our retail 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;

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- in a business combination, a company records an adjustment to reduce the carrying value of deferred revenue to its fair value and reduces the company's revenues from what it would have recorded otherwise, and as such we do not believe is indicative of our core operating performance;
- 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;
- 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;
- non-cash fair value adjustments to contingent business acquisition liabilities 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; and
- cash tax savings resulting from the step up in tax basis of our assets resulting from the Section 336(e) election due to our Spin-Off and the Safeway Merger and cash tax savings from amortization of goodwill and other intangibles or utilization of net operating loss carryforwards from business acquisitions represent significant cash savings that are useful for understanding our overall operating results.

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Reconciliation of Non-GAAP Measures:

The following tables present a reconciliation of a reconciliation of Prepaid and processing revenues, 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, a reconciliation of Net income to Adjusted net income and a reconciliation of Diluted earnings per share to Adjusted diluted earnings per share, in each case reconciling the most directly comparable GAAP measure to the adjusted measure, for each of the periods indicated.

	2015	2014	2013
	(in thousands, except percentages and per share amounts)		
Prepaid and processing revenues:			
Commissions and fees	$1,259,801	$1,107,782	$904,796
Program, interchange, marketing and other fees	373,532	220,257	141,735
Marketing revenue	(104,871)	(64,768)	(56,303)
Prepaid and processing revenues	$1,528,462	$1,263,271	$990,228
Adjusted operating revenues:			
Total operating revenues	$1,801,078	$1,444,963	$1,138,088
Partner distribution expense	(874,043)	(762,245)	(618,490)
Revenue adjustment from purchase accounting (a)	7,073	—	—
Adjusted operating revenues	$934,108	$682,718	$519,598
Adjusted EBITDA:			
Net income before allocation to non-controlling interests	$45,809	$45,425	$53,686
Interest and other (income) expense, net	1,970	184	(241)
Interest expense	13,171	5,647	—
Income tax expense	26,796	27,490	29,862
Depreciation and amortization	73,349	52,919	28,479
EBITDA	161,095	131,665	111,786
Adjustments to EBITDA:			
Employee stock-based compensation	30,130	15,365	8,524
Distribution partner mark-to-market expense (b)	—	1,312	8,598
Acquisition-related employee compensation expense (c)	3,218	—	—
Revenue adjustment from purchase accounting (a)	7,073	—	—
Change in fair value of contingent consideration (d)	(7,567)	(3,722)	(14,740)
Adjusted EBITDA	$193,949	$144,620	$114,168
Adjusted EBITDA margin:			
Total operating revenues	$1,801,078	$1,444,963	$1,138,088
Operating income	$87,746	$78,746	$83,307
Operating margin	4.9%	5.4%	7.3%
Adjusted operating revenues	$934,108	$682,718	$519,598
Adjusted EBITDA	$193,949	$144,620	$114,168
Adjusted EBITDA margin	20.8%	21.2%	22.0%

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	2015	2014	2013
	(in thousands except per share data)		
Adjusted net income:			
Income before income tax expense	$72,605	$72,915	$83,548
Employee stock-based compensation	30,130	15,365	8,524
Distribution partner mark-to-market expense (b)	—	1,312	8,598
Acquisition-related employee compensation (c)	3,218	—	—
Revenue adjustment from purchase accounting (a)	7,073	—	—
Change in fair value of contingent consideration (d)	(7,567)	(3,722)	(14,740)
Amortization of intangibles (e)	32,366	24,371	6,817
Adjusted income before income tax expense	137,825	110,241	92,747
Income tax expense	26,796	27,490	29,862
Tax expense on adjustments (f)	21,144	13,684	5,526
Adjusted income tax expense before cash tax benefits	47,940	41,174	35,388
Reduction in cash taxes payable resulting from amortization of spin-off tax basis step-up (g)	(29,587)	(22,510)	—
Reduction in cash taxes payable from amortization of acquisition intangibles and utilization of acquired NOLs (h)	(12,345)	(4,831)	(1,331)
Adjusted income tax expense	6,008	13,833	34,057
Adjusted net income before allocation to non-controlling interests	131,817	96,408	58,690
Net loss (income) attributable to non-controlling interests, net of tax	(200)	122	418
Adjusted net income attributable to Blackhawk Network Holdings, Inc.	$131,617	$96,530	$59,108
Adjusted diluted earnings per share:			
Net income attributable to Blackhawk Network Holdings, Inc.	$45,609	$45,547	$54,104
Distributed and undistributed earnings allocated to participating securities	(147)	(226)	(692)
Net income available for common shareholders	$45,462	$45,321	$53,412
Diluted weighted average shares outstanding	56,313	54,309	