FIRST FINANCIAL BANCORP /OH/
Form 5
March 06, 2003

1. Name and Address of Reporting Person
   Posey, Steven C.
   McDonald's Office
   1733 S. Breiel
   Middletown, OH 45044
2. Issuer Name and Ticker or Trading Symbol
   First Financial Bancorp (FFBC)
3. IRS or Social Security Number of Reporting Person (Voluntary)
   289-42-9794
4. Statement for Month/Year
   12/2002
5. If Amendment, Date of Original (Month/Year)
6. Relationship of Reporting Person(s) to Issuer (Check all applicable)
   (X) Director ( ) 10% Owner
   ( ) Officer (give title below) ( ) Other (specify below)
7. Individual or Joint/Group Filing (Check Applicable Line)
   (X) Form filed by One Reporting Person
   ( ) Form filed by More than One Reporting Person

TABLE I -- Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security	2. Trans- action Date (Month/ Day/ Year)	2A.Execu- action Date (Month/ Day/ Year)	3. Trans- action Code	4. Securities Acquired (A) or Disposed of (D)			5. Amo Securi Benefi Owned Follow Yea
				Amount	A/D	Price	
Common Stock							1594
Common Stock							1716
Common Stock							5993
Common Stock	05/01/2002	03/05/2003	J 4				

$10,000 $25,000 $44,897

Less: Employee compensation

(243) (500) (1,250) (1,993)

Fair value adjustments

(93) (510) (603)

Total consideration				
	$9,654	$9,407	$23,240	$42,301

The Company determined that certain portions of the payments are employee compensation, and recorded such amounts paid at closing as *General and administrative* expense. The Company ratably expenses unpaid employee compensation over the service periods. Contingent payments, which range from $0 to $25 million, are payable between one and three years after acquisition, only upon the successful achievement of financial and operational milestones. The Company valued the $10.0 million cash payment due one year after closing and the $25.0 million contingent consideration payments at their acquisition-date fair values, based on the passage of time and likelihood of achieving the relevant milestones (see *Note 2 Fair Value Measurements*) and recorded such amounts in *Other current* *liabilities* or *Other liabilities* in the accompanying consolidated balance sheets. In November 2012, the Company made a cash payment of $9.5 million, representing the $10.0 million due one year from closing, net of employee compensation. Of the cash payment, the Company presented the acquisition-date fair value of $9.4 million as a financing activity in the accompanying consolidated statements of cash flows. The Company allocates the contingent consideration liability between short-term and long-term liabilities on the accompanying consolidated balance sheets, based on management s best estimates of when the relevant financial or operational milestones will be achieved. Through 2013, the Company has paid $5.6 million of the contingent consideration (excluding employee compensation) and is still liable for the remaining $18.1 million in payments (excluding employee compensation) assuming the performance thresholds for the payment are met, though the Company has estimated the fair value of such contingent consideration to be $0.0 million at year-end 2013 (see *Note 2 Fair Value Measurements*).

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The Company allocated the $42.3 million total purchase consideration to tangible net assets, identifiable technology and intangible assets and deferred income taxes based on the estimated fair value of each asset and liability. The Company recorded the excess purchase price over the fair value of the net assets as goodwill and does not expect goodwill to be deductible for tax purposes. Goodwill represents the value of the acquired workforce, time to market and the synergies generated between the Company and Cardpool (see *Note 5 Goodwill and Other Intangible Assets*).

The following table summarizes the purchase price allocation (in thousands):

Tangible assets, net	$ 393
Identifiable technology and intangible assets	1,228
Deferred income taxes, net	189
Goodwill	40,491
Total consideration	$ 42,301

Acquisition-related costs totaled $0.3 million and are included in *Business acquisition expense (benefit) and amortization of acquisition intangibles* expense. Pro forma financial information is not presented as amounts are not material to the Company s consolidated financial statements.

5. Goodwill and Other Intangible Assets

A summary of changes in the Company s goodwill during 2013 and 2012 is as follows (in thousands):

	2013	2012
Balance, beginning of year	$ 42,729	$ 42,729
InteliSpend acquisition	54,175	
Retailo acquisition	36,223	
Foreign currency translation adjustments	394	
Balance, end of year	$ 133,521	$ 42,729

For impairment purposes, the Company has concluded that it consists of a single reporting unit. Goodwill generated as a result of all acquisitions have been evaluated for impairment at the reporting unit level.

Intangible assets as of year-end 2013 are as follows (in thousands):

	Useful Lives in Years	Gross	Accumulated Amortization	Net
Distribution partner relationships	5 15	$ 63,131	$ (5,522)	$ 57,609
Customer relationships, including Back-log	1 14	38,652	(2,560)	36,092
Patents	3 13	5,220	(994)	4,226

Domain names, trade names and other intangibles	3	5	1,406	(644)	762
Total intangible assets			$ 108,409	$ (9,720)	$ 98,689

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Intangible assets as of year-end 2012 are as follows (in thousands):

	Useful Lives in Years	Gross	Accumulated Amortization	Net
Distribution partner relationships	7	$ 2,520	$ (1,939)	$ 581
Patents	3 13	1,310	(569)	741
Domain names and other intangibles	3 5	772	(395)	377
Total intangible assets		$ 4,602	$ (2,903)	$ 1,699

The following table presents a roll-forward of gross intangible assets during 2013 (in thousands):

		Additions				
	Beginning Balance	Business Acquisitions	Issuance of Warrants	Purchases from Third Parties	Foreign Currency Translation Adjustments	Ending Balance
Distribution partner relationships	$ 2,520	$ 37,977	$ 22,183	$	$ 451	$ 63,131
Customer relationships, including Back-log		38,686			(34)	38,652
Patents	1,310	3,310		600		5,220
Domain names, trade names and other intangibles	772	630			4	1,406
Total intangible assets	$ 4,602	$ 80,603	$ 22,183	$ 600	$ 421	$ 108,409

The following table presents total intangible amortization expense according to the income statement line in the accompanying consolidated statements of income for 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Processing and services	$ 92	$	$
Sales and marketing	3,376	361	373
Business acquisition expense (benefit) and amortization of acquisition intangibles	3,349	424	170
Total intangible amortization expense	$ 6,817	$ 785	$ 543

The following table presents future intangible asset amortization as of year-end 2013 according to the income statement line (in thousands):

Fiscal Year	Processing and services	Sales and marketing	Business acquisition expense (benefit) and amortization of acquisition intangibles	Total
2014	$ 120	$ 4,853	$ 14,231	$ 19,204
2015	120	4,631	8,795	13,546
2016	120	4,631	7,386	12,137
2017	120	4,631	6,276	11,027
2018	28	642	5,539	6,209
Thereafter			36,566	36,566
Total amortization	$ 508	$ 19,388	$ 78,793	$ 98,689

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6. Lease Obligations

The Company s principal executive offices are located in Pleasanton, California. Currently, the Company leases approximately 93,000 square feet under a sublease with Safeway, which expires in April 2017, and is scheduled to increase its occupancy in future years. The Company also leases other office, data center and warehouse space within and outside the United States under operating leases expiring at various dates through 2020. Cash or rent abatements received from the lessor are recognized on a straight-line basis as a reduction to rent expense over the lease term.

Several of the Company s operating leases include an option that may extend the lease term beyond the initial commitment period, subject to terms agreed to at lease inception and at rates that approximate fair market value. Some leases also include early termination options, which can be exercised under specific conditions. The Company has no obligations under capital leases.

Future minimum operating lease payments as of year-end 2013 are as follows (in thousands):

Fiscal Year	Operating Leases
2014	$ 6,360
2015	6,073
2016	5,888
2017	3,741
2018	2,505
Thereafter	481
Total minimum lease payments	$ 25,048

Future payments due to Safeway under the sublease totaled approximately $9.4 million at year-end 2013. Rental expense for noncancelable operating leases was $6.6 million, $5.1 million and $4.3 million for 2013, 2012 and 2011, respectively, of which $2.0 million, $1.6 million and $1.4 million related to the Safeway sublease, respectively. Total rent expense and rent expense under the Safeway sublease were net of landlord incentive amortization of $0.1, $0.3 million and $0.3 million for 2013, 2012 and 2011, respectively.

7. Capital Stock

Classes of Common Stock and Shares Authorized and Issued

After the Offering, the Company s common stock consists of Class A common stock and Class B common stock. Authorized Class A common stock consists of 125 million shares of $0.001 par value per share common stock. Class A common stock issued at year-end 2013 was approximately 12,235,000 shares, of which approximately 12,188,000 shares were outstanding. Authorized Class B common stock consists of 125 million shares of $0.001 par value per share common stock. Class B common stock issued at year-end 2013 was approximately 40,678,000 shares, of which approximately 40,252,000 shares were outstanding. The Company also has 10 million shares of authorized preferred stock with no shares outstanding as of December 28, 2013. Share of Class A and Class B common stock are substantially identical expecept that Class A common stock has one vote per share and Class B common stock has ten votes per share.

Reverse Split

On April 1, 2013, the Company effected a 1-for-2 reverse stock split (the Reverse Split) by filing an amendment to its Certificate of Incorporation with the Delaware Secretary of State. As a result of the Reverse Split, the Company also adjusted the share amounts under its employee incentive plans and common stock and warrant agreements with third parties. All common share numbers and per common share data in the

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accompanying consolidated financial statements and related notes have been retroactively adjusted to reflect the Reverse Split and the amendment to the Certificate of Incorporation.

Shares Issued in Conjunction with Initial Public Offering

As discussed in *Note 1*, on April 24, 2013, the Company completed the Offering of 11,500,000 shares of the Company s Class A common stock. In conjunction with the Offering, the Company issued 406,957 shares of Class B common stock as a result of the net exercise of a warrant to purchase 750,000 shares at an exercise price of $10.52 per share. Of the shares issued, 172,431 shares were sold in the Offering and accordingly converted to Class A common stock. The Company also issued 20,423 shares of Class B common stock as a result of the exercise of outstanding options at a weighted average exercise price of $6.78 per share, all of which shares were sold in the Offering and accordingly converted to Class A common stock. The Company received $0.1 million in cash as a result of the exercise of these options.

Dividend

On December 14, 2012, the Company s Board of Directors declared a dividend of $1.369 per common share for stockholders of record as of December 18, 2012. The Company paid $69.9 million for the dividend on December 21, 2012 and will pay the dividend to holders of unvested restricted stock awards if and when the shares vest. Additionally, the Board declared a dividend equivalent of $1.369 per common share for restricted stock units to be paid when the award vests and the shares are issued, and a reduction of the exercise price of $1.369 per share for stock option and stock appreciation rights. Accordingly, the Company may pay up to $0.5 million if all restricted stock awards and restricted stock units vest and paid $0.1 million in 2013. The dividend also resulted in the reduction of the exercise price of all stock options and stock appreciation rights outstanding by an aggregate of $4.6 million in accordance with the anti-dilution provisions of the underlying plans.

8. Equity Incentive Plans and Stock Based Compensation

Stock Compensation Plans

2013 Equity Incentive Plan In March 2013, the Board approved the 2013 Equity Incentive Plan (the 2013 Plan) to permit the issuance of up to 3,000,000 shares of Class A common stock. Under the terms of the 2013 Plan, the Company may award stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock units and other incentive awards to Blackhawk employees, consultants, officers and directors. Additionally, following the Offering, the remaining shares reserved for issuance under the 2006 Restricted Stock and Restricted Stock Unit Plan (2006 Plan) and 2007 Stock Option Plan and Stock Appreciation Right Plan (2007 Plan), including those that later become available for future issuance as the result of the cancellation of awards, are available for issuance under the 2013 Plan as shares of Class A common stock. After the Offering, the Company ceased to grant awards under the 2006 Plan and 2007 Plan and granted awards under the 2013 Plan. As of year-end 2013, 3,431,000 shares are available for grant under this plan, which includes the additional shares from the 2006 Plan and the 2007 Plan.

2013 Employee Stock Purchase Plan In December 2013, the Board approved the 2013 Employee Stock Purchase Plan (the ESPP) to permit the issuance of up to 2,000,000 shares of Class A common stock. Employees, with certain restrictions, may purchase shares at a 15% discount to the lesser of the fair market value of Class A common stock at the beginning and end of the offering period, which is generally six months. Shares available for issuance may increase, each year starting in 2015, up to 1% of the total Class A and Class B common stock outstanding at the date of the adoption of the ESPP. No offering periods were available during 2013 and accordingly the Company recognized no compensation expense nor issued any shares during 2013.

2007 Stock Option and Stock Appreciation Right Plan In February 2007, the Board approved the 2007 Stock Option Plan and Stock Appreciation Right Plan (as amended, the 2007 Plan) to permit the issuance of

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2,500,000 shares of Class B common stock. Under the 2007 Plan, Blackhawk may grant nonqualified options and stock appreciation rights at an exercise price equal to or greater than the fair market value at the grant date. Options and stock appreciation rights generally vest over four or five years. In March 2010 and March 2013, the Company s Board of Directors voted to increase the pool of authorized shares of common stock available for grants under the 2007 Blackhawk Plan by 1,500,000 and 500,000 shares, respectively, to an aggregate of 4,500,000 shares.

2006 Restricted Stock Plans In February 2006, the Board approved the 2006 Restricted Stock and Restricted Stock Unit Plan (as amended, the 2006 Plan) to permit the issuance of up to 1,250,000 shares of Class B common stock. In March 2013, the Board increased the shares available for grant under the 2006 Plan by 250,000 shares to an aggregate of 1,500,000 shares. Under the 2006 Plan, the Company may grant restricted stock awards or units to various Blackhawk employees. Also in February 2006, Safeway s Board of Directors approved a restricted stock program whereby Safeway awards issued and outstanding Blackhawk stock originally owned by Safeway to various Safeway employees (the Safeway Restricted Stock Plan). Shares or units issued under these plans vest over four or five years provided that the employee remains employed by the Company or Safeway. Pursuant to his or her restricted stock agreement, an employee s restricted shares will continue to vest following a spin-off, a change in ownership or control or an initial public offering (as defined in the agreement) of Blackhawk stock.

Stock Option and Stock Appreciation Rights

The Company determines the fair value of its stock option awards and stock appreciation rights using the Black-Scholes option pricing model. The assumptions used to value the option grants for 2013, 2012 and 2011 are as follows:

	2013	**2012**	**2011**
Expected life (in years)	5	5	5
Expected stock volatility	37.5% 48.3%	46.6% 48.2%	43.5% 44.2%
Risk-free interest rate	0.43% 1.64%	0.6% 1.1%	1.4% 2.8%
Expected dividend yield during expected term	0%	0%	0%

The expected term of the awards was determined using the simplified method outlined in Securities and Exchange Commission Staff Accounting Bulletin No. 110, *Share-Based Payment* (SAB 110). Expected stock volatility was determined based upon historical volatility for comparable publicly traded companies over a five year period.

The risk free interest rate was based on the yield curve in effect at the time the options were granted, using U.S. constant maturities over the expected life of the option. Expected dividend yield is based on Blackhawk s dividend policy at the time the options were granted.

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A summary of Blackhawk s stock option and stock appreciation right activity under all Plans for 2013 is as follows:

	Stock Options and Appreciation Rights (in shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, year-end 2012	3,335,150	$ 13.84	4.3	$ 20,875
2013 activity:				
Granted	869,250	$ 20.16		
Canceled	(259,500)	$ 19.76		
Exercised	(444,402)	$ 8.55		
Outstanding, year-end 2013	3,500,498	$ 15.84	4.2	$ 34,367
Exercisable, year-end 2013	1,523,153	$ 12.59	3.0	$ 19,911
Vested and expected to vest, year-end 2013	3,231,002	$ 15.58	4.1	$ 32,921

The weighted average grant-date fair values of stock options and stock appreciation rights granted during 2013, 2012 and 2011 were $8.00, $8.14 and $8.44 per share, respectively. The Company recognized stock-based compensation expense for options and appreciation rights of $5.9 million, $3.4 million and $2.3 million, in 2013, 2012 and 2011, respectively. Stock-based compensation is reported in the operating expense line item corresponding to the applicable employee compensation expense. As of year-end 2013, the unamortized stock-based expense for options and appreciation rights totaled $9.6 million and is expected to be recognized over the remaining weighted average period of 2.6 years. The total intrinsic value of options exercised and options surrendered upon cashless exercise totaled $7.2 million, $0.8 million and $1.5 million during 2013, 2012 and 2011, respectively.

Restricted Stock and Restricted Stock Units

Under both Blackhawk s and Safeway s Plans, the Company recognizes compensation expense for the restricted stock and restricted stock unit awards ratably over the vesting period based on the fair value of the stock at the grant date. Restricted stock compensation expense under all plans totaled $2.5 million, $1.6 million and $0.7 million in 2013, 2012 and 2011, respectively, and is reported in the operating expense line item corresponding to the applicable employee compensation expense. The fair values of restricted stock awards that vested during 2013, 2012 and 2011 totaled $2.6 million, $1.5 million and $1.8 million, respectively. As of year-end 2013, unrecognized compensation expense related to nonvested restricted stock and restricted stock unit awards totaled $6.7 million, and is expected to be recognized over the weighted average period of 3.0 years.

The changes in awards under the Blackhawk and Safeway s Plans for 2013 are as follows:

	Blackhawk Restricted Stock Share and Restricted Stock Unit Awards	Safeway Restricted Stock Plan Share Awards	Total Restricted Stock Share and Restricted Stock Unit Awards	Weighted Average Grant-Date Fair Value
Nonvested, year-end 2012	311,170	41,700	352,870	$ 18.34
2013 activity:				
Granted	374,150		374,150	$ 21.18
Vested	(98,453)	(21,700)	(120,153)	$ 16.27
Forfeited	(70,100)		(70,100)	$ 19.53
Nonvested, year-end 2013	516,767	20,000	536,767	$ 20.62

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Performance Stock Units

The Company has granted performance stock unit awards where the number of shares issued is dependent upon both employee service and the performance of a component of the Company. The Company recognizes compensation expense for performance stock unit awards ratably over the vesting period based on the fair value of the stock at the grant date and based on the number of shares issuable for which, in the Company s assessment at the grant date, it is probable that the performance condition will be achieved. Performance stock unit compensation expense under totaled $0.1 million in 2013 with no expense in 2012 and 2011, and is reported in the operating expense line item corresponding to the applicable employee compensation expense. No performance stock units vested during 2013, 2012 and 2011. As of year-end 2013, unrecognized compensation expense related to nonvested performance stock unit awards totaled $2.3 million, and is expected to be recognized over the weighted average period of 2.7 years.

The changes in performance stock unit awards for 2013 are as follows:

	Performance Stock Unit Awards	Weighted Average Grant-Date Fair Value
Nonvested, year-end 2012		$
2013 activity:		
Granted	105,600	$ 22.79
Vested		$
Forfeited		$
Nonvested, year-end 2013	105,600	$ 22.79

Stock Compensation in Safeway Stock

Safeway has historically granted stock options and restricted stock to certain Blackhawk employees. Safeway granted no stock awards during 2013 and 2012, and the grants during 2011 were immaterial. The Company recognized $0.2 million, $0.2 million and $0.7 million in 2013, 2012 and 2011 related to equity awards in Safeway stock. As of year-end 2013, the unamortized stock compensation expense was immaterial.

Total Employee Stock-Based Compensation

The following table presents total stock-based compensation expense for both Blackhawk and Safeway stock option and restricted stock plans according to the income statement line in the accompanying consolidated statements of income for fiscal years 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Processing and services	$ 1,222	$ 618	$ 246
Sales and marketing	3,647	2,013	1,319
Cost of products sold	17	31	

General and administrative	3,827	2,548	2,156
Total stock-based compensation expense	$ 8,713	$ 5,210	$ 3,721

Safeway charges the Company for the compensation expense related to the Safeway stock awards granted to Blackhawk employees and periodically cash settles these amounts with Safeway through the intercompany billing process. As a result, this stock compensation charge is captured in the working capital changes in the accompanying consolidated statements of cash flows, rather than as a non-cash reconciliation adjustment to net income.

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9. Equity Awards Issued to Distribution Partners

Common Stock and Warrants Issued to Distribution Partner

In August 2007, the Company entered into a seven year prepaid card program agreement (the Agreement) with a distribution partner that includes both (i) distribution of Blackhawk s third-party prepaid cards into the partner s stores for retail sale, as well as (ii) distribution of certain of the partner s prepaid cards into the stores of the Company s distribution partners for retail sale. In conjunction with the Agreement, the Company and the partner also entered into a stock purchase agreement and related agreements (Stock Agreement). Under the terms of the Stock Agreement, the partner purchased 1,036,585 shares of the Company s Class B common stock at a price of $8.00 per share. The partner had a put right in the event that the Company has not consummated an initial public offering, a spin-off or a change in control by a certain date. The purchase price for shares subject to the put right was initially the greater of (i) the then-current fair market value of the Blackhawk stock and (ii) the original purchase price of $8.00 per share plus interest thereon, compounded semiannually, at 8% per annum.

The Stock Agreement also allows the partner, as an anti-dilutive measure, to purchase additional shares from the Company at the then-current fair market value up to an amount equal to 2% of the aggregate number of Company shares issued in the triggering event. From September 2009 through December 2012, the partner exercised this purchase right to acquire an additional 33,082 shares at prices that range from $10.52 per share to $18.90 per share and a warrant to acquire up to 22,449 shares of common stock at $16.30 per share.

The put and call rights were scheduled to expire upon the earlier of August 16, 2010 or an initial public offering, a spin-off or a transaction resulting in a change of control of the Company, but were extended to March 31, 2011. In March 2011, these provisions were amended (the Amendment) to extend the expiration date to the earlier of June 1, 2014 or an initial public offering, a spin-off, or a transaction resulting in a change of control of the Company (as defined in the Stock Agreement). The Amendment also fixed the put and call purchase price at $18.90 per share for all shares issued prior to the Amendment and the purchase price for all shares issued subsequent to the Amendment.

At the time of issuance in August 2007, the fair value of the overall equity instrument (stock and associated rights) was determined using the Black-Scholes option pricing model. The excess fair value over the purchase price was recorded as an intangible distribution partner relationship asset and is amortized to expense on a straight-line basis over the seven-year life of the Agreement. At each reporting date through the Amendment date in March 2011, the stock portion of the overall equity instrument was revalued as a liability award using the Black-Scholes option pricing model due to the fair value put right. After the Amendment, which fixed the Company s call right at $18.90 per share, the Company concluded that a performance commitment date will not be achieved until the call provision terminates due to the fixed price nature of the Company s call right and the distribution partner s continuing performance requirements under the Agreement. Consequently, the amended portion of the instrument is remeasured to fair value at each reporting period and recorded to equity (as a result of modifying the fair value put right to a fixed-price put right) based on current market conditions using a Black-Scholes option pricing model. This resulting fair value was amortized to *Sales and marketing* expense over the 38 month life of the Amendment. As a result of the Offering, the put and call rights were terminated, which eliminated the performance conditions of the Amendment. Accordingly, the Company expensed the remaining unamortized fair value of $3.5 million, determined as the excess of the Offering price of $23.00 per share over the put price of $18.90 per share, less amounts previously expensed, with an offsetting increase to *Additional paid-in capital*. Further, the Company reclassified *Warrant and common stock liabilities* related to these put rights of $20.2 million to *Additional paid-in capital*. The Company recognized expense related to this equity instrument of $3.1 million, $0.5 million and $0.8 million in 2013, 2012 and 2011, respectively in *Sales and marketing* expense.

The Stock Agreement and Amendment required that all cash received for the original and subsequent purchases of Blackhawk stock be placed in an escrow account until the put option is exercised or expires. The cash in escrow was classified as *Restricted cash* in the Company s consolidated balance sheets. The Offering terminated the restriction on the cash, and the Company reclassified *Restricted cash* of $9.0 million to *Cash and cash equivalents*.

In April 2013, in conjunction with extending the marketing and distribution services agreement with this distribution partner, the Company issued a fully vested warrant to purchase 1,500,000 shares of Class A common stock at an exercise price of $20.00 per share with no service or performance conditions. As a result of the Offering, the warrant became exercisable on October 16, 2013, which was 181 days after the date on which the Company s registration statement filed in connection the Offering was declared effective by the SEC. The Company measured the fair value of the warrant using a Black-Scholes option pricing model as of the date of the Offering as $14.9 million. The Company recorded the full value of the warrant in *Additional paid-in capital* with an offset to *Intangible assets* and amortizes the assets over the term of the related marketing and distribution services agreements of approximately five years to *Sales and marketing* expense. Additionally, on April 30, 2013, pursuant to the distribution partner s anti-dilutive rights, the Company issued a warrant to purchase 15,306 shares at an exercise price of $20.00 per share. The Company recorded the fair value of the warrant of $0.1 million in *Additional paid-in capital* with an offset to *Sales and marketing* expense.

Warrants Issued to Distribution Partners

In July 2009, the Company signed a marketing and distribution services agreement with another distribution partner and issued a warrant to the partner to purchase 750,000 shares of Class B common stock at $10.52 per share. The term of both the services agreement and the warrant is 10 years.

The warrant was fully vested and exercisable upon signing the agreement. However, the partner vested into a put right covering any shares to be issued under the warrant over five years, with 25% vesting on the second anniversary of the warrant agreement, and 25% vesting on each anniversary thereafter. The put right allowed the partner to put vested shares to the Company at the then-current fair market value. The warrant and put right terminated upon the Offering.

Due to the vesting provisions of the put right, the fair value of the warrant was remeasured at each reporting period based on a Black-Scholes option pricing model and expensed to *Sales and marketing* with an offset to *Warrant and common stock liabilities* over the 5-year vesting period. As discussed in Note 7, in conjunction with the Offering, the partner net exercised the warrant and the Company expensed the remaining unamortized fair value of $2.5 million, determined as the excess of the Offering price of $23.00 per share over the exercise price of the warrant, less amounts previously expensed, with an offsetting increase to *Additional paid-in capital*. Further, the Company reclassified *Warrant and common stock liabilities* related to the put right of $6.9 million to *Additional paid-in capital*. The Company recognized expense of $2.9 million, $1.7 million and $1.9 million in 2013, 2012 and 2011, respectively.

In November 2010, in conjunction with signing a marketing and distribution services agreement with a third distribution partner, the Company entered into a warrant agreement whereby the Company would issue the distribution partner a warrant to purchase up to 1.1 million shares of Class B common stock at $16.30 per share upon the achievement of certain performance milestones. The partner achieved such milestones in December 2010, and the Company subsequently issued the warrant. The warrant was vested as to 181,500 shares upon issuance and vested as to 288,494 shares in December 2013 as the result of the achievement of certain milestones. The warrant may vest as to additional shares if and when certain milestones are achieved on or prior to December 31, 2014. The warrant will become exercisable on April 1, 2014. The warrant expires on the earlier of December 31, 2015, or the termination of the services agreement, which has a term of seven years. The warrant contains an accelerated vesting provision if the Company experiences a change in control event prior to April 1, 2014. The instrument was also subject to call and put provisions, which terminated as a result of the Offering.

The Company concluded that a performance commitment date will not be achieved until the warrant becomes exercisable on April 1, 2014, due to the underlying performance requirements associated with the marketing and distribution services agreement. Consequently, the fair value of the warrant is remeasured at each reporting period based on current market conditions using the Black-Scholes option pricing model and is amortized to *Sales and marketing* expense, with a corresponding increase to *Additional paid-in capital* until performance is completed. The company recognized expense of $2.4 million, $0.2 million and $0.5 million for 2013, 2012 and 2011, respectively. As of year-end 2013, the unamortized fair value of the warrant was $0.3 million.

In April 2013, in conjunction with extending marketing and distribution services agreements with a fourth distribution partner, the Company issued a fully vested warrant to purchase 750,000 shares of Class A common stock at an exercise price of $20.00 per share with no service or performance conditions. As a result of the Offering, these warrants became exercisable on October 16, 2013, which was 181 days after the date on which the Company s registration statement filed in connection the Offering was declared effective by the SEC. The Company measured the fair value of the warrants using a Black-Scholes option pricing model as of the date of the Offering as $7.3 million, recorded the full value of the warrant in *Additional paid-in capital* with an offset to *Intangible assets* and amortizes the assets over the term of the related marketing and distribution services agreements of approximately five years to *Sales and marketing* expense.

Total Distribution Partner Stock-Based Compensation

The following table presents the components of distribution partner stock-based compensation expense included in *Sales and marketing* expense (in thousands):

	2013	2012	2011
Mark-to-market expense	$ 8,598	$ 2,432	$ 3,260
Amortization of intangible assets	3,376	360	360
Total distribution partner stock-based compensation expense	$ 11,974	$ 2,792	$ 3,620

10. Income Taxes

Prior to the Offering, the Company was included in Safeway s consolidated group for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups for state and local income tax purposes. The Company is also party to a federal and state and local tax sharing agreement with Safeway (TSA). Under the TSA, the amount of federal tax liability paid by Blackhawk is based on the approximate liability that would be incurred if Blackhawk filed its own consolidated tax return separate from the Safeway consolidated group. Through 2012, the state tax liability paid by Blackhawk is partly based on Blackhawk s share of taxable income and the total actual tax liability of the Safeway consolidated group, which will generally be less than the state income tax liability that Blackhawk would incur if it filed its own consolidated state tax returns. Effective December 30, 2012, the Company and Safeway amended and restated their tax sharing agreement (Amended TSA). Under the Amended TSA, the state tax liability paid by Blackhawk is based on the incremental liability paid by Safeway resulting from including Blackhawk in its consolidated tax group, which will generally be greater than the state income tax liability that Blackhawk would incur if it filed its own consolidated tax returns. The Company does not believe that the terms of the Amended TSA will materially affect the Company s consolidated financial statements.

Prior to the Offering, the Company s income tax expense and related current and deferred income taxes are calculated on a hypothetical stand-alone income tax return basis. After the Offering, income tax expense and related current and deferred income taxes are calculated on a stand-alone basis except for a hypothetical stand-alone income tax return for certain states where the Company continues to be included in Safeway s consolidated tax return. Certain deferred tax assets and liabilities will never be realized if Blackhawk were to become a tax filer separate from the Safeway consolidated group where the Company continues to be included in certain of

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Safeway s consolidated state and local tax returns. Differences arise as a result of computing the Company s federal and state tax payments pursuant to the TSA or Amended TSA versus the liability that results from the stand-alone provision calculation. These differences, to the extent the Company deems these amounts to be permanent, are recorded in equity as *Additional paid-in capital* in the accompanying consolidated statements of redeemable equity and stockholders equity and consolidated balance sheets.

The components of income before income tax expense for 2013, 2012 and 2011 are as follows (in thousands):

	2013	2012	2011
Domestic	$ 67,368	$ 67,451	$ 52,859
Foreign	16,180	10,640	8,794
Income before income tax expense	$ 83,548	$ 78,091	$ 61,653

The components of income tax expense for the years ended 2013, 2012 and 2011 are as follows (in thousands):

	2013	2012	2011
Current:			
Federal	$ 20,669	$ 25,454	$ 14,493
State	4,068	4,054	3,414
Foreign	6,178	5,376	3,594
Total current	30,915	34,884	21,501
Deferred:			
Federal	(360)	(3,467)	3,862
State	(275)	(616)	454
Foreign	(418)	(602)	(663)
Total deferred	(1,053)	(4,685)	3,653
Income tax expense	$ 29,862	$ 30,199	$ 25,154

Reconciliation of the provision for income taxes at the U.S. federal statutory income tax rate to the Company s income taxes for 2013, 2012 and 2011 is as follows (dollars in thousands):

	2013		2012		2011	
	Amount	Rate	Amount	Rate	Amount	Rate
Income tax expense at federal statutory rate	$ 29,241	35.0%	$ 27,331	35.0%	$ 21,579	35.0%
State income taxes net of federal benefit	2,787	3.3%	2,329	3.0%	2,445	4.0%
Foreign rate differential	96	0.1%	1,050	1.4%	(159)	(0.3%)
Mark to market on redeemable common stock	1,536	1.8%	336	0.4%	453	0.7%

Change in fair value of contingent consideration	(6,097)	(7.3%)	(1,160)	(1.5%)		
Compensation subject to certain limits	2,143	2.6%				
Other	156	0.2%	313	0.4%	836	1.4%
Total income tax expense / effective tax rate	$ 29,862	35.7%	$ 30,199	38.7%	$ 25,154	40.8%

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The components of the Company s deferred tax assets (liabilities) at year-end 2013 and 2012 were as follows (in thousands):

	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 9,752	$ 3,181
Accrued expenses	6,888	7,717
Non-deductible reserves	6,508	4,879
Deferred revenue	7,428	5,856
Stock-based compensation	4,963	5,646
Content provider fee		8,125
Other	1,899	1,130
Deferred tax assets	37,438	36,534
Valuation allowance	(1,485)	(1,056)
Total deferred tax assets	35,953	35,478
Deferred tax liabilities:		
Depreciation and amortization	(39,569)	(23,308)
Total deferred tax liabilities	(39,569)	(23,308)
Net deferred tax assets (liabilities)	(3,616)	12,170
Balance sheet presentation:		
Current deferred tax assets	20,145	10,499
Long-term deferred tax assets	727	1,937
Long-term deferred tax liabilities	(24,488)	(266)
Net deferred tax assets (liabilities)	$ (3,616)	$ 12,170

In February 2013, the Company received a ruling from the Internal Revenue Service (IRS) that permits the current deduction of a content provider fee that was previously amortized for the Company s tax provision. As a result, the Company reclassified $8.1 million of deferred tax assets to income tax receivable from Parent and reduced its unrecognized tax benefit position by $4.4 million. The Company will collect the resulting net receivable of $3.7 million from Safeway when Safeway settles such amounts with the IRS.

As a result of the Offering, certain compensation for certain executives became subject to certain IRS limitations. The Company is not able to avail itself to one-year transition rules related to stock-based awards granted prior to the Offering since the Company is the subsidiary of Safeway, an already publicly-traded company. As a result, the Company wrote-off deferred tax assets related to stock-based compensation for certain executives and may not realize a tax benefit depending upon the timing and the amount of the possible deduction.

At year-end 2013, the Company had net operating loss (NOL) carryforwards for federal income tax purposes of approximately $4.5 million which expire at various dates from 2022 to 2024. These are NOL carryforwards from the acquisition of EWI in 2006, the utilization of which are subject to limitations pursuant to Internal Revenue Code Section 382.

The Company has California state NOL carryforwards of approximately $1.1 million, which begin to expire in 2031, and the Company has additional state NOL carryforwards related to the acquisition of EWI of approximately $8.2 million, against which the Company has recorded a full valuation allowance. These NOL carryforwards expire at various dates from 2014 to 2016.

Additionally, the Company has NOL carryforwards in certain foreign jurisdictions of approximately $22.1 million, which do not expire.

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The Company operates under tax holiday in El Salvador, which is effective immediately. The impact of such holiday was immaterial for 2013.

At year-end 2013, certain undistributed earnings of the Company s foreign operations totaling $41.4 million are considered permanently reinvested. No deferred tax liability has been recognized for the remittance of such earnings to the United States, since the Company s intention is to utilize those earnings in the foreign operations for an indefinite period of time, or to repatriate such earnings only when tax efficient to do so. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable; however, unrecognized foreign tax credits may be available to reduce some portion of the U.S. income tax liability.

The following table presents the aggregate changes in the balance of gross unrecognized tax benefit (in thousands):

	2013	2012	2011
Gross unrecognized tax benefits, beginning balance	$ 7,112	$ 2,743	$ 3,344
Increase for tax position from prior fiscal years	314	1,956	
Decrease for tax position from prior fiscal years	(4,369)		(601)
Increases for tax positions taken during current fiscal year		2,413	
Gross unrecognized tax benefits, ending balance	$ 3,057	$ 7,112	$ 2,743

As of year-end 2013 and 2012, the balance of unrecognized tax benefits included tax positions of $2.1 million and $1.8 million, respectively, which would reduce the Company s effective income tax rate if recognized in future periods. The Company accrues interest and penalties related to unrecognized tax benefits as income tax expense. Income tax expense (benefit) included interest and penalties on unrecognized tax benefits of $0.6 million, $0.1 million and ($0.4) million for 2013, 2012 and 2011, respectively. Accrued interest and penalties amounted to $1.3 million and $0.6 million at year-end 2013 and 2012, respectively.

The Company does not anticipate that unrecognized tax benefits will significantly change in the next 12 months.

Prior to the Offering, the Company and its subsidiaries filed income tax returns as part of Safeway s consolidated group with federal and certain state and local tax authorities within the United States and filed its own income tax returns with certain state and local tax authorities. After the Offering, the Company and its subsidiaries will continue to file income tax returns as part of Safeway s consolidated group for certain state and local tax authorities and will file its own income tax returns with federal and certain state and local tax authorities within the United States. Both prior to and after the Offering, the Company s foreign affiliates operate and file income tax returns in various foreign jurisdictions. The IRS examination of Safeway s federal income tax returns for 2006 is complete and with limited exceptions the Company is no longer subject to federal income tax examinations for fiscal years before 2007, and is no longer subject to state and local income tax examinations for fiscal years before 2006.

11. Commitments and Contingencies

Legal Matters

On October 19, 2009 e2Interactive and Interactive Communications International, Inc. (collectively, InComm) filed a lawsuit against the Company in the United States District Court for the Western District of Wisconsin (the District

Court), alleging that the Company infringed a recently issued patent (the Patent). InComm claimed the rights to methods, systems and computer programs for processing a store-value card transaction request in a card data management system. InComm sought injunctive relief, damages and attorneys fees. On December 2, 2009, the Company answered InComm s complaint and filed counterclaims asserting, among other things, that the Patent was invalid and that InComm engaged in inequitable conduct before the U.S. Patent and Trademark Office in securing the Patent. The Company sought a declaration of noninfringement, invalidity and unenforceability of the Patent. On February 28, 2012, the jury found that the Company had infringed the Patent and awarded damages of $3.5 million plus interest to InComm for such infringement. On February 21, 2013, the District Court awarded InComm costs, such that the total damages outstanding at year end 2013 totaled $3.7 million. The Company appealed to the United States Court of Appeals for the Federal Circuit (the Federal Circuit). On March 12, 2014, the Federal Circuit reversed the judgment of infringement on the grounds that the asserted claims in the Patent were limited to require use of the terminal identifier for determining if a terminal is authorized to make the requested transaction and that the Company did not make such use of a terminal identifier. InComm has 30 days to petition the Federal Circuit for rehearing or rehearing *en banc* seeking to vacate the reversal. Due to this and other uncertainties concerning Incomm s intentions with respect to the reversal, the Company determined that a loss was still probable as of December 28, 2013.

There are various claims and lawsuits arising in the normal course of business pending against the Company, some of which seek damages and other relief which, if granted, may require future cash expenditures. Management does not believe that it is probable that the resolution of these matters would result in any liability that would materially affect the Company s results of operations or financial condition.

Commitments

From time to time, the Company enters into contracts containing provisions that require it to indemnify various parties against certain potential claims from third parties. Under contracts with certain issuing banks, the Company is responsible to the banks for any unrecovered overdrafts on cardholders accounts. Under contracts with certain content and distribution partners, the Company is responsible for potential losses resulting from certain claims from third parties. Because the indemnity amounts associated with these agreements are not explicitly stated, the maximum amount of the obligation cannot be reasonably estimated. Historically, the Company has paid limited amounts pursuant to these indemnification provisions.

Contingencies

The Company is subject to audit related to various indirect taxes, including, but not limited to, sales and use taxes, value-added tax, and goods and services tax, in various foreign and state jurisdictions. The Company evaluates its exposure related to these audits and potential audits and does not believe that it is probable that any audit would hold the Company liable for any material amounts due.

12. Related-Party Transactions

Safeway

Related Party Agreements

The related-party relationship with Safeway is governed by various agreements, as amended, including 1) the Gift Card Alliance Partners Program Agreements covering the distribution of the cards provided by Blackhawk; 2) the Gift Card Sales and Management Agreements, a Gift Card Transfer and Management Agreement and a Gift Card Agreement Bulk and Online Sales related to Blackhawk s management of Safeway s gift card program; 3) the Contribution Agreement that established the value of initial equity contributed by Safeway; 4) various unsecured promissory notes; 5) the Tax Sharing Agreement; 6) the Administrative Services Agreements; 7) the Sublease Agreement; and 8) the Card Production and Card Services Agreements.

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Intercompany Revenues and Expenses

The following table presents the amounts of Operating revenues and Other income (expense) from (to) Safeway and Operating expenses to (from) Safeway included in the accompanying consolidated statements of operations (in thousands):

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011
OPERATING REVENUES:			
Commissions and fees	$ 2,419	$ 2,711	$ 2,436
Program, interchange, marketing and other fees	2,407	2,436	2,498
Product sales	4,728	5,329	3,585
Total operating revenues	9,554	10,476	8,519
OPERATING EXPENSES:			
Distribution partner commissions	58,145	46,402	42,175
Processing and services to (from)	(2,965)	(992)	669
Sales and marketing	136	414	1,447
Costs of products sold			
General and administrative	2,735	2,492	3,625
Total operating expenses	58,051	48,316	47,916
OTHER INCOME (EXPENSE):			
Interest income and other income, net	184	780	445
Interest expense		(10)	(4)

Distribution Commissions and Revenue

Safeway is a significant distribution partner of the Company. The Company s distribution commission expense related to Safeway totaled $58.1 million, $46.4 million and $42.2 million for 2013, 2012 and 2011, respectively. Through 2012, Blackhawk s distribution agreement with Safeway provided for a greater share of partner distribution commissions and fees to be retained by Blackhawk than other comparable distribution partner agreements reflecting additional services that the Company provided to Safeway compared to other distribution partners. Other terms under the agreement with Safeway were substantially similar to agreements with unrelated distribution partners. Effective December 30, 2012, the Company and Safeway amended their distribution agreements to, among other things, extend the term to December 31, 2017 and to increase the amount of *Distribution partner commissions* expense paid to Safeway.

Safeway reimburses the Company for certain distribution and merchandising costs, recorded as a reduction of *Processing and services* expense, which totaled $3.0 million, $1.0 million and $1.1 million for 2013, 2012 and 2011, respectively. The Company also earns revenue from the sale of telecom handsets to Safeway as a distribution partner, which totaled $3.8 million, $4.0 million and $3.1 million for 2013, 2012 and 2011, respectively.

The Company earns revenue from Safeway as a content provider from the program management, including card production, balance tracking, redemption processing, of Safeway s in-store gift card program and from the bulk sale of Safeway gift cards. Revenues earned under these arrangements totaled $5.7 million, $6.5 million and $5.4 million in

2013, 2012 and 2011, respectively.

General Corporate Expenses

Safeway provides certain corporate services to Blackhawk. Through 2011, these expenses primarily related to employee benefits and services provided for tax, information technology, product support, insurance, legal,

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accounting and treasury management. In 2012 and 2013, these expenses primarily relate to tax services. Safeway charges Blackhawk for actual or estimated costs to provide these services. The total cost of services rendered by Safeway to Blackhawk totaled $0.6 million, $1.1 million and $3.7 million in 2013, 2012 and 2011, respectively, and is included in *Operating expenses*.

Management of both companies believes that the allocation methodology is reasonable and considers the charges to be a reasonable reflection of the cost of services provided. These charges may not, however, reflect the actual expense that the Company would have incurred as an independent company for the periods presented

Overnight Cash Advances to Parent

On a daily basis, pursuant to intercompany interest-bearing notes, Safeway may borrow available excess cash from the Company. Average daily borrowings by Safeway for this purpose were $42.9 million and $146.3 million for 2013 and 2012, respectively. Such amounts are presented as *Overnight cash advances to Parent* in the accompanying consolidated balance sheets. In January 2013, these notes were extended through February 2016.

Interest is calculated based on average overnight commercial paper rates, accrued monthly and paid annually. The average interest rates for 2013, 2012, and 2011 were 0.5%, 0.5% and 0.5%, respectively. Interest income under this note for 2013, 2012 and 2011 totaled $0.2 million, $0.8 million and $0.4 million, respectively.

Notes Payable to Parent

The Company maintains a line of credit from Safeway for working capital pursuant to an unsecured demand promissory note, which was $25.0 million at year-end 2012 and was increased to $175.0 million during 2013. As of both year-end 2013 and 2012, $0.0 million was outstanding, and the largest amounts outstanding totaled $165.0 million in 2013. The line of credit terminates in February 2016.

Interest expense was immaterial for 2013, 2012 and 2011.

Tax Sharing Agreement

The Company and Safeway are party to a tax sharing agreement (TSA) (*See Note 10 Income Taxes*). Amounts due to Safeway are included in *Other current liabilities* or *Other liabilities* in the accompanying consolidated balance sheets, depending upon the Company s assessment of when it will settle such amounts with Safeway. Amounts due from Safeway are included in *Prepaid expenses and other current assets* or *Other assets* in the accompanying consolidated balance sheets, depending upon the Company s assessment of when Safeway will settle such amounts with the Company.

The Company classifies payments between the Company and Safeway under the TSA as income taxes within the operating cash flows section in the accompanying consolidated statements of cash flows and discloses such payments as income taxes paid in the related supplemental disclosures of cash flow information. Payments to (refunds from) Safeway totaled $16.3 million, $22.5 million and ($1.5) million for 2013, 2012 and 2011, respectively.

Sublease Agreement

The Company leases its corporate office from Safeway under a sublease that expires in April 2017. See *Note 6 Lease Obligations*.

Guarantees

Safeway has, in limited instances, provided guarantees to certain content providers with respect to obligations of the Company relating to distribution partner card sales. These guarantees have stated maximum

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amounts and expiration dates ranging from 2014 to 2018. These guarantees have a variety of termination provisions, some of which include (i) the initial public offering of the Company s common stock, (ii) Safeway ceasing to own a specified percentage of the Company s issued and outstanding voting stock, and (iii) issuance of a replacement letter of credit with a financial institution to cover such obligations.

Employee Retirement Plan

Through 2011, substantially all Blackhawk employees were eligible to participate in a defined benefit pension plan established and managed by Safeway. Costs for Blackhawk employees participating in this plan were based upon an allocation of estimated service costs which totaled approximately $1.1 million in 2011, respectively, and are included in the amounts paid by Blackhawk to Safeway under the general corporate expenses agreements discussed above. Effective January 1, 2012, the Company ceased to make contributions on behalf of its employees to Safeway s retirement plan and accordingly recognized no expense in 2012 and 2013. Obligations related to vested participants will remain the responsibility of Safeway.

Stock Options and Restricted Stock

Certain Blackhawk employees participate in the stock option and restricted stock plans of Safeway. Additionally, under a Safeway restricted stock program, Safeway awards Blackhawk stock that it owns to various Safeway employees. The Company recognizes compensation expense for the Safeway stock options and restricted stock granted to Blackhawk employees and Blackhawk restricted stock granted by Safeway to Safeway s employees (see *Note 8 Equity Incentive Plans and Stock Based Compensation)* The Company cash settles expenses with Safeway each period through a cash settlement included as an intercompany payable in *Accounts payable and accrued operating expenses*.

13. Segment Reporting and Enterprise-Wide Disclosures

Segments

The Company s Chief Executive Officer (CEO) is considered its chief operating decision maker. The CEO operates the Company as a single operating segment as the Company s revenue generating activities are significantly dependent upon the underlying technology infrastructure which supports all prepaid card types and services and geographical regions.

Products

For product reporting, the Company groups its products according to the following categories: *Prepaid cards* and *Product sales*. The accompanying consolidated statements of income reflect *Prepaid cards* as *Commissions and fees* and *Program, interchange, marketing and other fees* (see *Note 1 Revenue Recognition and Presentation*). The following table summarizes these revenues for 2013, 2012 and 2011 (dollars in thousands):

	2013		2012		2011	
	Revenue	Percent of Total Revenue	Revenue	Percent of Total Revenue	Revenue	Percent of Total Revenue

Prepaid cards	$ 1,046,531	92.0%	$ 889,984	92.8%	$ 727,184	96.7%
Product sales	91,557	8.0%	69,085	7.2%	24,622	3.3%
Total	$ 1,138,088	100.0%	$ 959,069	100.0%	$ 751,806	100.0%

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Geography

The following table presents revenue by geographic area generally based on the location of the card activation or value load for 2013, 2012 and 2011 (dollars in thousands):

	2013		2012		2011	
	Revenue	Percent of Total Revenue	Revenue	Percent of Total Revenue	Revenue	Percent of Total Revenue
United States	$ 925,712	81.3%	$ 815,942	85.1%	$ 643,818	85.6%
International	212,376	18.7%	143,127	14.9%	107,988	14.4%
Total	$ 1,138,088	100.0%	$ 959,069	100.0%	$ 751,806	100.0%

The following table presents the Company s long-lived *Property, equipment and technology, net* by geographic area based on the locations of the assets as of year-end 2013, 2012 and 2011 (dollars in thousands):

	2013		2012		2011	
	Long-Lived Assets	Percent of Total Long-Lived Assets	Long-Lived Assets	Percent of Total Long-Lived Assets	Long-Lived Assets	Percent of Total Long-Lived Assets
United States	$ 77,389	97.1%	$ 66,474	99.2%	$ 61,865	99.2%
International	2,274	2.9%	524	0.8%	503	0.8%
Total	$ 79,663	100.0%	$ 66,998	100.0%	$ 62,368	100.0%

Major Customers and Significant Concentrations

Revenue generated from card activations at and other product sales to Safeway locations accounted for approximately 11%, 12% and 14% of total operating revenues, for 2013, 2012 and 2011, respectively. Outstanding receivables from Safeway totaled $97.2 million and $79.4 million at year-end 2013 and 2012, respectively. Additionally, revenues from card activations at and product sales to another distribution partner accounted for approximately 11%, 13% and 14% of total operating revenues for 2013, 2012 and 2011, respectively; and revenues from card activations at and product sales to another distribution partner accounted for approximately 15%, 15% and 13% of total operating revenues for 2013, 2012 and 2011, respectively.

One content provider accounted for 15%, 12% and 10% of the Company s total operating revenues for 2013, 2012 and 2011, respectively. Outstanding receivables from one of the Company s issuing banks for its Visa gift and GPR cards were $47.9 million and $44.7 million at year-end 2013 and 2012, respectively.

14. Earnings Per Share

The Company computes basic earnings per share (EPS) by dividing net income available to common stockholders by the weighted average common shares outstanding during the period and computes diluted EPS by dividing earnings available to common stockholders by the weighted average shares outstanding during the period and the impact of securities that if exercised, would have a dilutive effect on EPS.

The Company computes EPS under the two-class method, which is a method of computing EPS when an entity has both common stock and participating securities. The Company considers nonvested stock as a participating security if it contains rights to receive nonforfeitable dividends at the same rate as common stock. Under the two-class method, the Company excludes the income and distributions attributable to participating securities from the calculation of basic and diluted EPS and excludes the participating securities from the weighted average shares outstanding.

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Class A and Class B common stock have equal rights to dividends as declared by the Board. As a result, basic and diluted EPS are equivalent for Class A and Class B common stock 2013. For 2012 and 2011, Blackhawk s common stock consisted solely of Class B common stock.

The following table provides reconciliations of net income and shares used in calculating Basic EPS to those used in calculating Diluted EPS (in thousands except per share amounts):

	2013		2012		2011	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income attributable to Blackhawk Network Holdings, Inc.	$ 54,104	$ 54,104	$ 48,165	$ 48,165	$ 36,499	$ 36,499
Distributed and undistributed earnings allocated to participating securities	(707)	(692)	(1,464)	(1,464)	(725)	(725)
Net income attributable to common stockholders	$ 53,397	$ 53,412	$ 46,701	$ 46,701	$ 35,774	$ 35,774
Weighted-average common shares outstanding	51,164	51,164	50,045	50,045	50,225	50,225
Common share equivalents		1,238				652
Weighted-average shares outstanding		52,402		50,045		50,877
Earnings per share Class A and Class B	$ 1.04	$ 1.02	$ 0.93	$ 0.93	$ 0.71	$ 0.70

The Company excluded common share equivalents of 95,000 and 97,000 for 2013 and 2011, respectively, as the result would have been anti-dilutive. For 2012, the dividend of $69.9 million exceeded net income and resulted in an undistributed loss under the two-class method. Accordingly, the inclusion of any potentially dilutive securities would result in anti-dilution, and therefore the Company excluded all potential common stock equivalents from weighted-average shares outstanding.

15. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information for 2013 and 2012 is as follows. The Company has corrected the second quarter of 2013 from previously reported amounts on Form 10-Q for such period for a $1.4 million increase in income tax expense and decrease in *Net income attributable to Blackhawk Network Holdings, Inc.* for certain amounts of stock-based compensation, which became subject to certain IRS limitations as a result of the Offering. The Company has also corrected Basic and Diluted Earnings per Share Class A and Class B from previously reported amounts of $0.07 and $0.07, respectively. Management does not consider these amounts to be material to the Company s previously issued unaudited condensed consolidated financial statements.

	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12
	(in thousands, except per share data)							

Revenues	$ 521,180	$ 205,996	$ 225,862	$ 185,050	$ 452,897	$ 164,651	$ 190,022	$ 151,499
Operating income	73,894	3,734	5,379	300	59,191	4,236	8,969	4,409
Net income attributable to Blackhawk Network Holdings, Inc.	$ 49,272	$ 2,355	$ 2,131	$ 346	$ 36,345	$ 3,091	$ 5,854	$ 2,875
Earnings per Share Class A and Class B:								
Basic	$ 0.95	$ 0.05	$ 0.04	$ 0.01	$ 0.70	$ 0.06	$ 0.11	$ 0.06
Diluted	$ 0.92	$ 0.04	$ 0.04	$ 0.01	$ 0.70	$ 0.06	$ 0.11	$ 0.06

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