

BLACKHAWK NETWORK HOLDINGS, INC

Form DEF 14C

December 05, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14C**

**Information Statement Pursuant to Section 14(c) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_\_\_)**

Check the appropriate box:

- .. Preliminary Information Statement
- .. **Confidential, for Use of the Commission Only (as permitted by Rule 14C-5(d)(2))**
- x Definitive Information Statement

**BLACKHAWK NETWORK HOLDINGS, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

“ Fee paid previously with preliminary materials.

“ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**BLACKHAWK NETWORK HOLDINGS, INC.**

**6220 Stoneridge Mall Road**

**Pleasanton, CA 94588**

**NOTICE OF ACTION BY WRITTEN CONSENT OF STOCKHOLDERS**

NOTICE IS HEREBY GIVEN that the Board of Directors (the Board) of Blackhawk Network Holdings, Inc., a Delaware corporation (the Company, we, us or our), has unanimously approved and adopted, and our parent company Safeway Inc. (Safeway), as the holder of a majority of the combined voting power of our outstanding common stock, has executed an Action by Written Consent of Stockholders in lieu of a meeting of stockholders approving, the Blackhawk Network Holdings, Inc. 2013 Employee Stock Purchase Plan (the ESPP), a copy of which is attached to the accompanying Information Statement as Appendix A. The Action by Written Consent of Stockholders was executed and delivered to the Company on December 4, 2013, the record date established by the Board, by Safeway as the holder of 10,592 shares of Class A common stock, representing approximately 0.09% of our total outstanding shares of Class A common stock and 0.09% of the voting power of our Class A common stock, and 37,838,709 shares of our Class B common stock, representing approximately 94.0% of our total outstanding shares of Class B common stock and 94.0% of our voting power of our Class B common stock, and together representing approximately 72.3% of our total outstanding shares of common stock and 91.2% of the combined voting power of our outstanding common stock, and was sufficient to approve the ESPP.

The accompanying Information Statement is being furnished to you pursuant to Section 14(c) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations promulgated thereunder. This Notice and the accompanying Information Statement also serve as notice pursuant to Section 228(e) of the Delaware General Corporation Law and the Exchange Act of the approval of the ESPP by less than the unanimous written consent of our stockholders. Your consent regarding the ESPP is not required and is not being solicited in connection with this corporate action. This Notice is not a notice of a meeting of stockholders, and no stockholders meeting will be held to consider any matter described in the accompanying Information Statement. The accompanying Information Statement is being provided to you for informational purposes only. We encourage you to read the accompanying Information Statement, including Appendix A, for further information regarding this corporate action.

The accompanying Information Statement will be first mailed to stockholders on or about December 12, 2013. The ESPP will become effective on January 2, 2014 or such later date that is the 21st calendar day after the Company sends or gives the accompanying Information Statement to its stockholders.

**WE ARE NOT ASKING YOU FOR A PROXY**

**AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

By Order of the Board of Directors,

/s/ David E. Durant

David E. Durant

Secretary

Pleasanton, California

Dated: December 5, 2013

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**BLACKHAWK NETWORK HOLDINGS, INC.**

**6220 Stoneridge Mall Road**

**Pleasanton, CA 94588**

**INFORMATION STATEMENT**

Blackhawk Network Holdings, Inc., a Delaware corporation (the **Company**, **Blackhawk**, **we**, **us** or **our** ), is furnishing this Information Statement to you, as a holder of our Class A common stock, par value \$0.001 per share (the **Class A Common Stock** ) or our Class B common stock, par value \$0.001 per share (the **Class B Common Stock** and together with the Class A Common Stock, the **Common Stock** ), to provide you with information regarding, and a description of, action that was taken by written consent in lieu of a meeting of stockholders by our parent company, Safeway Inc. ( **Safeway** ), as the holder of a majority of the combined voting power of the Common Stock. On December 4, 2013, the record date (the **Record Date** ) established by our board of directors (the **Board** ), Safeway, as the holder of 10,592 shares of Class A Common Stock and 37,838,709 shares of Class B Common Stock, representing approximately 0.09% of our total outstanding shares of Class A Common Stock, 94.0% of our total outstanding shares of Class B Common Stock, 72.3% of our total outstanding shares of Common Stock and 91.2% of the combined voting power of our outstanding Common Stock as of such date, executed and delivered to the Company an Action by Written Consent of Stockholders, in accordance with Section 228 of the Delaware General Corporation Law (the **DGCL** ) and our bylaws and certificate of incorporation, approving the Blackhawk Network Holdings, Inc. 2013 Employee Stock Purchase Plan (the **ESPP** ), a copy of which is attached hereto as Appendix A. The ESPP will become effective on January 2, 2014 or such later date that is the 21st calendar day after the Company sends or gives this Information Statement to its stockholders.

This Information Statement is being mailed on or about December 12, 2013 to stockholders of record on the Record Date. This Information Statement is being furnished to you only to inform you of the corporate action described herein in accordance with Section 14(c) of the Securities Exchange Act of 1934, as amended (the **Exchange Act** ), and the rules and regulations promulgated thereunder. As of the Record Date, there were 12,060,982 shares of Class A Common Stock and 40,262,524 shares of Class B Common Stock outstanding. The approval of the ESPP required the approval of the holders of a majority of the combined voting power of our outstanding Common Stock. As of the Record Date, an aggregate of 207,343,112 votes constituted the requisite majority for such approval.

**This is not a notice of a meeting of stockholders, and no stockholders' meeting will be held to consider any matter described in this Information Statement. Safeway, as the holder of a majority in voting power of the outstanding shares of our Common Stock, has voted to approve the ESPP, which vote is sufficient to satisfy the stockholder vote requirement for this action. Accordingly, no additional votes will be needed to approve this action.**

**Important Notice Regarding the Availability of an Information Statement for Action Taken by Written Consent of the Stockholders:** This Information Statement is available electronically at <http://materials.proxyvote.com/09238E>.

**WE ARE NOT ASKING YOU FOR A PROXY**

**AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

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**APPROVAL OF THE BLACKHAWK NETWORK HOLDINGS, INC.**

**2013 EMPLOYEE STOCK PURCHASE PLAN**

Following approval of the material terms of the ESPP by the Compensation Committee of the Board (the Compensation Committee ) on August 21, 2013, on December 4, 2013, the Board approved the adoption of the ESPP and directed that the ESPP be submitted to stockholders for approval. On December 4, 2013, Safeway, as the holder of a majority of the combined voting power of our outstanding Common Stock, approved the ESPP by action taken by written consent without a meeting in accordance with the DGCL and our bylaws and certificate of incorporation. No further vote of our stockholders is required. The ESPP will become effective on January 2, 2014 or such later date that is the 21st calendar day after the Company sends or gives this Information Statement to its stockholders. We expect to adopt an initial offering period under the ESPP that will begin on January 2, 2014 and end on April 30, 2014, and will establish the terms and conditions pursuant to which participants in the ESPP will be able to purchase shares of our Class A Common Stock, as described below. Because the initial offering period has not yet been adopted, its terms and conditions are subject to change prior to its adoption.

The following is a description of the principal features of the ESPP. The following description of the ESPP is a summary only and stockholders are encouraged to read the full ESPP, which is attached to this Information Statement as Appendix A.

**Summary of the ESPP**

**Administration.** The ESPP is administered by a sub-committee of the Compensation Committee comprised of the Non-Employee Director (as such term is defined in Rule 16b-3 promulgated under the Exchange Act) members of the Compensation Committee, which has broad authority to construe the ESPP and to make determinations with respect to the terms and conditions of each offering period under the ESPP, awards, designated subsidiaries and other matters pertaining to plan administration.

**Class A Common Stock Reserved for Issuance under the ESPP.** The maximum number of shares of Class A Common Stock available for sale under the ESPP is the sum of (a) 2,000,000 and (b) an annual increase on the first day of each calendar year beginning in 2015 and ending in 2024, equal to the lesser of (x) one percent (1%) of the shares of Class A Common Stock and Class B Common Stock outstanding on the date of adoption of the ESPP and (y) such smaller number of shares of Class A Common Stock as may be determined by the Board. The Class A Common Stock made available for sale under the ESPP may be authorized but unissued shares, treasury shares or reacquired shares reserved for issuance under the ESPP.

**Participating Subsidiaries and Sub-plans.** The plan administrator may designate certain of our subsidiaries as participating subsidiaries in the ESPP and may change these designations from time to time. The following subsidiaries have been designated to participate in the ESPP: Blackhawk Network, Inc. and Cardpool, Inc. The plan administrator may also adopt sub-plans applicable to particular designated subsidiaries or locations, and these sub-plans may be designed to be outside the scope of Section 423 of the Internal Revenue Code of 1986, as amended (the Code ).

**Eligible Employees.** Our employees and those of our designated participating subsidiaries are generally eligible to participate in the ESPP, though employees who own 5% or more of the total combined voting power or value of all classes of our stock or the stock of one of our subsidiaries are not allowed to participate in the ESPP. Under applicable tax rules, the plan administrator may also exclude certain categories of employees from participation in the ESPP. As of the date of adoption of the ESPP, approximately 933 employees of our company or our designated participated



subsidiaries were eligible to participate in the ESPP.

***Participation.*** Under the terms of the ESPP, eligible employees may generally elect to contribute and apply to the purchase of shares of Class A Common Stock between 1% and 10% of their base pay during an offering period. Options granted under the ESPP are exercisable on specified exercise dates only through funds

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accumulated by an employee through payroll deductions made during the applicable offering period, and any such funds that are not used to purchase shares will be returned to the employee. Participants may not accrue the right to purchase stock under the ESPP (or any other tax-qualified stock purchase plan) with a fair market value exceeding \$25,000 in any calendar year. In addition, no individual participant may purchase more than 3,000 shares of Class A Common Stock during any offering period. Participation in the ESPP is voluntary.

***Offering Periods.*** Under the ESPP, employees are offered the option to purchase discounted shares of Class A Common Stock during offering periods designated by the plan administrator. Each offering period will be a six-month period commencing on each May 1 and November 1 following the effective date of the ESPP. We expect that the initial offering period will commence on the effective date of the ESPP and end on April 30, 2014.

***Share Purchases.*** Shares are purchased on the applicable exercise date(s), as designated by the plan administrator for each offering period. The option purchase price will be 85% of the fair market value of our Class A Common Stock on either the grant date or the exercise date, whichever is lower. The grant date is the first trading day of an offering period. As of December 4, 2013, the latest practicable date, the closing sale price of our Class A Common Stock was \$22.25 per share.

Unless a participant has previously canceled his or her participation in the ESPP and elected to withdraw all of the funds then credited to his or her ESPP account, an amount equal to the amount credited to his or her ESPP account will be used to purchase the maximum number of whole shares of Class A Common Stock that can be purchased based on the amount credited to such participant's account on the exercise date, subject to individual and aggregate share limitations under the applicable offering period established by the plan administrator. No fractional shares will be issued.

A participant may cancel his or her payroll deduction authorization and elect to withdraw from the ESPP by delivering a written or electronic notice of such election to the Company in a form and at a time as may be established by the plan administrator. Upon cancellation, the participant may elect either to withdraw all of the funds then credited to his or her ESPP account and withdraw from the ESPP or have the balance of his or her account applied to the purchase of whole shares of Class A Common Stock that can be purchased for the offering period in which his or her cancellation is effective (with any remaining ESPP account balance returned to the participant). A participant who ceases contributions to the ESPP during any offering period shall not be permitted resume contributions to the ESPP during the same offering period.

***Termination of Eligibility and Transferability.*** If a participant ceases to be an eligible employee for any reason during an offering period, he or she will be deemed to have elected to withdraw from the ESPP and any amounts credited to the participant's ESPP account will be returned to the participant. Options granted under the ESPP are generally not transferable and are exercisable only by the participant.

***Adjustments.*** In the event of any stock dividend, stock split, combination or reclassification of shares or any other increase or decrease in the number of shares of Class A Common Stock effected without receipt of consideration, the plan administrator has broad discretion to equitably adjust awards under the ESPP to prevent the dilution or enlargement of benefits under outstanding awards as a result of such transaction.

In the event of a proposed liquidation or dissolution of the Company, the offering period then in progress will be shortened by setting a new exercise date to occur prior to the consummation of the proposed liquidation or dissolution and will terminate immediately prior to such consummation.

In the event of a proposed merger or asset sale, each outstanding option will be assumed or substituted by the successor corporation. In the event that the successor corporation refuses to assume or substitute the options, any offering periods then in progress will be shortened by setting a new exercise date to occur prior to the date of the proposed sale or merger.

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***Insufficient Shares.*** If the total number of shares of Class A Common Stock which are to be purchased under outstanding purchase rights on any particular date exceed the number of shares then available for issuance under the ESPP, the plan administrator will make a pro rata allocation of the available shares on a uniform and equitable basis, and unless additional shares are authorized under the ESPP, no further offering periods will take place. In this event, excess payroll deductions will be refunded to participants.

***Amendment or Termination of the ESPP.*** The Board has the right to amend, suspend or terminate the ESPP at any time and from time to time to the extent that it deems advisable. However, absent the approval of the holders of a majority of the combined voting power of our outstanding Common Stock within 12 months before or after action by the Board, the Board may not amend the ESPP to increase the maximum number of shares that may be purchased under the ESPP or change the designation or class of eligible employees. Further, without the approval of the holders of a majority of the combined voting power of our outstanding Common Stock, the ESPP may not be amended in any manner that would cause the ESPP to no longer be an employee stock purchase plan within the meaning of Code Section 423. The plan administrator may also modify or amend the ESPP, to the extent permitted by Section 423 of the Code, to reduce or eliminate any unfavorable financial accounting consequences that may result from the ongoing operation of the ESPP. Unless earlier terminated, the ESPP will terminate on the tenth anniversary of the date of its initial approval by stockholders.

We intend to file with the Securities and Exchange Commission (the SEC) a registration statement on Form S-8 covering the shares of Class A Common Stock issuable under the ESPP.

## **U.S. Federal Income Tax Consequences**

The following is a general summary under current law of the material federal income tax consequences to an employee who participates in the ESPP. This summary deals with the general federal income tax principles that apply and is provided only for general information. Some kinds of taxes, such as state, local and foreign income taxes and federal employment taxes, are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. The summary does not discuss all aspects of federal income taxation that may be relevant in light of a participant's personal circumstances. This summarized tax information is not tax advice and a participant of an award should rely on the advice of his or her legal and tax advisors.

The ESPP, and the right of participants to make purchases thereunder, is intended to qualify for special tax treatment under the provisions of Section 423 of the Code. Under the applicable Code provisions, no income will be taxable to a participant until the sale or other disposition of the shares purchased under the ESPP. Upon such sale or disposition, the participant will generally be subject to tax in an amount that depends upon the length of time such shares are held by the participant prior to disposing of them. If the shares are sold or disposed of more than two years from the first day of the offering period during which the shares were purchased and one year from the date of purchase, or if the participant dies while holding the shares, the participant (or his or her estate) will recognize ordinary income measured as the lesser of (1) the excess of the fair market value of the shares at the time of such sale or disposition over the purchase price or (2) the excess of the fair market value of the shares on the date the Company granted the option over the purchase price paid for the shares, determined assuming that the option was exercised on the date granted. Any additional gain will be treated as a capital gain.

If the shares are sold or otherwise disposed of before the expiration of the holding periods described above, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on how long the shares were held following the date they were purchased by the participant prior to disposing of them.

We are entitled to a deduction to the extent of ordinary income recognized upon a sale or disposition of shares prior to the expiration of the holding periods described above.

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**New Plan Benefits**

Because the number of shares that may be purchased under the ESPP will depend on each employee's voluntary election to participate and on the fair market value of our Class A Common Stock at various future dates, the actual number of shares that may be purchased by any individual cannot be determined in advance.

**Stockholder Approval**

As of December 4, 2013, the Record Date, there were 12,060,982 shares of Class A Common Stock and 40,262,524 shares of Class B Common Stock outstanding and entitled to vote. Each share of Class A Common Stock and each share of Class B Common Stock is entitled to one vote and ten votes, respectively, on matters submitted for stockholder approval. The approval of the ESPP required the approval of the holders of a majority of the combined voting power of our outstanding Common Stock. As of the Record Date, an aggregate of 207,343,112 votes constituted the requisite majority for such approval.

On December 4, 2013, Safeway, as the holder of 10,592 shares of Class A Common Stock and 37,838,709 shares of Class B Common Stock, representing approximately 0.09% of our total outstanding shares of Class A Common Stock, 94.0% of our total outstanding shares of Class B Common Stock, 72.3% of our total outstanding shares of Common Stock and 91.2% of the combined voting power of our outstanding Common Stock as of such date, executed and delivered to the Company an Action by Written Consent of Stockholders, in accordance with Section 228 of the DGCL and our bylaws and certificate of incorporation, approving the ESPP.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our outstanding Common Stock as of November 2, 2013 by (i) each person or group of affiliated persons known to us to be the beneficial owner of more than 5% of our Common Stock, (ii) each named executive officer and each director and (iii) all of our executive officers and directors as a group. Unless otherwise indicated in the table below, the address of each beneficial owner listed in the table is c/o Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road, Pleasanton, California 94588.

	Class A Common Stock		Class B Common Stock		
	Number of Shares Beneficially Owned (1)	% of Class A Common Stock (1)	Number of Shares Beneficially Owned (1)(2)	% of Class B Common Stock (1)	% of Total Voting Power
<b>5% Stockholders:</b>					
Safeway, Inc. 5918 Stoneridge Mall Rd. Pleasanton, CA 94588	10,592	*	37,838,709	93.8%	91.2%
Columbia Wanger Asset Management, LLC (3) 227 West Monroe Street, Suite 3000 Chicago, IL 60606	2,190,500	18.5%			
Lazard Asset Management LLC (4) 30 Rockefeller Plaza New York, New York 10112	1,115,109	9.4%			
<b>Named Executive Officers and Directors:</b>					
William Y. Tauscher (5) .			500,000	1.2%	1.2%
Talbott Roche (6) .	1,000	*	182,337	*	*
Jerry N. Ulrich (7).			135,750	*	*
David E. Durant (8) .	1,000	*	16, 319	*	*
Steven A. Burd (9).			250,000	*	*
Robert L. Edwards (10)	10,592		37,922,209	94.0%	91.4%
Mohan Gyani (11)			50,000	*	*
Paul Hazen (12)			50,000	*	*
Douglas J. Mackenzie (13)			50,000	*	*
Lawrence F. Probst III (14)			50,000	*	*
Arun Sarin (15)			40,000	*	*
<b>All Executive Officers and Directors as a Group (11 persons) (16)</b>	<b>12,592</b>		<b>39,246,615</b>	<b>95.2%</b>	<b>94.6%</b>

\* Represents beneficial ownership of less than 1%.

Excludes Daniel Dmochowski. Mr. Dmochowski resigned from the Company effective October 31, 2013. As of such date, Mr. Dmochowski beneficially owned 1,000 shares of Class A Common Stock and 38,600 shares of Class B Common Stock, which included 12,000 shares of restricted Class B Common Stock that were unvested and subject to the Company's repurchase option and 92,500 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 30 days of October 31, 2013.

- (1) We have determined beneficial ownership in accordance with the rules of the SEC. In computing the number of shares of Class A Common Stock or Class B Common Stock beneficially owned by a person, entity or group and the corresponding voting percentage ownership of that person, entity or group, shares of Common Stock underlying options and warrants that are held by that person, entity or group and that are currently exercisable or exercisable within 60 days of November 2, 2013 are considered to be outstanding. We did not deem these shares to be outstanding, however, for the purpose of computing the percentage ownership of any other person, entity or group. Except as indicated below, we believe, based on the



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information furnished to us, that the persons and entities named in this table have sole voting and investment power with respect to all shares of Common Stock that they beneficially own, subject to applicable community property laws where applicable.

- (2) Beneficial ownership as reported in the table excludes shares of Common Stock that may be issued upon the exercise of stock appreciation rights ( SARs ) that are exercisable within 60 days of November 2, 2013. The number of shares that will be received upon exercise of such SARs is not currently determinable and therefore is not included in the table above because each SAR gives the holder the right to receive the excess of the market price of one share of stock at the exercise date over the exercise price, which is not determinable until the date of exercise.
- (3) Based upon a Schedule 13G/A filed with the SEC on November 7, 2013 by Columbia Wanger Asset Management, LLC ( CWAM ), a registered investment adviser, and Columbia Acorn Fund, a registered investment company. These securities are owned by various investors, including Columbia Acorn Fund, which owns 900,000 shares of Class A Common Stock, representing 7.7% of the shares of Class A Common Stock outstanding. As the investment adviser of Columbia Acorn Fund and various other investment companies and managed accounts, CWAM may be deemed to beneficially own the shares. CWAM reports having sole voting power over 1,950,500 shares of Class A Common Stock and sole dispositive power over 2,190,500 shares of Class A Common Stock; however, CWAM disclaims beneficial ownership of any such shares.
- (4) Based upon a Schedule 13G filed with the SEC on May 10, 2013 by Lazard Asset Management LLC ( Lazard ). Lazard reports having sole voting power over 726,374 shares of Class A Common Stock and sole dispositive power over 1,115,109 shares of Class A Common Stock.
- (5) Consists of 500,000 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (6) Consists of (i) 1,000 shares of Class A Common Stock held by Talbott Roche, (ii) 89,787 shares of Class B Common Stock held by Talbott Roche, (iii) 12,000 shares of restricted Class B Common Stock that are currently unvested and subject to the Company's repurchase option and (iv) 80,550 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (7) Consists of (i) 45,525 shares of Class B Common Stock held by The Ulrich Family Trust Dated November 1, 1996 as Amended and Restated in 2011, (ii) 24,725 shares of Class B Common Stock held by Jerry Ulrich, (iii) 12,000 shares of restricted Class B Common Stock that are currently unvested and subject to the Company's repurchase option and (iv) 53,500 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (8) Consists of (i) 1,000 shares of Class A Common Stock held by David E. Durant, (ii) 4,419 shares of Class B Common Stock held by David E. Durant, (iii) 1,000 shares of restricted Class B Common Stock that are currently unvested and subject to the Company's repurchase option and (iv) 10,900 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (9) Consists of (i) 50,000 shares of Class B Common Stock held by Steven A. Burd, (ii) 100,000 shares of Class B Common Stock held by the Christopher Dell Burd 1995 Trust and (iii) 100,000 shares of Class B Common Stock held by the Jason Carl Burd 1995 Trust.
- (10) Consists of (i) 83,500 shares of Class B Common Stock held by Mr. Edwards, (ii) 10,592 shares of Class A Common Stock held by Safeway Inc. and (iii) 37,838,709 shares of Class B Common Stock held by Safeway Inc. Mr. Edwards is the President, Chief Executive Officer and a member of the board of directors of Safeway and may be deemed to be the beneficial owner of the shares of Class A Common Stock and Class B Common Stock held by Safeway. Mr. Edwards disclaims beneficial ownership of the Class A Common Stock and Class B Common Stock held by Safeway, except to the extent of his pecuniary interest therein.
- (11) Consists of 50,000 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (12) Consists of 50,000 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.



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- (13) Consists of 50,000 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (14) Consists of 50,000 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (15) Consists of 40,000 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.
- (16) Includes 884,950 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of November 2, 2013.

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This section discusses the material components of the executive compensation program for our executive officers who are named in the 2012 Summary Compensation Table below. In 2012, our named executive officers and their positions were as follows:

William Y. Tauscher, Chairman and Chief Executive Officer;

Talbott Roche, President;

Daniel Dmochowski, President, International;

Jerry Ulrich, Chief Financial Officer and Chief Administrative Officer; and

David E. Durant, Secretary and General Counsel.

Mr. Dmochowski resigned from the Company effective October 31, 2013.

This discussion may contain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from the currently planned programs summarized in this discussion.

**2012 Summary Compensation Table**

The following table sets forth information concerning the compensation of our named executive officers for our fiscal year ended December 29, 2012.

Name and Principal Position	Salary	Option Awards (1)	Non-Equity Incentive Plan Compensation (2)	Change in Pension and Non-qualified Deferred Compensation Earnings	All Other Compensation (3)	Total
<b>William Y. Tauscher (4)</b> Chief Executive Officer	\$ 716,285	\$ 811,520	\$ 522,120	\$ 1,237	\$ 11,598	\$ 2,062,760
<b>Talbott Roche</b> President	413,145	405,760	308,449	39,362	1,425	1,168,141

<b>Daniel Dmochowski</b> President, International	336,149	324,608	329,248	30,754	1,188	1,021,947
<b>Jerry Ulrich</b> Chief Financial Officer and  Chief Administrative Officer	346,514	344,896	290,000	7,647	3,516	992,573
<b>David E. Durant</b> Secretary and General Counsel	267,992	182,592	206,048	19,620	1,418	677,670

- (1) Amounts reflect the full grant-date fair value of stock options granted during 2012 computed in accordance with ASC Topic 718, rather than the amounts paid to or realized by the named individual.
- (2) Amounts represent bonuses paid with respect to 2012 services under our 2012 Bonus Plan. For a description of the 2012 Bonus Plan, refer to the discussion under the caption "2012 Bonuses" below.
- (3) Amounts reflect life insurance premiums paid by us for policies on behalf of our named executive officers.
- (4) Amounts exclude any compensation earned by Mr. Tauscher related to services performed for Safeway's board of directors in 2012.

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### **2012 Salaries**

The named executive officers receive a base salary to compensate them for services rendered to our company. The base salary payable to each named executive officer is intended to provide a fixed component of compensation reflecting the executive's skill set, experience, role and responsibilities.

### **2012 Bonuses**

For 2012, the Board approved the 2012 Bonus Plan, pursuant to which each named executive officer was eligible to receive an annual bonus based on the achievement of specified company performance metrics and, with respect to Mr. Durant only, the achievement of individual performance goals. Each named executive officer's 2012 target bonus opportunity was equal to 100% of his or her 2012 base salary.

Each named executive officer's 2012 bonus opportunity was based in whole or in part on our achievement of corporate pre-tax income, which we refer to as the 2012 Corporate Financial Plan. In determining corporate pre-tax income, we excluded any credit or expense taken to mark equity instruments held by distribution partners to the fair market value of our Common Stock, as this is a non-cash expense that cannot be directly affected by our executives' actions or performance.

Messrs. Tauscher and Ulrich were eligible to receive an annual bonus targeted at 100% of the named executive officer's 2012 base salary, based solely on our achievement of the 2012 Corporate Financial Plan. Bonus payouts for these named executive officers were determined on a linear basis between 50% to 80% of the applicable target bonus for attainment of corporate pre-tax income between 85% and 100% of the 2012 Corporate Financial Plan. Bonus payments were determined on a linear basis between 80% and 120% of the applicable target bonus for attainment of corporate pre-tax income between 100% and 120% of the 2012 Corporate Financial Plan.

Ms. Roche and Mr. Dmochowski were eligible to receive an annual bonus targeted at 100% of the named executive officer's 2012 base salary, of which 50% was determined based on our achievement under the 2012 Corporate Financial Plan (as described above) and 50% was based on achievement of a secondary financial target: direct margin, defined as product revenue minus directly attributable costs for U.S. business (Roche) or corporate pre-tax income achieved by our international business (Dmochowski). Calculation of achievement against each secondary financial target excludes any mark-to-market of equity instruments held by distribution partners, as described above. Bonus payouts under these secondary financial metrics were determined on a linear basis from 50% to 80% of the applicable target bonus opportunity for attainment between 85% and 100% of the applicable metric, and from 80% to 120% of the applicable target bonus opportunity for attainment between 100% and 120% of the applicable metric.

Mr. Durant was eligible to receive an annual bonus targeted at 100% of his 2012 base salary, of which 75% was determined based on our achievement under the 2012 Corporate Financial Plan (as described above) and 25% was based on achievement of individual performance goals.

The actual annual cash bonuses payable under our 2012 Bonus Plan are set forth in the 2012 Summary Compensation Table above in the column titled Non-Equity Incentive Plan Compensation. Our 2013 Bonus Plan will be substantially similar to our 2012 Bonus Plan, except that Mr. Tauscher will be eligible to receive a bonus determined on a linear basis between 50% and 100% of his applicable target bonus based on attainment of corporate pre-tax income between 85% and 100% of the 2013 Corporate Financial Plan, and between 100% and 150% of his applicable target bonus based on attainment of corporate pre-tax income between 100% and 120% of the 2013 Corporate Financial Plan.

### **Equity**

The Board previously adopted the Second Amended and Restated 2006 Restricted Stock and Restricted Stock Unit Plan (the 2006 Plan ) and the Amended and Restated 2007 Stock Option and Stock Appreciation

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Right Plan (the 2007 Plan ) in order to provide additional incentives for our directors, employees and consultants and to enable the Company to obtain and retain services of these individuals, which is essential to our long term success. The 2006 Plan provides for the grant of restricted stock and restricted stock units, and the 2007 Plan provides for the grant of stock options and stock appreciation rights. In March 2013, we adopted the 2013 Equity Incentive Award Plan (the 2013 Plan ), which became effective upon the completion of our initial public offering. Upon the effectiveness of the 2013 Plan, no further grants have been, or will be, made under the 2006 Plan or the 2007 Plan.

Historically, we have granted a combination of stock options and restricted stock to our named executive officers. We believe that providing a mix of stock options and restricted stock balances retention and performance-based pay objectives. Stock options and restricted stock awards typically vest in 20% annual installments over a period of five years. In May 2012, we granted stock appreciation rights to our named executive officers in lieu of stock options, which vest in 20% annual installments over five years.

The following table sets forth the stock appreciation rights granted to our named executive officers in the 2012 fiscal year. We did not grant any other types of equity awards in 2012.

Named Executive Officer	2012 Blackhawk Stock Appreciation Rights Grants
William Y. Tauscher	100,000
Talbot Roche	50,000
Daniel Dmochowski	40,000
Jerry Ulrich	42,500
David E. Durant	22,500

In addition, in March 2013 we made a regular, annual grant of stock options to our key employees, including each of our named executive officers. The stock options will vest in 25% annual installments over four years. The following table sets forth the stock options granted to our named executive officers in March 2013.

Named Executive Officer	2013 Blackhawk Stock Option Grants
William Y. Tauscher	162,500
Talbot Roche	65,000
Daniel Dmochowski	50,000
Jerry Ulrich	55,000
David E. Durant	22,500

**Other Elements of Compensation*****Retirement Plans***

**401(k) Plan.** Beginning on January 1, 2012 our eligible employees, including our named executive officers, became eligible to participate in the Blackhawk Network 401(k) Plan maintained by the Company, under which our eligible employees may defer a portion of their compensation, within prescribed limits, on a pre-tax basis through contributions to the 401(k) plan. Prior to the adoption of the Blackhawk Network 401(k) Plan, our employees



(including our named executive officers) were eligible to participate in a 401(k) plan maintained by our parent, Safeway. Under the Blackhawk Network 401(k) Plan, the Company may match a portion of our employee's annual contributions, within prescribed limits.

***Safeway Retirement Plans.*** Prior to 2012, pension benefits were also provided to our named executive officers under Safeway's Employee Retirement Plan (the "Safeway ERP"), a qualified defined benefit pension plan, and Safeway's Retirement Restoration Plans (the "Safeway RRP"), which are non-qualified defined benefit pension plans (collectively, the "Safeway Retirement Plans"). The Safeway RRP provides benefits to certain

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employees, including our named executive officers, that cannot be paid under the Safeway ERP due to Code limitations on the amount of compensation that may be recognized and the amount of benefits that may be paid under the Safeway ERP.

Under the Safeway ERP, the named executive officer becomes vested in his or her accrued benefits after three years of service with the Company or reaching age 55, whichever occurs first. If he or she has three years of service with us, vested benefits under the Safeway ERP are available following termination, regardless of age. Benefits under the Safeway RRP are available to participants who terminate employment at or after age 55, and benefit payments commence within 90 days of the first day of the seventh month after such termination of employment.

In addition, under the Safeway RRP, each of Mr. Ulrich and Ms. Roche is entitled to payment of a special death benefit if he or she dies while employed as an executive officer or after retiring as an executive officer, regardless of age. Mr. Dmochowski previously was entitled to these payments under the Safeway RRP but is no longer eligible following his resignation effective October 31, 2013. If any of such executive officers dies while employed as an executive officer, then the executive officer's beneficiary will receive a Safeway RRP death benefit in a single lump sum payment equal to four times the executive's base salary at the time of death, up to a maximum of \$4 million, less any amount otherwise payable by Company-provided life insurance. The life insurance beneficiaries of any such executive officer who retires after age 55 will be entitled to one of the following benefits at the time of the former executive officer's death: (1) for death before age 70, the benefit is 100% of the former executive officer's final average compensation at the time of retirement, with a maximum benefit of \$1 million; or (2) for death after age 70, the benefit is 25% of the amount determined in (1) above.

Effective as of January 1, 2012, our named executive officers no longer participate in the Safeway Retirement Plans and each of their accounts in the Safeway Retirement Plans was frozen as of that date. We do not currently intend to establish a defined benefit pension plan.

***Deferred Compensation Plans***

Prior to 2012, our named executive officers were eligible to participate in two deferred compensation plans maintained by Safeway, referred to as the Safeway Deferred Compensation Plans. The Safeway Deferred Compensation Plans allowed the executive to defer salary or bonus and to have these funds mirror the investment performance of a selection of mutual funds. Neither we nor Safeway contributed funds to the individual accounts of our named executive officers under the Safeway Deferred Compensation Plans, and we are responsible for making payments under the plans on designated distribution dates. As of January 1, 2012, our named executive officers no longer participate in the Safeway Deferred Compensation Plans, and each of their accounts in these plans was frozen as of that date. We do not currently offer a deferred compensation plan.

***Employee Benefits and Perquisites***

***Health/Welfare Plans.*** All of our full-time employees, including our named executive officers, are eligible to participate in our health and welfare plans, including:

medical, dental and vision benefits;

medical and dependent care flexible spending accounts;

short-term and long-term disability insurance; and

life insurance and accidental death and dismemberment insurance.

We pay for life insurance for each corporate employee (including executive officers) in an amount equal to two times annual salary, up to a maximum of \$1 million. The employee is responsible for the income tax for any amount exceeding \$50,000 in coverage.

We believe the perquisites described above are necessary and appropriate to provide a competitive compensation package to our named executive officers. We do not make gross-up payments to cover our named executive officers personal income taxes that may pertain to any of the perquisites we offer.

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**Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes the number of shares of Class B Common Stock or Safeway common stock, as applicable, underlying the outstanding equity incentive plan awards identified for each named executive officer as of December 29, 2012.