

FELLOWS ENERGY LTD  
Form SB-2/A  
October 06, 2005

As filed with the Securities and Exchange Commission on October 6, 2005  
An Exhibit List can be found on page II-5.  
Registration No. 333- 127413

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

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AMENDMENT NO. 2  
TO  
FORM SB-2  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**FELLOWS ENERGY LTD.**

(Name of small business issuer in its charter)

**Nevada**  
(State or other Jurisdiction  
of Incorporation or Organization)

**1382**  
(Primary Standard Industrial  
Classification Code Number)

**33-0967648**  
(I.R.S. Employer  
Identification No.)

**370 Interlocken Boulevard, Suite 400  
Broomfield, Colorado 80021  
(303) 327-1525**

(Address and telephone number of principal executive offices and principal place of business)

**George S. Young, Chief Executive Officer  
FELLOWS ENERGY LTD.  
370 Interlocken Boulevard, Suite 400  
Broomfield, Colorado 80021  
(303) 327-1525**

(Name, address and telephone number of agent for service)

Copies to:

**Marc J. Ross, Esq.  
Sichenzia Ross Friedman Ference LLP  
1065 Avenue of the Americas, 21st Flr.  
New York, New York 10018  
(212) 930-9700  
(212) 930-9725 (fax)**

**APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:**

From time to time after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] \_\_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ] \_\_\_\_\_

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## CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, \$.001 par value	5,996,574 (3)	\$0.655	\$3,927,755.97	\$462.30
Common Stock, \$.001 par value issuable upon exercise of Warrants	1,223,200 (4)	\$1.00	\$1,223,200	\$143.97
Common Stock, \$.001 par value issuable upon exercise of Warrants	377,600 (5)	\$0.655	\$247,328	\$29.11
Common stock, \$.001 par value issuable upon conversion of Convertible Debentures	16,523,938 (6)	\$0.655	\$10,823,179.39	\$1,273.89
Common Stock, \$.001 par value issuable upon exercise of Warrants	5,959,635 (7)	\$0.655	\$3,903,560.93	\$459.45
Total	30,080,947		\$20,092,274.29	\$2,368.72 (8)

(1) Includes shares of our common stock, par value \$0.001 per share, which may be offered pursuant to this registration statement, which shares are issuable upon conversion of convertible debentures and the exercise of warrants held by the selling stockholders. In addition to the shares set forth in the table, the amount to be registered includes an indeterminate number of shares issuable upon conversion of the convertible debentures and exercise of the warrants, as such number may be adjusted as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416. The number of shares of common stock registered hereunder represents a good faith estimate by us of the number of shares of common stock issuable upon conversion of the convertible debentures and upon exercise of the warrants. For purposes of estimating the number of shares of common stock to be included in this registration statement, we calculated a good faith estimate of the number of shares of our common stock that we believe will be issuable upon conversion of the convertible debentures and upon exercise of the warrants to account for market fluctuations, and antidilution and price protection adjustments, respectively. Should the conversion ratio result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary.

(2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) and Rule 457(g) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-The-Counter Bulletin Board on August 9, 2005, which was \$.655 per share.

(3) Includes a good faith estimate of additional shares issuable to account for antidilution and price protection adjustments.

(4) Represents shares of common stock underlying warrants exercisable at \$1.00 per share.

(5) Represents shares of common stock underlying warrants exercisable at \$0.540845 per share.

- (6) Includes a good faith estimate of the shares underlying convertible debentures to account for market fluctuations.
- (7) Includes a good faith estimate of the shares underlying warrants exercisable at \$.649 per share to account for antidilution and price protection adjustments.
- (8) \$2,364.86 previously paid.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**Preliminary Prospectus**

SUBJECT TO COMPLETION, DATED OCTOBER 6, 2005

**The information in this preliminary prospectus is not complete and may be changed. The securities being registered by the Registration Statement may not be sold until the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is neither an offer to sell these securities nor a solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.**

**FELLOWS ENERGY LTD.**

**30,080,947 Shares of Common Stock**

This prospectus relates to the resale by the selling stockholders of up to 30,080,947 shares of our common stock, including 5,996,574 shares of common stock, up to 16,523,938 shares of common stock underlying convertible debentures in a principal face amount of \$5,501,199.95 and up to 7,560,435 shares of common stock issuable upon the exercise of common stock purchase warrants. The convertible debentures are unsecured and we are obligated to pay 1/24th of the face amount of the convertible debentures on the first of every month, starting October 1, 2005, which payment can be made in cash or in our restricted common stock. We may pay this amortization payment in cash or in stock at the lower of (i) \$0.60 per share or (ii) 80% of the volume weighted average price of our stock for the five trading days prior to the repayment date. In the event that we make the payment in cash, we shall pay 110% of the monthly redemption amount. Except as provided herein and to the extent any debentures remain outstanding, at any time, the debentures are convertible into shares of our common stock at \$0.60 per share. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed underwriters of the shares of common stock, which they are offering. We will pay the expenses of registering these shares.

HPC Capital Management, a registered broker-dealer, who received its shares of common stock being offering in this prospectus as compensation for investment banking services and holds the securities for its own account, may be deemed an underwriter within the meaning of the Securities Act of 1933 in connection with the sale of its common stock under this prospectus. The following selling stockholders are an "underwriter" within the meaning of the Securities Act of 1933 in connection with the sale of their common stock under this prospectus: Legend Merchant Group Inc., a registered broker-dealer; Dunwood Asset Management LLC, a registered broker-dealer; Palladium Capital Advisors LLC, a registered broker-dealer; Axiom Capital Management, Inc., a registered broker-dealer; John F. Heerdink Jr., Sam Ottensoser, David W. Unsworth Jr., Gilad Ottensoser, John H. Shaw III, David Jordan and Barry Zelin. John F. Heerdink Jr., Sam Ottensoser, David W. Unsworth Jr., Gilad Ottensoser and John H. Shaw III are employees of Legend Merchant Group Inc. David Jordan and Barry Zelin are employees of Axiom Capital Management, Inc. With the exception of the above listed entities and persons, no other underwriter or person has been engaged to facilitate the sale of shares of common stock in this offering.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is traded on the Over-The-Counter Bulletin Board under the symbol "FLWE". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on October 5, 2005, was \$.76.

**Investing in these securities involves significant risks. See "Risk Factors" beginning on page 8.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2005.

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**You should rely only on the information contained in this prospectus. We have not authorized any person to provide you with different information. If anyone provides you with different information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus.**



**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus and any prospectus supplement contain forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events.

In some cases, you can identify forward-looking statements by words such as “may,” “should,” “expect,” “plan,” “could,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “goal,” or “continue” or similar terminology. These statements are only and involve known and unknown risks, uncertainties and other factors, including the risks outlined under “Risk Factors,” that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

## PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "risk factors" section, the financial statements and the notes to the financial statements.

### FELLOWS ENERGY LTD.

We are an early stage oil and gas company led by an experienced management team and focused on exploration and production of natural gas, especially from "unconventional plays" such as tight sands and coal beds, and oil in the Rocky Mountain Region. In many unconventional plays accumulations of hydrocarbons are found over a large areal expanse and/or a thick vertical section, which when compared to conventional plays, typically have a higher geological and/or commercial development risk and lower average decline rate. Whereas a "conventional play" is an accumulation of hydrocarbons in a structural or stratigraphic setting within high-quality reservoirs. Our strategy is to pursue selected opportunities that are characterized by reasonable entry costs, favorable economic terms, high reserve potential relative to capital expenditures and the availability of existing technical data that may be further developed using current technology.

On January 5, 2004, we acquired certain interests in certain oil and gas leases and other interests owned by Diamond Oil & Gas Corporation, a Nevada corporation. Diamond is wholly owned by George S. Young, CEO, President and a Director of Fellows.

In connection with the transaction with Diamond, we (1) issued 3,500,000 shares of our common stock to Diamond; (ii) completed a private placement of \$2,750,000, pursuant to which we issued 2,750,000 shares of our common stock at \$1.00 per share; (3) appointed George S. Young as our President, Chief Executive Officer and a Director and Steven L. Prince as our Vice President and a Director; and (4) accepted the resignation of our then management and redeemed 52,610,000 shares of our common stock owned by the outgoing and former management in exchange for an aggregate sum of \$27,000.

For the years ended December 31, 2004 and 2003, we did not generate any revenues and had net losses of \$3,760,308 and \$123,475, respectively. For the six months ended June 30, 2005, we did not generate any revenues and had net income of \$713,430 as a result of a gain on the sale of property of \$1,437,281. As a result of significant losses from operations, our Independent Registered Public Accounting Firm, in their report dated March 29, 2005, have expressed substantial doubt about our ability to continue as going concern.

Our principal offices are located at 370 Interlocken Boulevard, Suite 400 Broomfield, Colorado 80021, and our telephone number is (303) 327-1525. We are a Nevada corporation.

### The Offering

Common stock offered by selling  
stockholders.....

Up to 30,080,947 shares, including the following:

- 5,996,574 shares of common stock;
- up to 16,523,938 shares of common stock underlying convertible debentures in the principal amount of \$ 5,501,199.05 (includes a good faith estimate of the shares

underlying convertible debentures to account for market fluctuations and antidilution protection adjustments, respectively),

- up to 1,223,200 shares of common stock issuable upon the exercise of common stock purchase warrants at an exercise price of \$1.00 per share;

- up to 377,600 shares of common stock issuable upon the exercise of common stock purchase warrants at an exercise price of \$0.540845 per share; and

- up to 5,959,635 shares of common stock issuable upon the exercise of common stock purchase warrants at an exercise price of \$.649 per share (includes a good faith estimate of the shares underlying warrants to account for antidilution protection adjustments).

Common stock to be outstanding after the offering.....

Up to 71,963,179 shares

Use of proceeds.....

We will not receive any proceeds from the sale of the common stock. However, we will receive the sale price of any common stock

we sell to the selling stockholders upon exercise of the warrants. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes. However, JGB Capital L.P., Palisades Master Fund LP and Crescent International Ltd. will be entitled to exercise up to 5,959,635 warrants on a cashless basis if the shares of common stock underlying the warrants are not registered pursuant to an effective registration statement at any time after one year from issuance. In the event that JGB Capital L.P., Palisades Master Fund LP and Crescent International Ltd. exercise the warrants on a cashless basis, then we will not receive any proceeds from the exercise of those warrants.

Over-The-Counter Bulletin Board Symbol.....

FLWE

The above information regarding common stock to be outstanding after the offering is based on 47,878,806 shares of common stock outstanding as of September 22, 2005 and assumes the subsequent conversion of our issued convertible debentures and exercise of warrants by our selling stockholders.

**May 2005 Private Placement**

On May 18, 2005, we closed on \$1,063,650 in equity financing and issued approximately 545,461 units, at a price of \$1.95 per unit, each unit consisting of 3.55 shares of our common stock and one and one-half Series A warrants to purchase our common stock. The units were sold to a limited number of accredited investors through a private placement memorandum and were exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of the Securities Act. We also agreed to pay the following to a placement agent: (i) a placement fee equal to 10% of the gross proceeds received from sales to certain investors identified by the placement agent; (ii) an option to purchase an amount of units equal to 15% of the units sold in the offering at a purchase price of \$1.95 per unit; (iii) a warrant or warrants, identical to the warrants contained in the units, equal to 15% of the number of units issued to certain investors identified by the placement agent, and (iv) a non-accountable expense allowance of 3% of the aggregate gross proceeds of the offering.

Each whole warrant entitles the holder to purchase one share of our common stock for a price of \$1.00 per share for three years from the date of purchase of the unit. The warrants also contain limited anti-dilution rights. The warrants are subject to adjustment in the event of (i) any subdivision or combination of our outstanding common stock or (ii) any distribution by us to holders of common stock of (x) a stock dividend, or (y) assets (other than cash dividends payable out of retained earnings) to holders of common stock. In addition, until two (2) years from the date the registration statement filed pursuant to the registration rights agreement is declared effective, and except for certain issuances of our common stock including (A) pursuant to rights, warrants, convertible securities or options outstanding on the date of issuance of the warrants, (B) pursuant to the offering, or (C) in other limited circumstances, if and when we issue or sell any common stock (including rights, warrants, convertible securities or options for its capital stock) for a consideration per share less than the per share purchase price of such common stock in the offering, then we shall issue additional common stock to the investors so that the average per share purchase price of the shares of common stock issued to the investors (of only the common stock still owned by such investors) is equal to such other lower price per share.

Pursuant to a registration rights agreement that we entered into with the purchasers of the units, we granted registration rights for the purchased shares of common stock and the common stock issuable upon exercise of the warrants. We will pay certain expense incurred by the holders of the securities in exercising their registration rights. The registration rights agreement requires us to file a registration statement registering the shares of common stock underlying the units sold within 30 calendar days from the first closing date with penalties of 2% per 30 day period for non-performance. In the event that (i) the registration statement is not declared effective within 90 calendar days from the first closing date, or (ii) 120 days in the case of a review of the registration statement by the SEC, or (iii) we do not maintain such registration statement as effective for the required period, then we will pay liquidated damages in common stock. Such payment of the liquidated damages shall not relieve us from our obligations to register the securities and the additional shares payable as liquidated damages.

The registration rights agreement also requires that we will maintain the registration statement effective under the Securities Act until the earlier of (i) the date that none of the securities covered by such Registration Statement may be issued pursuant to the terms of such security, (ii) the date that all of the securities have been sold pursuant to such registration statement, (iii) the date the investors receive an opinion of our counsel, which counsel shall be reasonably acceptable to the investors, that the securities may be sold under the provisions of Rule 144 without limitation as to volume, (iv) all securities have been otherwise transferred to persons who may trade such shares without restriction under the Securities Act, and we have delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend, or (v) three years from the effective date of the registration statement.

### **June 2005 Private Placement**

On June 17, 2005, we closed a financing pursuant to a securities purchase agreement with three accredited investors for the issuance of \$5,501,199.95 in face amount of debentures maturing June 17, 2008, and three year warrants to purchase our common stock. The debentures do not accrue interest and the investors paid \$3,849,685 for the debentures. A commission of 9% on the \$3,849,685 was paid by us to HPC Capital Management, a registered broker-dealer, in connection with the transaction, and we paid \$100,000 in expenses and fees including \$30,000 of the investors' counsel's legal fees, resulting in net proceeds to us of \$3,403,267.35. Net proceeds will be used by us for general working capital.

The debentures are unsecured and we are obligated to pay 1/24th of the face amount of the debenture on the first of every month, starting October 1, 2005, which payment can be made in cash or in shares of our common stock. We may pay this amortization payment in cash or in stock at the lower of \$0.60 per share or 80% of the volume weighted average price of our stock for the five trading days prior to the repayment date. In the event that we make the payment in cash, we shall pay 110% of the monthly redemption amount.



Except as provided in the succeeding paragraph and to the extent any debentures remain outstanding, at any time, the debentures are convertible into shares of our common stock at \$0.60 per share.

At any time after 90 days from the date that a registration statement registering the shares of common stock underlying the debentures and warrants is declared effective, and if certain conditions are met, we have the right to redeem some or all of the debentures in a cash amount equal to 110% of the face amount of the debentures being redeemed.

After the registration statement registering the shares of common stock underlying the debentures and warrants is declared effective, if the closing price for our common stock exceeds \$1.50 for 20 consecutive trading days, we can require the holders to convert some or all of the debentures at \$0.60.

In the event of default, the investors may require payment, which shall be the greater of: (A) 130% of the principal amount of the face amount of the debenture to be prepaid, or (B) the principal amount of the debenture to be prepaid, divided by the conversion price on (x) the date the default amount is demanded or otherwise due or (y) the date the default amount is paid in full, whichever is less, multiplied by the closing price on (x) the date the default amount is demanded or otherwise due or (y) the date the default amount is paid in full, whichever is greater

We issued warrants to the investors, expiring June 17, 2008, to purchase 4,584,334 shares of restricted common stock, exercisable at a per share of \$0.649. In addition, the exercise price of the warrants will be adjusted in the event we issue common stock at a price below the exercise price, with the exception of any securities issued pursuant to a stock or option plan adopted by our board of directors, issued in connection with the debentures issued pursuant to the securities purchase agreement, or securities issued in connection with acquisitions or strategic transactions. Upon an issuance of shares of common stock below the exercise price, the exercise price of the warrants will be reduced to equal the share price at which the additional securities were issued and the number of warrant shares issuable will be increased such that the aggregate exercise price payable for the warrants, after taking into account the decrease in the exercise price, shall be equal to the aggregate exercise price prior to such adjustment.

Warrants to purchase 250,000 shares, at the same price and for the same term as the warrants issued to the investors, have been issued to HPC Capital Management as additional compensation for its services in connection with the transaction with the investors.

After the effective date of this registration statement, if in any period of 20 consecutive trading days our stock price exceeds 250% of the warrants' exercise price, all of the warrants shall expire on the 30th trading day after we send a call notice to the warrant holders. If at any time after one year from the date of issuance of the warrants there is not an effective registration statement registering, or no current prospectus available for, the resale of the shares underlying the warrants, then the holder may exercise the warrant at such time by means of a cashless exercise. In the event the investors exercise the warrants on a cashless basis, then we will not receive any proceeds.

The conversion price of the debentures and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the investors' position.

The investors have agreed to restrict their ability to convert their debentures or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock.





We have agreed to file a registration statement with the Securities and Exchange Commission within 90 days of closing to cover the future sale by the investors of the shares issuable in payment and/or conversion of the debentures, and the shares issuable on exercise of the warrants. If the registration statement is not filed within 90 days of closing or if the registration statement is not declared effective within 120 days from the date of closing, we are required to pay liquidated damages to the investors. The registration statement also will cover the future sale by HPC Capital Management of the shares issuable on exercise of the warrants issued to HPC in connection with the transaction.

## **RISK FACTORS**

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

### **Risks Relating to Our Business:**

#### **We Have a History Of Losses Which May Continue, and May Negatively Impact Our Ability to Achieve Our Business Objectives.**

We incurred net losses of \$3,760,308 and \$123,475 for the years ended December 31, 2004 and 2003, respectively. For the six months ended June 30, 2005, we achieved net income of \$472,078, which was a result of gains of approximately \$1.4 million on the sale of property. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

#### **If We Are Unable to Obtain Additional Funding, Our Business Operations Will be Harmed and If We Do Obtain Additional Financing, Our Then Existing Shareholders May Suffer Substantial Dilution.**

We will require additional funds to sustain and expand our acquisition, exploration and production of natural gas from coal bed methane. We anticipate that we will require up to approximately \$500,000 to fund our continued operations for the next twelve months from the date of this prospectus, depending on revenues from operations. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

#### **Our Independent Registered Public Accounting Firm Has Stated There is Substantial Doubt About Our Ability to Continue As a Going Concern, Which May Hinder Our Ability to Obtain Future Financing.**

In their report dated March 29, 2005 on our financial statements as of and for the year ended December 31, 2004, our independent registered public accounting firm stated that our significant losses from operations as of September 30, 2004 raised substantial doubt about our ability to continue as a going concern. Since December 31, 2004, we have continued to experience losses from operations. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses and stockholders' deficiency increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

#### **We Have a Limited Operating History and if We are not Successful in Continuing to Grow Our Business, Then We may have to Scale Back or Even Cease Our Ongoing Business Operations.**

We have no history of revenues from operations and have no significant tangible assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. Our company has a limited operating history and must be considered in the development stage. Our success is significantly dependent on a successful acquisition, drilling, completion and production program. Our operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We may be unable to locate recoverable reserves or operate on a profitable basis. We are in the development stage and potential investors should be aware of the difficulties normally encountered by enterprises in the development stage. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our company.

**If We Are Unable to Retain the Services of Mr. Young or If We Are Unable to Successfully Recruit Qualified Managerial and Field Personnel Having Experience in Oil and Gas Exploration, We May Not Be Able to Continue Our Operations.**

Our success depends to a significant extent upon the continued service of Mr. George S. Young, our President, Chief Executive Officer and a director. Loss of the services of Mr. Young could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the life of Mr. Young. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and field personnel having experience in the oil and gas exploration business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

**As Our Properties are in the Exploration and Development Stage, There Can be no Assurance That We Will Establish Commercial Discoveries on Our Properties.**

Exploration for economic reserves of oil and gas is subject to a number of risk factors. Few properties that are explored are ultimately developed into producing oil and/or gas wells. Our properties are in the exploration and development stage only and are without proven reserves of oil and gas. We may not establish commercial discoveries on any of our properties.

**The Potential Profitability of Oil and Gas Ventures Depends Upon Factors Beyond the Control of Our Company.**

The potential profitability of oil and gas properties is dependent upon many factors beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. In addition, adverse weather conditions can also hinder drilling operations. These changes and events may materially affect our financial performance. These factors cannot be accurately predicted and the combination of these factors may result in our company not receiving an adequate return on invested capital.

**Even if We are Able to Discover and Generate A Gas Well, There Can be no Assurance the Well Will Become Profitable**

We have not yet make a discovery of coalbed methane gas or drilled a gas well to capture any gas. Even if we are able to, a productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. In addition, the marketability of oil and gas which may be acquired or discovered will be affected by numerous factors, including the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental protection, all of which could result in greater expenses than revenue generated by the well.

**Competition In The Oil And Gas Industry Is Highly Competitive And There Is No Assurance That We Will Be Successful In Acquiring The Leases.**

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including many major oil and gas companies, which have substantially greater technical, financial and operational resources and

staffs. Accordingly, there is a high degree of competition for desirable oil and gas leases, suitable properties for drilling operations and necessary drilling equipment, as well as for access to funds. We cannot predict if the necessary funds can be raised or that any projected work will be completed. Our budget anticipates our acquisition of additional acreage in the Rocky Mountain Region. This acreage may not become available or if it is available for leasing, that we may not be successful in acquiring the leases.

**The Marketability of Natural Resources Will be Affected by Numerous Factors Beyond Our Control Which May Result in Us not Receiving an Adequate Return on Invested Capital to be Profitable or Viable.**

The marketability of natural resources which may be acquired or discovered by us will be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and gas and environmental protection regulations. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in us not receiving an adequate return on invested capital to be profitable or viable.

**Oil and Gas Operations are Subject to Comprehensive Regulation Which May Cause Substantial Delays or Require Capital Outlays in Excess of Those Anticipated Causing an Adverse Effect on Our Company.**

Oil and gas operations are subject to federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to federal, state, and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. Environmental standards imposed by federal, provincial, or local authorities may be changed and any such changes may have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Additionally, we may be subject to liability for pollution or other environmental damages. To date we have not been required to spend any material amount on compliance with environmental regulations. However, we may be required to do so in future and this may affect our ability to expand or maintain our operations.

**Exploration and Production Activities are Subject to Certain Environmental Regulations Which May Prevent or Delay the Commencement or Continuance of Our Operations.**

In general, our exploration and production activities are subject to certain federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally, environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry.

We believe that our operations comply, in all material respects, with all applicable environmental regulations.

Our operating partners maintain insurance coverage customary to the industry; however, we are not fully insured against all possible environmental risks.

**Exploratory Drilling Involves Many Risks and We May Become Liable for Pollution or Other Liabilities Which May Have an Adverse Effect on Our Financial Position.**

Drilling operations generally involve a high degree of risk. Hazards such as unusual or unexpected geological formations, power outages, labor disruptions, blow-outs, sour gas leakage, fire, inability to obtain suitable or adequate machinery, equipment or labor, and other risks are involved. We may become subject to liability for pollution or

hazards against which it cannot adequately insure or which it may elect not to insure. Incurring any such liability may have a material adverse effect on our financial position and operations.



**Risks Relating to Our Current Financing Arrangements:****There Are a Large Number of Shares Underlying Our Convertible Debentures and Warrants That May be Available for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock.**

As of September 22, 2005, we had 47,878,806 shares of common stock issued and outstanding, convertible debentures issued in June 2005 outstanding that may be converted into an estimated 9,168,667 shares of common stock at current market prices convertible debentures issued in September 2005 outstanding that may be converted into 4,144,000 shares of common stock, outstanding warrants issued in June 2005 to purchase 7,191,018 shares of common stock and outstanding warrants issued in September 2005 to purchase 2,172,000 shares of common stock. In addition, the number of shares of common stock issuable upon conversion of the outstanding convertible debentures issued in June 2005 may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the June 2005 debentures and upon exercise of our June 2005 warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

**The Continuously Adjustable Conversion Price Feature of Our Convertible Debentures Issued in June 2005 Could Require Us to Issue a Substantially Greater Number of Shares, Which Will Cause Dilution to Our Existing Stockholders.**

Our obligation to issue shares upon conversion of our convertible debentures issued in June 2005 is potentially limitless. We are required to repay 1/24th of the face amount of the debenture each month starting October 2005. In the event that we cannot, or choose not to, repay the amortized amount in cash, we are obligated to issue shares of our common stock to cover the amount of the debenture. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our convertible debentures issued in June 2005 based on market prices 25%, 50% and 75% below the market price as of September 20, 2005 of \$0.75 per share.

<u>% Below Market</u>	<u>Price Per Share</u>	<u>With Discount at 20%</u>	<u>Number of Shares Issuable</u>	<u>% of Outstanding Stock</u>
25%	\$.5625	\$.45	12,224,889	20.34%
50%	\$. 375	\$.30	18,337,334	27.69%
75%	\$.1875	\$.15	36,674,667	43.37%

As illustrated, the number of shares of common stock issuable upon conversion of our convertible debentures issued in June 2005 will increase if the market price of our stock declines, which will cause dilution to our existing stockholders.

**The Continuously Adjustable Conversion Price Feature of our Convertible Debentures Issued in June 2005 May Encourage Investors to Make Short Sales in Our Common Stock, Which Could Have a Depressive Effect on the Price of Our Common Stock.**

The convertible debentures issued in June 2005 are convertible into shares of our common stock at a 20% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholders convert and sells material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The selling stockholders could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of convertible debentures and warrants issued in June 2005, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

**The Issuance of Shares Upon Conversion of the Convertible Debentures Issued in June 2005 and Exercise of Outstanding Warrants May Cause Immediate and Substantial Dilution to Our Existing Stockholders.**

The issuance of shares upon conversion of the convertible debentures and exercise of warrants issued in June 2005 may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholders may not convert their convertible debentures and/or exercise their warrants issued in June 2005 if such conversion or exercise would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the selling stockholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

**In The Event That Our Stock Price Declines, The Shares Of Common Stock Allocated For Conversion Of The Convertible Debentures Issued in June 2005 and Registered Pursuant To This Prospectus May Not Be Adequate And We May Be Required to File A Subsequent Registration Statement Covering Additional Shares. If The Shares We Have Allocated And Are Registering Herewith Are Not Adequate And We Are Required To File An Additional Registration Statement, We May Incur Substantial Costs In Connection Therewith.**

Based on our current market price and the potential decrease in our market price as a result of the issuance of shares upon conversion of the convertible debentures issued in June 2005, we have made a good faith estimate as to the amount of shares of common stock that we are required to register and allocate for conversion of the convertible debentures. Accordingly, we have allocated and registered 16,523,938 shares to cover the conversion of the convertible debentures issued in June 2005. In the event that our stock price decreases, the shares of common stock we have allocated for conversion of the convertible debentures issued in June 2005 and are registering hereunder may not be adequate. If the shares we have allocated to the registration statement are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection with the preparation and filing of such registration statement.

**If We Are Required for any Reason to Repay Our Outstanding Convertible Debentures, We Would Be Required to Deplete Our Working Capital, If Available, Or Raise Additional Funds. Our Failure to Repay the Convertible Debentures, If Required, Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.**

In June 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$5,501,199.95 principal amount of convertible debentures. The convertible debentures are due and payable 27 months from the date of issuance, with 1/24th of the face amount due every month starting October 2005. In September, 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$3,108,000 principal amount of convertible debentures. The convertible debentures are due and payable 27 months from the date of issuance with 1/24th of the face amount due every month starting January 2006. In addition, any event of default such as our failure to repay the principal when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase Agreement or related convertible debentures, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against our company in excess of \$50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company and the delisting of our common stock could require the early repayment of the convertible debentures, including default interest on the outstanding principal balance of the convertible debentures if the default is not cured with the specified grace period. We anticipate that the full amount of the convertible debentures will be converted into shares of our common stock, in accordance with the terms of the convertible debentures. If we are required to repay the convertible debentures, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the convertible debentures when required, the debenture holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

#### **Risks Relating to Our Common Stock:**

**If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.**

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to

maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

**Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.**

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks;
- and
- that broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person;
- and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

## USE OF PROCEEDS

We will not receive any proceeds from the sale of the common stock. However, we will receive the sale price of any common stock we sell to the selling stockholders upon exercise of the warrants. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes. However, JGB Capital L.P., Palisades Master Fund LP and Crescent International Ltd. will be entitled to exercise up to 5,959,635 warrants on a cashless basis if the shares of common stock underlying the warrants are not registered pursuant to an effective registration statement at any time after one year from issuance. In the event that JGB Capital L.P., Palisades Master Fund LP and Crescent International Ltd. exercise the warrants on a cashless basis, then we will not receive any proceeds from the exercise of those warrants.

### May 2005 Private Placement

On May 18, 2005, we closed on \$1,063,650 in equity financing and issued approximately 545,461 units, at a price of \$1.95 per unit, each unit consisting of 3.55 shares of our common stock and one and one-half Series A warrants to purchase our common stock. The units were sold to a limited number of accredited investors through a private placement memorandum and were exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of the Securities Act. We also agreed to pay the following to a placement agent: (i) a placement fee equal to 10% of the gross proceeds received from sales to certain investors identified by the placement agent; (ii) an option to purchase an amount of units equal to 15% of the units sold in the offering at a purchase price of \$1.95 per unit; (iii) a warrant or warrants, identical to the warrants contained in the units, equal to 15% of the number of units issued to certain investors identified by the placement agent, and (iv) a non-accountable expense allowance of 3% of the aggregate gross proceeds of the offering.

Each whole warrant entitles the holder to purchase one share of our common stock for a price of \$1.00 per share for three years from the date of purchase of the unit. The warrants also contain limited anti-dilution rights. The warrants are subject to adjustment in the event of (i) any subdivision or combination of our outstanding common stock or (ii) any distribution by us to holders of common stock of (x) a stock dividend, or (y) assets (other than cash dividends payable out of retained earnings) to holders of common stock. In addition, until two (2) years from the date the registration statement filed pursuant to the registration rights agreement is declared effective, and except for certain issuances of our common stock including (A) pursuant to rights, warrants, convertible securities or options outstanding on the date of issuance of the warrants, (B) pursuant to the offering, or (C) in other limited circumstances, if and when we issue or sell any common stock (including rights, warrants, convertible securities or options for its capital stock) for a consideration per share less than the per share purchase price of such common stock in the offering, then we shall issue additional common stock to the investors so that the average per share purchase price of the shares of common stock issued to the investors (of only the common stock still owned by such investors) is equal to such other lower price per share.

Pursuant to a registration rights agreement that we entered into with the purchasers of the units, we granted registration rights for the purchased shares of common stock and the common stock issuable upon exercise of the warrants. We will pay certain expense incurred by the holders of the securities in exercising their registration rights. The registration rights agreement requires us to file a registration statement registering the shares of common stock underlying the units sold within 30 calendar days from the first closing date with penalties of 2% per 30 day period for non-performance. In the event that (i) the registration statement is not declared effective within 90 calendar days from the first closing date, or (ii) 120 days in the case of a review of the registration statement by the SEC, or (iii) we do not maintain such registration statement as effective for the required period, then we will pay liquidated damages in common stock. Such payment of the liquidated damages shall not relieve us from our obligations to register the securities and the additional shares payable as liquidated damages.

The registration rights agreement also requires that we will maintain the registration statement effective under the Securities Act until the earlier of (i) the date that none of the securities covered by such Registration Statement may be issued pursuant to the terms of such security, (ii) the date that all of the securities have been sold pursuant to such registration statement, (iii) the date the investors receive an opinion of our counsel, which counsel shall be reasonably acceptable to the investors, that the securities may be sold under the provisions of Rule 144 without limitation as to volume, (iv) all securities have been otherwise transferred to persons who may trade such shares without restriction under the Securities Act, and we have delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend, or (v) three years from the effective date of the registration statement.

## June 2005 Private Placement

On June 17, 2005, we closed a financing pursuant to a securities purchase agreement with three accredited investors for the issuance of \$5,501,199.95 in face amount of debentures maturing June 17, 2008, and three year warrants to purchase our common stock. The debentures do not accrue interest and the investors paid \$3,849,685 for the debentures. A commission of 9% on the \$3,849,685 was paid by us to HPC Capital Management, a registered broker-dealer, in connection with the transaction, and we paid \$100,000 in expenses and fees including \$30,000 of the investors' counsel's legal fees, resulting in net proceeds to us of \$3,403,267.35. Net proceeds will be used by us for general working capital.

The debentures are unsecured and we are obligated to pay 1/24th of the face amount of the debenture on the first of every month, starting October 1, 2005, which payment can be made in cash or in shares of our common stock. We may pay this amortization payment in cash or in stock at the lower of \$0.60 per share or 80% of the volume weighted average price of our stock for the five trading days prior to the repayment date. In the event that we make the payment in cash, we shall pay 110% of the monthly redemption amount.

Except as provided in the succeeding paragraph and to the extent any debentures remain outstanding, at any time, the debentures are convertible into shares of our common stock at \$0.60 per share.

At any time after 90 days from the date that a registration statement registering the shares of common stock underlying the debentures and warrants is declared effective, and if certain conditions are met, we have the right to redeem some or all of the debentures in a cash amount equal to 110% of the face amount of the debentures being redeemed.

After the registration statement registering the shares of common stock underlying the debentures and warrants is declared effective, if the closing price for our common stock exceeds \$1.50 for 20 consecutive trading days, we can require the holders to convert some or all of the debentures at \$0.60.

In the event of default, the investors may require payment, which shall be the greater of: (A) 130% of the principal amount of the face amount of the debenture to be prepaid, or (B) the principal amount of the debenture to be prepaid, divided by the conversion price on (x) the date the default amount is demanded or otherwise due or (y) the date the default amount is paid in full, whichever is less, multiplied by the closing price on (x) the date the default amount is demanded or otherwise due or (y) the date the default amount is paid in full, whichever is greater

We issued warrants to the investors, expiring June 17, 2008, to purchase 4,584,334 shares of restricted common stock, exercisable at a per share of \$0.649. In addition, the exercise price of the warrants will be adjusted in the event we issue common stock at a price below the exercise price, with the exception of any securities issued pursuant to a stock or option plan adopted by our board of directors, issued in connection with the debentures issued pursuant to the securities purchase agreement, or securities issued in connection with acquisitions or strategic transactions. Upon an issuance of shares of common stock below the exercise price, the exercise price of the warrants will be reduced to equal the share price at which the additional securities were issued and the number of warrant shares issuable will be increased such that the aggregate exercise price payable for the warrants, after taking into account the decrease in the exercise price, shall be equal to the aggregate exercise price prior to such adjustment.

Warrants to purchase 250,000 shares, at the same price and for the same term as the warrants issued to the investors, have been issued to HPC Capital Management as additional compensation for its services in connection with the transaction with the investors.

After the effective date of this registration statement, if in any period of 20 consecutive trading days our stock price exceeds 250% of the warrants' exercise price, all of the warrants shall expire on the 30th trading day after we send a



call notice to the warrant holders. If at any time after one year from the date of issuance of the warrants there is not an effective registration statement registering, or no current prospectus available for, the resale of the shares underlying the warrants, then the holder may exercise the warrant at such time by means of a cashless exercise. In the event the investors exercise the warrants on a cashless basis, then we will not receive any proceeds.

The conversion price of the debentures and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the investors' position.

The investors have agreed to restrict their ability to convert their debentures or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock.

We have agreed to file a registration statement with the Securities and Exchange Commission within 90 days of closing to cover the future sale by the investors of the shares issuable in payment and/or conversion of the debentures, and the shares issuable on exercise of the warrants. If the registration statement is not filed within 90 days of closing or if the registration statement is not declared effective within 120 days from the date of closing, we are required to pay liquidated damages to the investors. The registration statement also will cover the future sale by HPC Capital Management of the shares issuable on exercise of the warrants issued to HPC in connection with the transaction.

### Sample Conversion Calculation

The number of shares of common stock issuable upon conversion of the convertible debentures is determined by dividing that portion of the principal of the convertible debentures to be converted by the conversion price. For example, assuming conversion of the \$5,501,199.95 of convertible debentures issued and outstanding on September 20, 2005, at a conversion price of \$0.60, the number of shares issuable upon conversion would be:

$$\$5,501,199.95 / \$0.60 = 9,168,667 \text{ shares}$$

The following is an example of the amount of shares of our common stock that are issuable, upon conversion of the principal amount of our convertible debentures, based on market prices 25%, 50% and 75% below the market price as of September 20, 2005 of \$0.75.

<u>% Below Market</u>	<u>Price Per Share</u>	<u>With Discount at 20%</u>	<u>Number of Shares Issuable</u>	<u>% of Outstanding Stock</u>
25%	\$.5625	\$.45	12,224,889	20.34%
50%	\$. 375	\$.30	18,337,334	27.69%
75%	\$.1875	\$.15	36,674,667	43.37%

**MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is quoted on the OTC Bulletin Board under the symbol "FLWE". For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	High (\$)	Low (\$)
<b>Fiscal Year 2003</b>		
First Quarter	\$0.15	0.15
Second Quarter	0.15	0.15
Third Quarter	0.15	0.05
Fourth Quarter	1.90	0.04
<b>Fiscal Year 2004</b>		
First Quarter	2.23	1.10
Second Quarter	1.63	0.81
Third Quarter	1.12	0.69
Fourth Quarter	1.02	0.71
<b>Fiscal Year 2005</b>		
First Quarter	1.25	0.71
Second Quarter	1.00	0.42
Third Quarter	1.40	0.48
Fourth Quarter (1)	0.82	0.72

(1) As of October 5, 2005

**HOLDERS**

As of September 20, 2005, we had approximately 100 holders of our common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is Pacific Stock Transfer Company, 500 E. Warm Springs Road, Suite 240, Las Vegas, Nevada 89119.

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Some of the information in this prospectus contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition;
- and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

### **Overview**

On January 5, 2004, we began operations as an oil and gas exploration company. We acquired interests in certain assets owned by Diamond Oil & Gas Corporation, in exchange for 3,500,000 shares of common stock. The assets included certain oil and gas projects, as well as the right to enter into the Exploration Services Funding Agreement with Thomasson Partner Associates, Inc. of Denver, Colorado. Diamond is controlled by our CEO, George S. Young. The operations we plan for 2005 include exploring leases we have acquired as well as seeking to acquire and explore additional property. Our goal is to discover substantial commercial quantities of oil and gas, including coalbed methane, on the properties.

In February 2005 we amended our Exploration Services Agreement with Thomasson Partner Associates. Thomasson Partner Associates provides large-scale exploration opportunities to the oil and gas industry. By this agreement Thomasson Partner Associates provides to us the first right to review and purchase up to a 50% interest (as amended, a 100% interest beginning in February 2005) in oil and natural gas exploration projects developed by Thomasson Partner Associates. Under the agreement, in 2005, Thomasson Partner Associates will present to us a minimum of eight project opportunities with the reasonable potential of at least 200 Bcf of natural gas reserves or 20 million barrels of oil reserves. We have the first right to review exploration projects developed by Thomasson Partner Associates and, after viewing a formal presentation regarding a project, we have a period of thirty days in which to acquire up to 100% of the project. We are not obligated to acquire any project. In consideration, in 2004 we paid to Thomasson Partner Associates a \$400,000 overhead fee, and will pay an \$800,000 fee in 2005. We also pay a fee for each project we acquire from Thomasson Partner Associates. The agreement continues year to year until either party gives 90 days written notice of termination. Projects acquired from Thomasson Partner Associates include the Weston County project in Wyoming, the Gordon Creek project in Utah, the Carter Creek project in Wyoming, the Circus project in Montana and the Bacaroo project in Colorado. In 2004 we incurred charges from Thomasson Partner Associates totaling \$1,255,000, including the \$400,000 overhead fee.

### **Operations Plans**

During the next twelve months, we expect to pursue oil and gas operations on some or all of our property, including the acquisition of additional acreage through leasing, farmout or option and participation in the drilling of oil and gas wells. We intend to continue to evaluate additional opportunities in areas where we feel there is potential for oil and gas reserves and production and may participate in areas other than those already identified, although we cannot

assure that additional opportunities will be available, or if we participate in additional opportunities, that those opportunities will be successful.

Our current cash position is not sufficient to fund our cash requirements during the next twelve months, including operations and capital expenditures. We intend to continue equity and/or debt financing efforts to support our current and proposed oil and gas operations and capital expenditures. We may sell interests in our properties. We cannot assure that continued funding will be available.

#### No Appraisal Rights

Holders of our Class A Common Stock and Class B Common Stock do not have appraisal rights under Delaware law or under our Amended and Restated Certificate of Incorporation in connection with the conversion.

#### Certain Federal Income Tax Consequences

We have summarized below certain federal income tax consequences of the conversion based on the Code. This summary applies only to our stockholders that hold their Class A Common Stock and Class B Common Stock as a capital asset within the meaning of section 1221 of the Code. Further, this summary does not discuss all aspects of federal income taxation that may be relevant to you in light of your individual circumstances. In addition, this summary does not address any state, local or foreign tax consequences of the proposed conversion. This summary is included for general information purposes only and is not intended to constitute advice regarding the federal income tax consequences of the proposed conversion. Because the tax consequences to you will depend on your particular facts and circumstances, you are urged to consult your own tax advisor with respect to the tax consequences of the conversion, including tax reporting requirements.

We believe that as a result of the conversion:

- no gain or loss will be recognized for federal income tax purposes by any of the holders of our Class A Common Stock or any of the holders of our Class B Common Stock upon the conversion of Class B Common Stock into Common Stock and the re-naming of the Class A Common Stock as “Common Stock;”
- a stockholder’s aggregate basis in its shares of Common Stock will be the same as the stockholder’s aggregate basis in the Class A Common Stock and Class B Common Stock converted pursuant to the conversion;
- a stockholder’s holding period for common stock will include such stockholder’s holding period for the Class A Common Stock and Class B Common Stock converted pursuant to the conversion, provided that each share of Class A

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Common Stock and Class B Common Stock was held by such stockholder as a capital asset as defined in Section 1221 of the Code on the effective date of the conversion; and  
no gain or loss will be recognized for federal income tax purposes by us upon the conversion of our Class B Common Stock into Common Stock and the renaming of the Class A Common Stock as “Common Stock.”

THE BOARD OF DIRECTORS RECOMMENDS A VOTE  
FOR  
THE APPROVAL OF THE SECOND AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION

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PROPOSAL NO. 4: APPROVAL OF FIRST AMENDMENT TO THE  
BLACKHAWK NETWORK HOLDINGS, INC.  
2013 EQUITY INCENTIVE AWARD PLAN

Introduction

We have adopted, subject to stockholder approval, an amendment (Amendment) to the 2013 Equity Incentive Award Plan (2013 Plan) to increase the number of shares we are authorized to issue or award under the 2013 Plan by 4,000,000 shares of Class A Common Stock. In addition, the Amendment contains a minimum vesting requirement, subject to limited exceptions that are described in further detail below, that the awards made pursuant to the 2013 Plan following the date of this Annual Meeting shall not vest earlier than the date that is one year following the date on which the award is granted.

A copy of the Amendment is included as Annex B to this Proxy Statement. The Board is requesting that stockholders vote in favor of amending the 2013 Plan by approving the Amendment.

Background of our Stock Compensation Plans

The 2013 Plan is an equity incentive plan pursuant to which the Company may grant equity and cash-based awards to employees, officers and directors of the Company. We believe that alignment of the interests of our stockholders and our employees, officers and directors is best advanced through the issuance of equity incentives as a portion of their total compensation. In this way, we reinforce the link between our stockholders and our employees', officers' and directors' focus on the creation of long-term value and stockholder returns. Equity incentives such as stock options and restricted stock units also play an important role in our recruitment and retention strategies, as the competition for sales, creative, technical and leadership talent in our industry is intense. While equity is a strategic tool for recruitment and retention of top talent, we also carefully manage equity award issuances and strive to keep the dilutive impact of the equity incentives we offer within a reasonable range.

The Company maintains four (4) stock compensation plans (Equity Plans). We provide descriptions and information regarding the Equity Plans in Note 8 to our financial statements included in our Form 10-K filed March 4, 2015. The Equity Plans are: (1) Second Amended and Restated 2006 Restricted Stock and Restricted Stock Unit Plan (2006 Plan); (2) Amended and Restated 2007 Stock Option and Stock Appreciation Right Plan (2007 Plan); (3) 2013 Employee Stock Purchase Plan; and (4) 2013 Plan. As originally adopted in connection with our initial public offering, the 2013 Plan permits the issuance of (i) up to 3,000,000 shares of our Class A Common Stock, plus (ii) the then remaining shares reserved for issuance under the 2006 Plan and 2007 Plan (collectively, Prior Plans), and those shares that later become available for future issuance as the result of the cancellation or forfeiture of then-outstanding awards granted under the Prior Plans. After our initial public offering and adoption of the 2013 Plan, there no longer are any shares available to grant under the Prior Plans. As of year-end 2014, 1,686,508 shares were available for grant under the 2013 Plan (inclusive of the shares available for issuance under the Prior Plans that became available as part of our 2013 Plan share reserve). As of March 1, 2015, following the Company's new hire and annual "refresh" grants at the February 23, 2015 compensation committee meeting, there were 309,392 shares of Class A Common Stock still available for grant under the 2013 Plan.

General Description of Proposed Share Reserve Increase.

We are asking our stockholders to approve the Amendment to increase the share reserve by 4,000,000 shares because we believe the availability of an adequate reserve of shares under the 2013 Plan is necessary to our continued growth and success.

In its determination to seek stockholder approval to increase in the number of shares authorized under the 2013 Plan, the Board reviewed the compensation committee's recommendations, which were based on an analysis prepared by and recommendations of Mercer, the compensation committee's independent compensation consultant. The analysis included a review of share usage, dilution and the costs of the 2013 Plan as a percentage of market capitalization. Specifically, the Board and the compensation committee considered that:

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In 2014 and 2013, we granted equity awards representing a total of approximately 1,895,000 and 282,500 shares of Class A Common Stock, respectively, after giving effect to full value award multipliers. Prior to our initial public offering in April 2013, we granted 1,066,500 shares of Class B Common Stock under our Prior Plans. This level of equity awards reflects growth in our number of employees, both through hiring and through a series of acquisitions in 2014 and 2013. This burn rate illustrates that we are a high-growth company that has attracted and continues to attract the talent necessary to build our business. The number of employees increased from approximately 800 full-time employees at April 18, 2013 to the current level of approximately 1,690 full-time employees, as of March 1, 2015. To the extent that the size of our workforce plateaus, we anticipate that our burn rate would decrease.

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If we do not increase the number of shares of Class A Common Stock available for issuance under the 2013 Plan, then, based on historical usage rates (including the recent 2015 equity awards granted in 2015, totaling 1,436,600 shares), we expect to exhaust the share limit under the 2013 Plan in calendar year 2016. If that occurs, we would lose an important compensation tool aligned with stockholder interests to attract, motivate and retain highly qualified talent.

Our annual shares usage, based on total anticipated 2015 equity awards of approximately 1,585,000 shares of Class A Common Stock (including the recent grant of awards in 2015), is 2.96% of common shares outstanding, which was considered by the compensation committee to be reasonable in light of our smaller size relative to the market, based on information provided by Mercer and the need of smaller companies to grant larger percentages of equity.

Our annual accounting expense resulting from our total anticipated 2015 equity awards was under 1% of our market capitalization as of January 3, 2015, which was considered by the compensation committee to be reasonable when compared to competitive practices for other similarly sized companies in our peer group.

Based on historical usage, and taking into account Blackhawk's market-based equity grant practices, anticipated award cancellations and forfeitures, the Board believes that the additional share authorization requested is appropriate to cover equity awards that are anticipated to be granted through fiscal year 2018.

The proposed Amendment is designed to maintain alignment between equity compensation arrangements for eligible employees and non-employee directors and stockholders' interests. The 2013 Plan includes a number of provisions that promote best practices (none of which would be revised by the Amendment), including the following:

**No Discounted Options or Stock Appreciation Rights (SARs).** Stock options and SARs may not be granted with exercise prices lower than the market value of the underlying shares on the grant date.

**No Repricing Without Stockholder Approval.** Other than in connection with a change in Blackhawk's capitalization, at any time when the purchase price of a stock option or SAR is above the market value of a share, Blackhawk will not, without stockholder approval, reduce the purchase price of such stock option or SAR and will not exchange such stock option or SAR for a new award with a lower (or no) purchase price or for cash.

**No Liberal Share Recycling.** Shares used to pay the exercise price or withholding taxes related to an outstanding award, unissued shares resulting from the net settlement of outstanding SARs, and shares purchased by Blackhawk in the open market using the proceeds of option exercises do not become available for issuance as future awards under the 2013 Plan.

**No Transferability.** Awards generally may not be transferred, except by will or the laws of descent and distribution.

**No Evergreen Provision.** The 2013 Plan does not contain an "evergreen" feature pursuant to which the shares authorized for issuance under the 2013 Plan can be automatically replenished.

**No Automatic Grants.** The 2013 Plan does not provide for automatic grants to employees.

**No Tax Gross-ups.** The 2013 Plan does not provide for any tax gross-ups.

**No Single Trigger Acceleration.** The 2013 Plan only permits acceleration on a change in control if the acquiring company refuses to assume or substitute awards.

**Extended Vesting Schedule.** RSUs and Options awarded under the 2013 Plan are time-based for employees, and are generally subject to a 4-year vesting schedule; and performance-based awards generally vest over a multi-year performance and post-performance vesting period.

Pursuant to our policies, awards under the 2013 Plan are also supplemented by the following features (none of which would be revised by the Amendment):

**Clawback Provision.** Our clawback policy includes provisions for seeking the return (clawback) from executive officers of incentive cash payments and stock sale proceeds in the event that those amounts had been inflated due to financial results that later had to be restated.

**Ownership Guidelines.** To help ensure that each of our non-employee directors and executives maintains an equity stake in the Company and, by doing so, to appropriately link their interests with those of other stockholders, by December 31, 2019, all non-employee directors are required to accumulate shares of the Company's stock equal in value to at least three times the amount of their annual cash retainer as determined on December 31 of each year; and our executive officers are required to accumulate shares of the Company's stock equal in value to 2.0 times base salary (4.0 times salary for the CEO) as determined on December 31 of each year.

Prohibition of Certain Aggressive or Speculative Trading and Hedging Transactions. Our Insider Trading Policy prohibits officers and directors and their respective family members from engaging, directly or indirectly, in any

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speculative transactions involving Blackhawk securities, including: purchases of Blackhawk stock on margin; short sales of Blackhawk securities; and buying or selling put or call options on Blackhawk securities, or entering into other derivative contracts relating to Blackhawk securities. In addition, the policy prohibits officers and directors from entering into hedging transactions.

As of March 1, 2015, following the Company's new hire and annual "refresh" grants at the February 23, 2015 compensation committee meeting, there were:

• 309,392 shares of Class A Common Stock still available for grant under the 2013 Plan

• 3,785,852 options outstanding under all the Company's Plans, with a weighted average price of \$21.47 and a remaining term of 4.27 years

• 2,232,754 shares of unvested restricted stock or unearned performance shares outstanding under all the Company's Plans and subject to continued vesting requirements

• 53,565,465 shares of Class A Common Stock and Class B Common Stock outstanding

In addition, if this Proposal No. 4 is adopted, the 2013 Plan will contain a minimum vesting requirement, subject to limited exceptions, that awards made pursuant to the 2013 Plan following the date of this Annual Meeting shall not vest earlier than the date that is one year following the grant date of the award. The limited exceptions allow (i) the issuance of awards in an aggregate of up to 5% of the shares available to be granted without minimum vesting provisions, and (ii) the plan administrator to waive the one-year vesting restrictions upon the participant's termination of service due to death or disability or in connection with a change in control. Annual grants to non-employee directors are also exempt from the minimum vesting requirement.

If this Proposal No. 4 is adopted, a maximum of 7,000,000 shares (which includes the proposed increase of 4,000,000 shares) of Class A Common Stock, plus the remaining shares (as of our initial public offering) reserved for issuance under the Prior Plans and shares that later become available for future issuance as the result of the cancellation or forfeiture of awards outstanding under our Prior Plan as of our initial public offering, will be reserved to the 2013 Plan. In light of the factors described above, the Board believes this number represents reasonable potential equity dilution and provides a significant incentive for officers, employees, non-employee directors and consultants to increase the value of the Company for all stockholders. The Board will not create a subcommittee to evaluate the risks and benefits for issuing the additional authorized shares requested.

**Material Terms of the 2013 Plan**

The material terms of the 2013 Plan, as proposed to be amended by the Amendment, are summarized below and qualified in their entirety by reference to the 2013 Plan attached as Appendix A to our Proxy Statement for the 2014 Annual Meeting of Stockholders and the Amendment attached as Annex B to this Proxy Statement.

**Eligibility and Administration.** Awards under the 2013 Plan may be granted to individuals who are then our officers, employees or consultants or are the officers, employees or consultants of certain of our affiliates. Such awards also may be granted to our directors. Only employees of the Company or certain of our subsidiaries may be granted incentive stock options, or ISOs. Currently, there are approximately 1,690 full-time employees, 9 non-employee directors and 0 consultants eligible to participate in the 2013 Plan.

The 2013 Plan is administered by our Board with respect to awards to non-employee directors and by our compensation committee with respect to other participants, each of which may delegate its duties and responsibilities to committees of our directors and/or officers, subject to certain limitations that may be imposed under Section 162(m), Section 16 of the Exchange Act and/or stock exchange rules, as applicable. We refer to the body that administers the 2013 Plan as the "administrator." The 2013 Plan provides that the administrator may delegate its authority to grant or amend awards to employees other than executive officers and certain senior executives of the Company to a committee consisting of one or more members of our Board of Directors or one or more of our officers, other than awards made to our non-employee directors, which must be approved by our full Board. Our Board may at any time remove the compensation committee as the administrator and re-vest in itself the authority to administer the 2013 Plan.

Subject to the terms and conditions of the 2013 Plan, the administrator has the authority to select the persons to whom awards are to be made, to determine the number of shares to be subject to awards and to determine the terms and conditions of awards, and to make all other determinations and to take all other actions necessary or advisable for the

administration of the 2013 Plan. The administrator is also authorized to establish, adopt or revise rules relating to administration of the 2013 Plan.

Limitation on Awards and Shares Available. If our stockholders approve this proposal, the aggregate number of shares of our common stock that will be available for issuance under awards granted pursuant to the 2013 Plan will increase by 4,000,000 shares of our Class A Common Stock and will equal 7,000,000 shares of our Class A Common Stock were initially

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reserved for issuance pursuant to a variety of stock-based compensation awards, including stock options, stock appreciation rights, (SARs), restricted stock awards, restricted stock unit awards, deferred stock awards, dividend equivalent awards, stock payment awards, performance awards, performance share awards and other incentive awards, plus the number of shares remaining available for future awards under our Prior Plans as of the completion of our initial public offering in April 2013. Subject to certain limitations, the number of shares reserved for issuance or transfer pursuant to awards under the 2013 Plan will be increased by the number of shares represented by awards outstanding under our Prior Plans that are terminated, expire or lapse on or after the original effective date of the 2013 Plan and are not issued under the Prior Plans; any such shares will be added to the 2013 Plan's share limit as Class A Common Stock.

The following counting provisions will be in effect for the share reserve under the 2013 Plan:

- to the extent that an award is forfeited or expires or an award is settled in cash without the delivery of shares, any shares subject to the award at such time will be available for future grants under the 2013 Plan;
- to the extent shares are tendered or withheld to satisfy the exercise price or tax withholding obligation with respect to any award under the 2013 Plan, such tendered or withheld shares will not be available for future grants under the 2013 Plan;
- to the extent that we repurchase shares of our Class A Common Stock prior to vesting so that shares are returned to us, such shares will be available for future grants under the 2013 Plan;
- shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the SAR on its exercise will not be available for future grants under the 2013 Plan;
- shares purchased on the open market with the cash proceeds from the exercise of options will not be available for future grants under the 2013 Plan;
- the payment of dividend equivalents in cash in conjunction with any outstanding awards will not be counted against the shares available for issuance under the 2013 Plan;
- awards granted under the 2013 Plan pursuant to a qualifying equity plan maintained by an entity with which we enter into a merger or similar corporate transaction will not reduce the shares available for grant under the 2013 Plan; and
- to the extent permitted by applicable law or any exchange rule, shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by us or any affiliate will not be counted against the shares available for issuance under the 2013 Plan.

In addition, the maximum number of shares of our common stock that may be subject to one or more awards granted to any one participant pursuant to the 2013 Plan during any calendar year is 1,000,000 shares and the maximum amount that may be paid under a cash award pursuant to the 2013 Plan to any one participant during any calendar year is \$2,000,000.

Awards. The 2013 Plan provides that the administrator may grant or issue stock options, SARs, restricted stock, restricted stock units, deferred stock, dividend equivalents, performance awards, performance share awards, stock payments and other incentive awards, or any combination thereof. Each award will be set forth in a separate agreement with the person receiving the award and will indicate the type, terms and conditions of the award.

Nonstatutory Stock Options, or NSOs, will provide for the right to purchase shares of our Class A Common Stock at a specified price which may not be less than fair market value on the date of grant (except with respect to substitute awards), and usually will become exercisable (at the discretion of the administrator) in one or more installments after the grant date, subject to the participant's continued employment or service with the Company and/or subject to the satisfaction of corporate performance targets and individual performance targets established by the administrator.

NSOs may be granted for any term specified by the administrator that does not exceed ten years.

Incentive Stock Options, or ISOs, will be designed in a manner intended to comply with the provisions of Section 422 of the Code and will be subject to specified restrictions contained in the Code. Among such restrictions, ISOs must have an exercise price of not less than the fair market value of a share of common stock on the date of grant (except with respect to substitute awards), may only be granted to employees, and must not be exercisable after a period of ten years measured from the date of grant. In the case of an ISO granted to certain significant stockholders, the 2013 Plan provides that the exercise price must be at least 110% of the fair market value of a share of common stock on the date of grant and the ISO must not be exercisable after a period of five years measured from the date of grant.

Restricted Stock may be granted to any eligible individual and made subject to such restrictions as may be determined by the administrator. Restricted stock typically may be forfeited for no consideration or repurchased by us at the original purchase price if the conditions or restrictions on vesting are not met. In general, restricted stock may not be sold or otherwise transferred until restrictions are removed or expire. Purchasers of restricted stock, unlike recipients of options, generally will have voting rights and will have the right to receive dividends, if any, prior to the time when

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the restrictions lapse; however, extraordinary dividends generally will not be released until restrictions are removed or expire.

Restricted Stock Units may be awarded to any eligible individual, typically without payment of consideration, but subject to vesting conditions based on continued employment or service with the Company or on performance criteria established by the administrator. Like restricted stock, restricted stock units may not be sold, or otherwise transferred or hypothecated, until vesting conditions are removed or expire. Unlike restricted stock, stock underlying restricted stock units will not be issued until the restricted stock units have vested; and recipients of restricted stock units generally will have no voting or dividend rights prior to the time when vesting conditions are satisfied.

Deferred Stock Awards represent the right to receive shares of our Class A Common Stock on a future date. Deferred stock may not be sold or otherwise hypothecated or transferred until issued. Deferred stock will not be issued until the deferred stock award has vested, and recipients of deferred stock generally will have no voting or dividend rights prior to the time when the vesting conditions are satisfied and the shares are issued. Deferred stock awards generally will be forfeited, and the underlying shares of deferred stock will not be issued, if the applicable vesting conditions and other restrictions are not met.

Stock Appreciation Rights may be granted in connection with stock options or other awards, or separately. SARs granted in connection with stock options or other awards typically will provide for payments to the holder based upon increases in the price of our Class A Common Stock over a set exercise price. Except with respect to substitute awards, the exercise price of any SAR granted under the 2013 Plan must be at least 100% of the fair market value of a share of our Class A Common Stock on the date of grant. SARs under the 2013 Plan will be settled in cash or shares of our Class A Common Stock, or in a combination of both, at the election of the administrator.

Dividend Equivalents represent the value of the dividends, if any, per share paid by the Company, calculated with reference to the number of shares covered by the award. Dividend equivalents may be settled in cash or shares and at such times as determined by the compensation committee or Board, as applicable.

Stock Payments may be authorized by the administrator in the form of Class A Common Stock or an option or other right to purchase Class A Common Stock as part of a deferred compensation or other arrangement in lieu of all or any part of compensation, including bonuses, that would otherwise be payable in cash to the employee, consultant or non-employee director.

Performance Shares are contractual rights to receive a range of shares of our Class A Common Stock, or a number of shares of our Class A Common Stock in cash, in the future based on the attainment of specified performance goals, in addition to other conditions that may apply to these awards.

Other Incentive Awards are awards other than those enumerated in this summary that are denominated in, linked to or derived from shares of our Class A Common Stock or value metrics related to our shares of Class A Common Stock, and may remain forfeitable unless and until specified conditions are met.

Performance Awards. Performance awards include any of the awards that are granted subject to vesting and/or payment based on the attainment of specified performance goals. The administrator will determine whether performance awards are intended to constitute “qualified performance-based compensation,” or QPBC, within the meaning of Section 162(m), in which case the applicable performance criteria will be selected from the list below in accordance with the requirements of Section 162(m).

Section 162(m) imposes a \$1,000,000 cap on the compensation deduction that we may take in respect of compensation paid to our “covered employees” (which should include our Chief Executive Officer and our next three most highly compensated employees other than our Chief Financial Officer), but excludes from the calculation of amounts subject to this limitation any amounts that constitute QPBC. However, QPBC performance criteria may be used with respect to performance awards that are not intended to constitute QPBC.

In order to constitute QPBC under Section 162(m), in addition to certain other requirements, the relevant amounts must be payable only upon the attainment of pre-established, objective performance goals set by our compensation committee and linked to stockholder-approved performance criteria. For purposes of the 2013 Plan, one or more of the following performance criteria will be used in setting performance goals applicable to QPBC and may be used in setting performance goals applicable to other performance awards: (i) net earnings (either before or after one or more of the following: (A) interest, (B) taxes, (C) depreciation, (D) amortization and (E) non-cash equity-based



compensation expense); (ii) gross or net sales or revenue; (iii) net income (either before or after taxes); (iv) adjusted net income; (v) operating earnings or profit; (vi) cash flow (including, but not limited to, operating cash flow and free cash flow); (vii) return on assets; (viii) return on capital; (ix) return on stockholders' equity; (x) total stockholder return; (xi) return on sales; (xii) gross or net profit or operating margin; (xiii) costs; (xiv) funds from operations; (xv) expenses; (xvi) working capital; (xvii) earnings per share; (xviii) adjusted earnings per share; (xix) price per share; (xx) regulatory body approval for commercialization of a product;

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(xxi) implementation or completion of critical projects; (xxii) market share; (xxiii) economic value; (xxiv) debt levels or reduction; (xxv) customer retention; (xxvi) sales-related goals; (xxvii) comparisons with other stock market indices; (xxviii) operating efficiency; (xxix) customer satisfaction and/or growth; (xxx) employee satisfaction; (xxxi) research and development achievements; (xxxii) financing and other capital raising transactions; (xxxiii) recruiting and maintaining personnel; and (xxxiv) year-end cash, any of which may be measured either in absolute terms for us or any operating unit of our company or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices.

The 2013 Plan also permits the administrator to provide for objectively determinable adjustments to the applicable performance criteria in setting performance goals for QPBC awards. Such adjustments may include one or more of the following: (i) items related to a change in accounting principle; (ii) items relating to financing activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to acquisitions; (vi) items attributable to the business operations of any entity acquired by the Company during the performance period; (vii) items related to the sale or disposition of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under applicable accounting standards; (ix) items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the performance period; (x) any other items of significant income or expense that are determined to be appropriate adjustments; (xi) items relating to unusual or extraordinary corporate transactions, events or developments, (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of the Company's core, on-going business activities; (xiv) items related to acquired, in-process research and development; (xv) items relating to changes in tax laws; (xvi) items relating to major licensing or partnership arrangements; (xvii) items relating to asset impairment charges; (xviii) items relating to gains or losses for litigation, arbitration and contractual settlements; or (xix) items relating to any other unusual or nonrecurring events or changes in applicable law, accounting principles or business conditions.

Certain Transactions. In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, distribution of our assets to stockholders (other than normal cash dividends) or any other corporate event affecting the number of outstanding shares of our Class A Common Stock or the share price of our common stock that would require adjustments to the 2013 Plan or any awards under the 2013 Plan in order to prevent the dilution or enlargement of the potential benefits intended to be made available thereunder, the administrator will make equitable adjustments to:

- the aggregate number and type of shares subject to the 2013 Plan;
- the number and kind of shares subject to outstanding awards and terms and conditions of outstanding awards (including, without limitation, any applicable performance targets or criteria with respect to such awards); and
- the grant or exercise price per share of any outstanding awards under the 2013 Plan.

In the event of a change in control where the acquirer does not assume or substitute awards granted, immediately prior to the completion of such transaction, awards issued under the 2013 Plan will be subject to accelerated vesting such that 100% of such awards will become vested and exercisable or payable, as applicable. In addition, in the event of a change in control, the administrator will also have complete discretion to structure one or more awards under the 2013 Plan to provide that such awards will become vested and exercisable or payable on an accelerated basis. The administrator may also make appropriate adjustments to awards under the 2013 Plan and is authorized to provide for the acceleration, cash-out, termination, assumption, substitution or conversion of such awards in the event of a change in control or certain other unusual or nonrecurring events or transactions.

Foreign Participants, Transferability and Participant Payments. The administrator may modify award terms, establish sub-plans and/or adjust other terms and conditions of awards, subject to the share limits and the individual award limits described above, in order to facilitate grants of awards subject to the laws and/or stock exchange rules of countries outside of the United States. Effective December 2013, all awards are subject to the provisions of the clawback policy implemented by the Company, which includes provisions for seeking the return (clawback) from executive officers of incentive cash payments and stock sale proceeds in the event that those amounts had been inflated due to financial results that later had to be restated. With limited exceptions for estate planning, domestic relations orders, certain beneficiary designations and the laws of descent and distribution, awards under the 2013 Plan are generally non-transferable prior to vesting and are exercisable only by the participant. With regard to tax

withholding, exercise price and purchase price obligations arising in connection with awards under the 2013 Plan, the administrator may, in its discretion, accept cash or check, shares of our common stock that meet specified conditions, a “market sell order” or such other consideration as it deems suitable.

Plan Amendment and Termination. Our Board or the compensation committee may amend or modify the 2013 Plan at any time and from time to time. However, we must generally obtain stockholder approval:

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• to increase the number of shares available under the 2013 Plan (other than in connection with certain corporate events, as described above); or

- to “reprice” any stock option or SAR, or cancel any stock option or SAR in exchange for cash or another award when the option or SAR price per share exceeds the fair market value of the underlying share.

Our Board may terminate the 2013 Plan at any time. No incentive stock options may be granted pursuant to the 2013 Plan after the tenth anniversary of the effective date of the 2013 Plan. Any award that is outstanding on the termination date of the 2013 Plan will remain in force according to the terms of the 2013 Plan and the applicable award agreement.

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## New Plan Benefits

The benefits that will be awarded or paid under the 2013 Plan cannot currently be determined, except with respect to grants of restricted shares that will be awarded to non-employee directors serving on our Board of Directors on the date of this Annual Meeting, which are shown in the table below. The number of awards that our named executive officers, directors, other executive officers and other employees may receive under the 2013 Plan will be determined in the discretion of our Board or compensation committee, and neither our Board nor compensation committee has determined future awards or who might receive them as of the date of this Proxy Statement. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the 2013 Plan.

Name and Position	Determinable Benefits to be Awarded Under 2013 Plan	
	Dollar Value of Restricted Shares (\$)	Grants of Restricted Shares (#)
William Y. Tauscher, Chairman and Chief Executive Officer	—	—
Talbott Roche, President	—	—
Jerry Ulrich, Chief Financial Officer and Chief Administrative Officer	—	—
David C. Tate, Senior Vice President, Products and Marketing	—	—
Christopher C. Crum, Senior Vice President, Sales Executive Group	—	—
Non-Employee Director Group (1)	1,260,000	—
Non-Executive Officer Employee Group	—	—

Pursuant to our non-employee director compensation program, revised on February 23, 2015 and effective as of January 4, 2015, each non-employee director serving on our Board (i.e., excluding Mr. Tauscher) will receive an annual award of restricted shares valued at \$140,000 (based on the average market closing price per share of the common stock calculated over the 30-day period ending on the Friday immediately preceding the applicable annual (1) stockholders meeting), which will vest in full on the earlier to occur of the one-year anniversary of the grant date and the date of the annual meeting of our stockholders immediately following the grant date, subject to the director's continued service through the vesting date. The dollar value disclosed above assumes that each non-employee director, including our director nominees, continues to serve on our Board as of the date of the Annual Meeting.

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## Existing Plan Benefits - Awards to Certain Persons Granted as of March 1, 2015

The table below sets forth summary information concerning the number of shares of our common stock subject to stock options, restricted stock units, restricted stock awards, and performance share awards granted to certain persons under the 2013 Plan as of March 1, 2015. Stock options granted under the 2013 Plan to employees typically have a maximum term of seven years. The exercise price of all such stock options may not be less than 100% of the fair market value of the underlying share on the date of grant. Certain awards set forth in this table for the named executive officers were granted in 2013 and therefore also are included in the Summary Compensation Table and in the Grants of Plan-Based Awards Table set forth in this Proxy Statement and are not additional awards. Certain awards set forth in this table for the non-employee directors were granted in 2013 and therefore also are included in the Director Compensation Table set forth in this Proxy Statement and are not additional awards.

Name and Position	2013 Plan Equity Grants as of March 1, 2015				
	Stock Option Grants (#)	Weighted Average Exercise Price (\$)	Restricted Stock Awards (#)	RSUs (#)	Performance Share Awards (Target #)
William Y. Tauscher, Chief Executive Officer and Chairman of the Board	280,700	\$34.01	—	85,550	85,550
Talbott Roche, President	138,100	\$32.92	—	42,100	42,100
Jerry Ulrich, Chief Financial Officer and Chief Administrative Officer	66,650	\$32.72	—	20,300	20,300
David C. Tate, Senior Vice President, Products and Marketing	45,900	\$32.06	15,000	14,000	14,000
Christopher C. Crum, Senior Vice President, Sales	45,900	\$32.06	—	14,000	14,000
All current executive officers as a group (7 persons)	645,250	\$33.21	15,000	217,550	187,550
All current non-employee directors as a group (9 persons)	—	—	56,250	—	—
Mohan Gyani	—	—	7,500	—	—
Paul Hazen	—	—	7,500	—	—
Arun Sarin	—	—	7,500	—	—
Each associate of any such directors, executive officers or nominees	—	—	—	—	—
Each other person who received or is to receive 5 percent of such options or rights	—	—	—	—	—
All employees, including all current officers who are not executive officers, as a group	558,100	\$31.55	155,850	1,541,650	105,600

## Material U.S. Federal Income Tax Consequences

The following is a general summary under current law of the principal United States federal income tax consequences related to awards under the 2013 Plan. 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. This summary is not intended as tax advice to participants, who should consult their own tax advisors.

**Non-Qualified Stock Options.** If an optionee is granted a non-qualified stock option under the 2013 Plan, the optionee should not have taxable income on the grant of the option. Generally, the optionee should recognize ordinary income at the time of exercise in an amount equal to the fair market value of the shares acquired on the date of exercise, less the exercise price paid for the shares. The optionee's basis in the common stock for purposes of determining gain or loss on a subsequent sale or disposition of such shares generally will be the fair market value of our common stock on

the date the optionee exercises such option. Any subsequent gain or loss will be taxable as a long-term or short-term capital gain or loss, depending on the duration for which the shares are held. We or our subsidiaries or affiliates generally should be entitled to a federal income tax deduction at the time and for the same amount as the optionee recognizes ordinary income.

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**Incentive Stock Options.** A participant receiving ISOs should not recognize taxable income upon grant. Additionally, if applicable holding period requirements are met, the participant should not recognize taxable income at the time of exercise. However, the excess of the fair market value of the shares of our common stock received over the option exercise price is an item of tax preference income potentially subject to the alternative minimum tax. If stock acquired upon exercise of an ISO is held for a minimum of two years from the date of the ISO grant and one year from the date of exercise and otherwise satisfies the ISO requirements, the gain or loss (in an amount equal to the difference between the fair market value on the date of disposition and the exercise price) upon disposition of the stock will be treated as a long-term capital gain or loss, and we will not be entitled to any deduction. If the holding period requirements are not met, the ISO will be treated as one that does not meet the requirements of the Code for ISOs and the participant will recognize ordinary income at the time of the disposition equal to the excess of the amount realized over the exercise price, but not more than the excess of the fair market value of the shares on the date the ISO is exercised over the exercise price, with any remaining gain or loss being treated as capital gain or capital loss. We are not entitled to a tax deduction upon either the exercise of an ISO or upon disposition of the shares acquired pursuant to such exercise, except to the extent that the participant recognizes ordinary income on disposition of the shares.

**Other Awards.** The current federal income tax consequences of other awards authorized under the 2013 Plan generally follow certain basic patterns: SARs are taxed and deductible in substantially the same manner as nonqualified stock options; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid, if any, at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); restricted stock units, stock-based performance awards and other types of awards are generally subject to income tax at the time of share delivery or other payment based on the fair market value of the share or other payment delivered on that date. Compensation that is effectively deferred will generally be subject to income taxation when paid, but will typically be subject to employment taxes in any earlier year in which vesting occurs. In each of the foregoing cases, we will generally have a corresponding deduction at the time the participant recognizes income, subject to the limitations imposed by Section 162(m) with respect to covered employees.

**Section 162(m) of the Code**

Section 162(m) denies a deduction to any publicly held corporation for compensation paid to certain “covered employees” in a taxable year to the extent that compensation to such covered employee exceeds \$1,000,000. It is possible that compensation attributable to awards under the 2013 Plan, whether alone or combined with other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year.

The Section 162(m) deduction limitation does not apply to “qualified performance-based compensation.” In order to qualify for the exemption for qualified performance-based compensation, Section 162(m) requires that: (i) the compensation be paid solely upon account of the attainment of one or more pre-established objective performance goals, (ii) the performance goals must be established by a compensation committee comprised of two or more “outside directors”, (iii) the material terms of the performance goals under which the compensation is to be paid must be disclosed to and approved by the stockholders and (iv) a compensation committee of “outside directors” must certify that the performance goals have indeed been met prior to payment.

Section 162(m) contains a special rule for stock options and SARs which provides that stock options and SARs will satisfy the “qualified performance-based compensation” exemption if (i) the awards are made by a qualifying compensation committee, (ii) the plan sets the maximum number of shares that can be granted to any person within a specified period, and (iii) the compensation is based solely on an increase in the stock price after the grant date.

The 2013 Plan has been designed to permit the compensation committee to grant stock options and other awards that will qualify as “qualified performance-based compensation.” At our annual stockholders meeting in 2014, our stockholders approved the material terms of the 2013 Plan for purposes of the stockholder approval requirements of Section 162(m), thus enabling the Company to structure awards granted under the 2013 Plan prior to our 2019 annual meeting of stockholders as qualified performance-based compensation (subject to the satisfaction of the other applicable requirements), if and when deemed appropriate by our compensation committee.

**Section 409A of the Code**



Certain types of awards under the 2013 Plan may constitute, or provide for, a deferral of compensation subject to Section 409A of the Code. Unless certain requirements set forth in Section 409A of the Code are satisfied, holders of such awards may be taxed earlier than would otherwise be the case (e.g., at the time of vesting instead of the time of payment) and may be subject to an additional 20% penalty tax (and, potentially, certain interest penalties and additional state taxes). To the extent applicable, the 2013 Plan and awards granted under the 2013 Plan are intended to be structured and interpreted in a manner intended to either comply with or be exempt from Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance that may be issued under Section 409A of the Code. To the extent determined necessary or

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appropriate by the plan administrator, the 2013 Plan and applicable award agreements may be amended to further comply with Section 409A of the Code or to exempt the applicable awards from Section 409A of the Code.

Recommendation

The Board of Directors unanimously recommends that you vote “FOR” the approval of the Amendment to the 2013 Equity Incentive Award Plan.

The affirmative vote of the holders of a majority in voting power of the shares that are present in person or by proxy and entitled to vote thereon at the Annual Meeting, provided a quorum is present, is required for the approval of the equity incentive plan proposal. Abstentions and broker non-votes will be counted towards a quorum. Abstentions will have the same effect as an “AGAINST” vote for purposes of determining whether this matter has been approved. Broker non-votes will have no effect on the outcome of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE  
FOR  
THE APPROVAL OF THE AMENDMENT TO THE  
BLACKHAWK NETWORK HOLDINGS, INC.  
2013 EQUITY INCENTIVE AWARD PLAN

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## 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 March 1, 2015 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		% of Total Voting Power
	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)	
5% Stockholders:					
Lazard Asset Management LLC (3) 30 Rockefeller Plaza New York, NY 10112	2,539,272	19.43%	—	—%	*
BlackRock, Inc. (4) 55 East 52nd Street New York, NY 10022	1,982,385	15.17%	—	—%	*
The Vanguard Group (5) 100 Vanguard Blvd Malvern, PA 19355	396,166	3.03%	3,341,452	8.25%	8.10%
Janus Capital Management LLC (6) 151 Detroit Street Denver, CO 80206	—	—%	2,916,540	7.20%	6.98%
FMR LLC (7) 245 Summer Street Boston, MA 02210	—	—%	2,472,221	6.10%	5.91%
Citadel Advisors LLC (8) 131 S. Dearborn Street, 32nd Flr Chicago, IL 60603	910,601	6.97%	—	—%	*
Lord Abbett & Co LLC (9) 90 Hudson Street Jersey City, NJ 07302	693,442	5.31%	—	—%	*
P2 Capital Partners LLC (10) 590 Madison Avenue, 25th Floor New York, NY 10022	—	—%	2,100,000	5.19%	5.02%
Named Executive Officers and Directors:					
William Y. Tauscher (11)	38,652	*	756,983	1.84%	1.82%
Talbott Roche (12)	23,525	*	233,513	*	*
Jerry N. Ulrich (13)	12,224	*	156,000	*	*
David C. Tate (14)	19,776	*	18,596	*	*

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Christopher C. Crum (15)	9,539	*	12,525	*	*
Richard H. Bard (16)	3,750	*	—	*	*
Steven A. Burd (17)	7,500	*	50,164	*	*
Robert L. Edwards (18)	3,750	*	114,451	*	*
Mohan Gyani (19)	7,500	*	54,107	*	*

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	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
Paul Hazen (20)	10,400	*	50,000	*	*
Douglas J. Mackenzie (21)	7,500	*	58,214	*	*
Lawrence F. Probst III (22)	7,500	*	50,000	*	*
Arun Sarin (23)	7,500	*	50,000	*	*
Jane J. Thompson (24)	3,750	*	—	—%	
All Executive Officers and Directors as a Group (16 persons) (25)	171,430	1.31%	1,634,621	3.92%	3.95%

\* Represents beneficial ownership of less than 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

(1) exercisable within 60 days of March 1, 2015 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 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.

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 March 1, 2015. The number of

(2) 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.

Based on a Schedule 13D filed with the SEC on March 4, 2015 by Lazard Asset Management LLC (Lazard).

(3) Lazard reports having sole voting power over 1,652,239 shares of Class A Common Stock and sole dispositive power over 2,539,272 shares of Class A Common Stock.

Based on a Schedule 13G/A filed with the SEC on January 9, 2015 by BlackRock, Inc. (BlackRock). BlackRock

(4) reports having sole voting power over 1,904,897 shares of Class A Common Stock and sole dispositive power over 1,982,385 shares of Class A Common Stock.

Based on two Schedule 13Gs filed with the SEC on February 11, 2015 by The Vanguard Group (Vanguard).

(5) Vanguard reports having sole voting power over 2,949 shares of Class A Common Stock and 64,908 shares of Class B Common Stock. Vanguard reports having sole dispositive power over 393,217 shares of Class A Common Stock and 3,280,944 shares of Class B Common Stock.

Based on a Schedule 13G filed with the SEC on February 18, 2015 by Janus Capital Management LLC (Janus).

(6) Janus reports having sole voting power and sole dispositive power over 2,916,540 shares of Class B Common Stock.

(7) Based on a Schedule 13G filed with the SEC on February 13, 2015 by FMR LLC (FMR). FMR reports having sole voting power over 74,662 shares of Class B Common Stock and 2,472,221 shares of Class B Common Stock.

(8) Based on a Schedule 13G filed with the SEC on February 17, 2015 by Citadel Advisors LLC (Citadel).

Based on a Schedule 13G filed with the SEC on February 13, 2015 by Lord Abbett Developing Growth Fund, Inc.

(9) (Lord Abbett). Lord Abbett reports having sole voting power and sole dispositive power over 693,442 shares of Class A Common Stock.

(10) Based on a Form 13F filed with the SEC on February 17, 2015 by P2 Capital LLC.

Consists of (i) 28,888 shares of Class A Common Stock that may be acquired by William Y. Tauscher pursuant to (11) the exercise of stock options within 60 days of March 1, 2015, (ii) 8,763 shares of Class A Common Stock that may be

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released to Mr. Tauscher pursuant to a restricted stock unit award within 60 days of March 1, 2015, (iii) 1,001 shares of Class A Common Stock held by Mr. Tauscher, (iv) 733 shares of Class B Common Stock held by Mr. Tauscher, and (v) 756,250 shares of Class B Common Stock that may be acquired by Mr. Tauscher pursuant to the exercise of stock options within 60 days of March 1, 2015.

(12) Consists of (i) 1,000 shares of Class A Common Stock held by Talbott Roche, (ii) 17,275 shares of Class A Common Stock that may be acquired by Ms. Roche pursuant to the exercise of stock options within 60 days of March 1, 2015, (iii) 5,250 shares of Class A Common Stock that may be released to Ms. Roche pursuant to a restricted stock unit award within 60 days of March 1, 2015, (iv) 98,663 shares of Class B Common Stock held by Ms. Roche, (v) 6,000 shares of Class B Common Stock held by Ms. Roche that are currently unvested and subject to the Company's repurchase option, and (vi) 128,850 shares of Class B Common Stock that may be acquired by Ms. Roche pursuant to the exercise of stock options within 60 days of March 1, 2015.

(13) Consists of (i) 1,011 shares of Class A Common Stock held by Jerry N. Ulrich, (ii) 8,600 shares of Class A Common Stock that may be acquired by Mr. Ulrich pursuant to the exercise of stock options within 60 days of March 1, 2015, (iii) 2,613 shares of Class A Common Stock that may be released to Mr. Ulrich pursuant to a restricted stock unit award within 60 days of March 1, 2015, (iv) 34,000 shares of Class B Common Stock held by Mr. Ulrich, (v) 21,000 shares of Class B Common Stock held by The Ulrich Family Trust Dated November 1, 1996 as Amended and Restated in 2011, (vi) 6,000 shares of Class B Common Stock held by Mr. Ulrich that are currently unvested and subject to the Company's repurchase option and (vii) 101,000 shares of Class B Common Stock that may be acquired by Mr. Ulrich pursuant to the exercise of stock options within 60 days of March 1, 2015.

(14) Consists of (i) 11,250 shares of Class A Common Stock held by David C. Tate that are currently unvested and subject to the Company's repurchase option, (ii) 6,538 shares of Class A Common Stock that may be acquired by Mr. Tate pursuant to the exercise of stock options within 60 days of March 1, 2015, (iii) 1,988 shares of Class A Common Stock that may be released to Mr. Tate pursuant to a restricted stock unit award within 60 days of March 1, 2015, (iv) 3,821 shares of Class B Common Stock held by Mr. Tate, (v) 2,500 shares of Class B Common Stock held by Mr. Tate that are currently unvested and subject to the Company's repurchase option, and (vi) 12,275 shares of Class B Common Stock that may be acquired by Mr. Tate pursuant to the exercise of stock options within 60 days of March 1, 2015.

(15) Consists of (i) 1,013 shares of Class A Common Stock held by Christopher C. Crum, (ii) 6,538 shares of Class A Common Stock that may be acquired by Mr. Crum pursuant to the exercise of stock options within 60 days of March 1, 2015, (iii) 1,988 shares of Class A Common Stock that may be released to Mr. Crum pursuant to a restricted stock unit award within 60 days of March 1, 2015, (iv) 2,000 shares of Class B Common Stock held by Mr. Crum and (v) 10,525 shares of Class B Common Stock that may be acquired by Mr. Crum pursuant to the exercise of stock options within 60 days of March 1, 2015.

(16) Consists of 3,750 shares of Class A Common Stock held by Richard H. Bard that are currently unvested and subject to the Company's repurchase option.

(17) Consists of (i) 3,750 shares of Class A Common Stock held by Steven A. Burd, (ii) 3,750 shares of Class A Common Stock held by Mr. Burd that are currently unvested and subject to the Company's repurchase option and (iii) 50,164 shares of Class B Common Stock held by Mr. Burd.

(18) Consists of (i) 3,750 shares of Class A Common Stock held by Robert L. Edwards that are currently unvested and subject to the Company's repurchase option, and (ii) 114,451 shares of Class B Common Stock held by Mr. Edwards.

(19) Consists of (i) 3,750 shares of Class A Common Stock held by Mohan Gyani, (ii) 3,750 shares of Class A Common Stock held by Mr. Gyani that are currently unvested and subject to the Company's repurchase option, (iii) 4,107 shares of Class B Common Stock held by Mr. Gyani and (iv) 50,000 shares of Class B Common Stock that may be acquired by Mr. Gyani pursuant to the exercise of stock options within 60 days of March 1, 2015.

(20) Consists of (i) 6,650 shares of Class A Common Stock held by Paul Hazen, (ii) 3,750 shares of Class A Common Stock held by Mr. Hazen that are currently unvested and subject to the Company's repurchase option and (iii) 50,000 shares of Class B Common Stock held by Mr. Hazen.

Consists of (i) 3,750 shares of Class A Common Stock held by Douglas J. Mackenzie, (ii) 3,750 shares of Class A Common Stock held by Mr. Mackenzie that are currently unvested and subject to the Company's repurchase (21) option, (iii) 8,214 shares of Class B Common Stock held by Mr. Mackenzie and (iv) 50,000 shares of Class B Common Stock that may be acquired by Mr. Mackenzie pursuant to the exercise of stock options within 60 days of March 1, 2015.

Consists of (i) 3,750 shares of Class A Common Stock held by Lawrence F. Probst III, (ii) 3,750 shares of Class (22) A Common Stock held by Mr. Probst that are currently unvested and subject to the Company's repurchase option and (iii)



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50,000 shares of Class B Common Stock that may be acquired by Mr. Probst pursuant to the exercise of stock options within 60 days of March 1, 2015.

(23) Consists of (i) 3,750 shares of Class A Common Stock held by Arun Sarin, (ii) 3,750 shares of Class A Common Stock held by Mr. Sarin that are currently unvested and subject to the Company's repurchase option and (iii) 50,000 shares of Class B Common Stock that may be acquired by Mr. Sarin pursuant to the exercise of stock options within 60 days of March 1, 2015.

(24) Consists of 3,750 shares of Class A Common Stock held by Jane J. Thompson that are currently unvested and subject to the Company's repurchase option.

(25) Consists of (i) 31,039 shares of Class A Common Stock held by all Executive Officers and Directors as a group, (ii) 45,000 shares of Class A Common Stock that are currently unvested and subject to the Company's repurchase option, (iii) 95,391 shares of Class A Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of March 1, 2015, (iv) 335,130 shares of Class B Common Stock held by all Executive Officers and Directors as a group, (v) 14,500 shares of Class B Common Stock that are currently unvested and subject to the Company's repurchase option and (vi) 1,280,950 shares of Class B Common Stock that may be acquired pursuant to the exercise of stock options within 60 days of March 1, 2015.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the year ended January 3, 2015, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with, other than the exceptions noted below.

A Form 4 for each of Steven A. Burd, Robert L. Edwards, Mohan Gyani, Paul Hazen, Douglas J. Mackenzie, Lawrence F. Probst III and Arun Sarin, our non-employee directors to report the grant of an award of restricted stock under our Director Program was inadvertently overlooked and filed late;

- A Form 4 for David C. Tate, our Senior Vice President, Products and Marketing to report a restricted share release and withholding of shares for taxes was inadvertently overlooked and filed late;

- A Form 4 for Christopher C. Crum, our Senior Vice President, Sales to report the sale of shares of Class B Common Stock was inadvertently overlooked and filed late; and

- A Form 3 for Richard Bard was filed late following his initial appointment as a director.

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## COMPENSATION OF DIRECTORS

## Director Compensation

Our Board has approved a compensation plan, which we refer to as the Director Program, for our non-employee directors, whom we refer to as eligible directors.

Under the Director Program, eligible directors are entitled to receive a combination of cash and equity-based compensation. Compensation paid to eligible directors in 2014 under the Director Program reflected terms the Board established in connection with our initial public offering in April 2013. On February 23, 2015, based on the compensation committee's recommendation following an evaluation it conducted, with Mercer's assistance, of our peer group's director compensation programs, the compensation committee amended the Director Program, effective January 4, 2015, in order to more closely align our Director Program with market practice and retain high caliber directors to serve on the Board. The Director Programs for 2014 and 2015 are summarized in the following table:

	2014 Director Program	2015 Director Program
Annual Board Retainer	\$50,000	\$60,000
Annual Committee Chair	\$15,000 (Audit Committee)	\$15,000 (Audit Committee)
Retainers	\$10,000 (Compensation Committee)	\$10,000 (Compensation Committee)
	\$5,000 (Nominating Committee)	\$5,000 (Nominating Committee)
	\$10,000 (Audit Committee)	\$10,000 (Audit Committee)
Annual Committee Member	\$7,500 (Compensation Committee)	\$7,500 (Compensation Committee)
Retainers	\$7,500 (Nominating/Governance Committee)	\$7,500 (Nominating/Governance Committee)
Annual Lead Independent Director Retainer	\$0	\$6,000
Annual Equity Grant	3,750 shares of restricted stock	\$140,000 restricted stock

Annual cash retainers are paid in quarterly cash installments in arrears following the end of the applicable calendar quarters. The differences in Board committee retainers reflect the Board's judgment of each Board Committee's respective workload. The committee chairs also receive the committee member retainer for the same Board committee.

Each eligible director serving on the Board on the date of each annual stockholder meeting will receive an award of restricted shares, which will vest in full on the earlier to occur of the one-year anniversary of the grant date and the date of the annual meeting of our stockholders immediately following the grant date, subject to the director's continued service through the vesting date. As noted in the table above, the each award granted in connection with our 2014 annual stockholder meeting covered 3,750 restricted shares. Each award granted in connection with our 2015 annual stockholder meeting will have a value equal to \$140,000, based on the average market closing price per share of the Common Stock for the 30-day period ending on the Friday immediately preceding the annual stockholder meeting. In addition, in December 2014, our Board granted Mr. Bard and Ms. Thompson an award of 3,750 restricted shares in connection with their appointment to our Board in October 2014. These awards will vest in full on May 20, 2015, subject to the director's continued service through such date.

We reimburse all directors for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the Board and its committees. We do not provide retirement benefits to our non-employee directors.

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In the table below, we have set forth information regarding the compensation of our eligible directors for the fiscal year ended January 3, 2015.

Name of Director (1)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) (2)	Total (\$)
Richard H. Bard (3)	15,000	136,838	151,838
Steven A. Burd (3)	62,500	90,600	153,100
Robert L. Edwards (4)	44,375	90,600	134,975
Mohan Gyani (3)	82,500	90,600	173,100
Paul Hazen (3)	57,500	90,600	148,100
Douglas J. Mackenzie (3)	62,500	90,600	153,100
Lawrence F. Probst III (3)	60,000	90,600	150,600
Arun Sarin (3)	57,500	90,600	148,100
Jane J. Thompson (3)	14,375	136,838	151,213

Mr. Tauscher, our Chief Executive Officer, is not included in this table as he is an employee of the company and (1) does not receive compensation for his services as a director. All compensation paid to Mr. Tauscher in 2014 for services he provided to us is reflected in the Summary Compensation Table.

In 2014, each director named in the table above received a grant of 3,750 restricted shares. Amounts reflect the full grant date fair value of restricted stock awards granted with respect to services performed in 2014 computed in accordance with ASC Topic 718, rather than the amounts paid to or realized by the named individual. We provide (2) information regarding the assumptions used to calculate the value of all restricted stock awards made to directors in Notes 1 and 8 to our financial statements included in our Form 10-K filed March 4, 2015. The full grant date fair value for Messrs. Burd, Edwards, Gyani, Hazen Mackenzie, Probst and Sarin was \$24.16. The full grant date fair value for Mr. Bard and Ms. Thompson was \$36.49.

(3) As of January 3, 2015 the non-employee directors each held 3,750 shares of restricted stock of Class A Common Stock that vests in full on May 20, 2015.

Mr. Edwards is employed by Safeway Inc. Since April 14, 2014, the date of the Spin-Off from Safeway, Mr. (4) Edwards has been considered a non-employee director and received compensation from us under the Director Program.

#### Non-Employee Director Stock Ownership Policy

In April 2014, we adopted a stock ownership policy for all non-employee directors. All non-employee directors are required to accumulate shares of the Company's stock equal in value to at least three times the amount of their annual cash retainer as determined on December 31 of each year. Non-employee directors are expected to meet their ownership requirements by December 31, 2019, but any newly appointed directors are expected to meet their ownership requirements within five years following their appointment date.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section discusses the material components of the executive compensation program for our named executive officers. In 2014, our “named executive officers” and their positions were as follows:

- William Y. Tauscher, Chairman and Chief Executive Officer;
- Talbott Roche, President;
- Jerry Ulrich, Chief Financial Officer and Chief Administrative Officer;
- David C. Tate, Senior Vice President, Products and Marketing; and
- Christopher C. Crum, Senior Vice President, Sales.

Specifically, this section provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program and each compensation component that we provide. Each of the key elements of our executive compensation program is discussed in more detail below. The following discussion and analysis of compensation arrangements of our named executive officers should be read together with the compensation tables and related disclosures set forth below.

Executive Summary

Compensation Objectives and Philosophy

Our compensation programs for our executive officers are designed to attract and retain excellent managers and to motivate these managers to increase the market value of our stock over the long term. In support of these principal objectives, our compensation programs are designed to:

• Provide our executives with base salaries, retirement and other benefits and perquisites that are competitive with those provided by other companies with whom we compete for executive talent, in order to attract, motivate and retain high performance individuals;

• Tie a significant portion of total compensation to annual bonuses and performance-based compensation that reward our executives for the attainment of our financial, operational and strategic goals, when met or exceeded; and

• Motivate our executives using equity-based compensation in order to improve our long-term performance.

We believe our compensation programs place emphasis on the achievement of Company-wide goals. We believe these features help align the interests of our executives with those of our long-term stockholders, promote the objective of compensating our executives for Company-wide performance and advance our objective of increasing stockholder returns.

Key Policies and Practices

We have implemented a number of policies and practices to drive performance, mitigate excessive risk taking and promote alignment of executive and stockholder interests. A summary of these policies and practices is below.

What We Do

• Place a Significant Percentage of Compensation at Risk to Align Pay and Performance

• Mitigate Undue Risk in Compensation by Placing Caps on Incentive Awards

• Regularly Review Share Utilization to Ensure Reasonable Dilution Levels

- Utilize an Independent Compensation Consulting Firm

• Provide Reasonable Post-Employment/Change in Control Provisions

• Grant a Portion of Long-Term Equity Incentives as Performance-Based Awards (new program adopted in fiscal year 2014)

• Maintain a Clawback Policy and a Stock Ownership Policy for Executives

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What We Don't Do

- No Employment Contracts, except with our CFO
- No Excessive Severance or Change In Control Benefits, Including No Single-Trigger Vesting for Stock Options and Stock Awards Granted after our Initial Public Offering
- No Historical Repricing of Underwater Stock Options
- No Dividend or Dividend Equivalents Paid on Unearned Performance Awards
- No Tax Gross-Ups
- No Perquisites or Supplementary Retirement Benefits (except frozen benefits with Safeway)

New Pay for Performance Long-Term Incentive Compensation Program

In 2014, after much consideration and review, the compensation committee implemented a new long-term incentive compensation program that provides clear objectives, targets and improved alignment with measurable Company performance. The new program also puts more compensation at risk based on our performance and, in general, is more representative of best market practices.

Our new long-term incentive compensation program comprises awards of performance shares that are earned over a one-year performance period (the Company's 2014 fiscal year) and vest in full on December 31, 2016, subject to continued service, thus promoting retention by delaying full payout for an additional two years after the performance period is over.

Each named executive officer is eligible to earn, vest in and receive a number of shares of the Company's Class A Common Stock ranging from 0% - 200% of the target number of performance shares granted based on the attainment of adjusted operating revenue growth and adjusted EBITDA growth at certain levels during the performance period, as measured against the Company's adjusted operating revenue and adjusted EBITDA for fiscal year 2013. If the Company does not achieve at least the minimum goal for both performance goals, then all of the performance shares will be forfeited.

Elements of Compensation

The compensation committee uses four core compensation and benefits elements to provide a competitive overall compensation and benefits package to executive officers. We believe each of these elements forms an integral part of the overall compensation program and, taken collectively, these elements serve to achieve our compensation objectives, as follows:

Compensation Element	Primary Objective
Base salary	To provide a stable part of the compensation package; recognize ongoing performance of job responsibilities and provide a degree of financial certainty; also a necessary tool in attracting and retaining employees.
Annual performance-based cash compensation (bonuses)	To emphasize corporate and individual objectives and provide reward (and retention) opportunities for our named executive officers (and employees generally) when key business objectives are met.
Long-term equity incentive compensation	To incentivize and reward increases in stockholder value, to link pay to business performance, to emphasize and reinforce our focus on team success; also a necessary tool in attracting and retaining key employees.
401(k) and other benefits also provided to the broader employee population	To provide retirement savings in a tax-efficient manner and to provide a basic level of protection from health, dental, life and disability risks and provide a degree of financial certainty; also a necessary tool in attracting and retaining employees.
Favorable Say on Pay Vote	

At our 2014 annual meeting, which was our first annual meeting as a public company, our stockholders cast an advisory vote on the compensation of our named executive officers (a “say-on-pay” vote). A substantial majority (99.79%) of the votes cast at that meeting (including abstentions but excluding broker non-votes) voted in favor of the say-on-pay proposal and

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approved, on an advisory basis, the compensation of our named executive officers that was set forth in the related proxy statement. In evaluating our executive compensation program following this advisory vote, the compensation committee has considered the results of the say-on-pay vote as well as other factors discussed in this section. While each of these factors informed the compensation committee's decisions regarding the compensation of our named executive officers, in light of the high level of stockholder support received in 2014, the compensation committee has not implemented significant changes to our executive compensation program since that time.

At our 2014 annual meeting, our stockholders also cast an advisory vote on the frequency with which our stockholders should be asked to vote on a say-on-pay proposal (the "say-on-frequency" proposal). A substantial majority (98.17%) of the votes cast at that meeting (including abstentions but excluding broker non-votes) voted in favor of a triennial say-on-pay vote. Accordingly, our Board decided to provide our stockholders with the opportunity to provide an advisory vote on our executive compensation every three years, and the say-on-pay proposal will be included in the proxy statement relating to, and will be voted on at, our 2017 annual meeting.

### How Compensation is Determined

#### Engagement of Compensation Consultants

In connection with, and since completion of our initial public offering in April 2013, the compensation committee has engaged and continues to engage Mercer to assist it in designing programs and setting compensation levels that are appropriate for a public company.

The executive compensation services provided by Mercer to the compensation committee during the 2014 fiscal year included the following:

- Development of a peer group of comparable public companies for purposes of determining executive compensation levels

- Assessment of market director compensation practices for purposes of developing a competitive board of director compensation program

- Assessment of cash and equity compensation for the top five executives relative to the peer group

- Assessment of total equity usage, dilution rates and equity plan design relative to the peer group and general market practices

- Advice on governance best practices and market trends

- Advice on other ad hoc matters related to rewarding top executive talent

- Attends each committee meeting, including executive sessions

#### Evaluation of Market Competitiveness

The compensation committee considers multiple data sources in making decisions about executive compensation. In general, the compensation committee aims to position total compensation within a reasonable range of market 50th percentile, defined as the middle point of relevant peer group and survey market data. However, market data is not applied in a formulaic manner and other factors may have an equal or greater impact on compensation decisions.

For example, the positioning of an executive officer's individual pay may be positioned above or below the market median based on factors such as experience, proficiency and attraction, retention and succession planning requirements. In addition, the positioning of each element of compensation may vary based on broader considerations, such as the desired pay mix for certain roles, the impact of compensation decisions on accounting expense or stockholder dilution, or the need to tailor the compensation package to compete with a broader set of competitors for local talent.



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## Peer Group Comparison

The compensation committee selects peer companies primarily based on industry similarity and company size, which is measured by revenue. To attract, retain and engage high performing leaders, we believe that our peer group needs to be aligned with our strategic vision and include companies:

that represent an appropriate range from a size and scope perspective;

that operate in Data Processing & Outsourced Services, Application Software or Consumer Finance industries; and

with whom we compete for talent.

The peer group used for making 2014 compensation decisions comprises 13 companies:

Company	Market Cap as of December 31, 2014 (\$ (1)	Revenue (\$ (2)	Earnings (\$ (2)	Approx. # of Employees (3)	Business Alignment (4)	Compete for Talent
ACI Worldwide, Inc.	2,337M	1,016M	68M	4,472		
Cardtronics, Inc.	1,729M	1,055M	28M	2,683		
Euronet Worldwide, Inc.	2,838M	1,664M	102M	4,600		
Fleetcor Technologies, Inc.	13,634M	1,199M	369M	4,780		
Global Cash Access Holdings, Inc.	469M	581M	24M	427		
Global Payments Inc.	5,414M	2,693M	257M	4,135		
Green Dot Corporation	1,059M	602M	43M	857		
Heartland Payment Systems, Inc.	1,964M	2,311M	34M	3,734		
Moneygram International, Inc.	483M	1,455M	72M	2,727		
Total System Services, Inc.	6,284M	2,447M	329M	9,900		
Vantiv, Inc.	4,891M	2,577M	125M	3,299		
Verifone Systems Inc.	4,216M	1,869M	(38M)	5,200		
Wex Inc.	3,838M	818M	202M	2,004		
Blackhawk	2,031M	1,445M	46M	1,860		
Percentile Rank (4)	35	% 50	% 34	% 16	%	
2013 Percentile Rank (5)	19	% 45	% 23	%		

(1) Based on the closing stock price on December 31, 2014 and shares of common stock outstanding publicly-reported on or around December 31, 2014.

(2) Data presented in the table above is for the four most recently disclosed quarters.

(3) The Company's market sector spans pre-paid, payments, and financial services; therefore, we align our practices with select companies in these industry areas.

(4) Based on 2014 data.

(5) At the time of the peer group selection in the fourth quarter of 2013, the Company's percentile rank was 19% for market cap, 45% for revenues and 23% for earnings.

Data from Radford's publicly-available Global Technology Survey was also considered by the compensation committee as a secondary market reference point. The survey data is scoped based on revenue to reflect similarly sized companies, but represents a broader set of technology companies than the peer group listed above. Both national and Northern California data is reviewed, although neither is applied formulaically in making compensation decisions. We annually evaluate the composition of our peer group for factors such as recent acquisitions completed by our peer companies, new markets that we have entered and changes in our market landscape. With assistance from our compensation consultant Mercer, we will conduct our 2015 annual review. Based on these factors, we anticipate a slight refinement of our peer group.



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## Elements of Compensation

## Base Salaries

We provide our executive officers, including our named executive officers, with a base salary to compensate them for services rendered to the Company during the fiscal year. Generally, initial base salary amounts were established based on a number of factors, including the scope of the named executive officer's responsibilities, years of service and the Board's or compensation committee's general knowledge of the competitive market based on, among other things, experience with other companies and our industry.

Thereafter, base salaries have been evaluated annually for all executive officers. In addition to the factors above, individual factors are also considered, in a subjective manner, in setting base salaries, including the executive's experience, achievements, leadership, teamwork and value to the Company. Consideration of these individual factors encourages our executives to improve their individual performances.

Since our initial public offering, the base salary of our CEO, Mr. Tauscher is determined annually by our compensation committee. At the end of each fiscal year, our compensation committee collects information regarding Mr. Tauscher's performance and discusses relevant issues and matters with him. Our compensation committee subsequently meets, without Mr. Tauscher present, and conducts a formal performance review of Mr. Tauscher and sets his base salary for the next fiscal year.

Mr. Tauscher assesses the individual performance of each other named executive officer and proposes to our compensation committee the executive's base salary. Our compensation committee relies on the experience of its members and Mr. Tauscher's assessment to determine the other named executive officers' base salaries.

In 2014, base salaries for all of the executive officers were increased using the process above by a range of 3% to 18.2%. These increases were determined primarily based on consideration of general industry base pay increase trends for executives as reported by Mercer, but also considered individual competitiveness against market benchmarks. The compensation committee believes these increases in base salary were appropriate based on the Company's performance and each executive's strong individual achievements in 2013.

## 2014 Bonuses

The primary purpose of our bonus program is to motivate our executives to meet or exceed Company-wide performance goals, particularly on a short-term basis. We believe bonus programs at certain levels are necessary for competitive purposes to attract and retain desirable executives. The fact that named executive officers must be employed by the Company on the payment date as a condition of bonus eligibility also assists in retention.

For 2014, the compensation committee approved the 2014 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. The metrics used to measure achievement, rationale for selection and the respective weighting of each are detailed in the table below for each executive officer:

Purpose	Metrics	
	Corporate Pre-Tax Income (1)	Segment Direct Margin (2)
	Provides strong line of sight to both growth and expense management	Measures efficiency and effectiveness of efforts to grow business
Executive	Weightings	
William Y. Tauscher	100%	—%
Talbott Roche (3)	50%	50%
Jerry Ulrich	100%	—%
David C. Tate (3)	50%	50%
Christopher C. Crum (3)	50%	50%

(1)

In determining corporate pre-tax income, we exclude any credit or expense taken for distribution partner mark-to-market expense, stock-based compensation expense, change in fair value of contingent consideration, amortization of intangible assets and certain other non-cash and cash expenses that we believe are not indicative of our core operating performance.

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(2) Direct margin is defined as product revenue minus directly attributable costs for U.S. business and excludes any mark-to-market of equity instruments held by distribution partners.

(3) Segment Direct Margin relates to US. Direct Margin for Ms. Roche, Mr. Tate and Mr. Crum.

In addition, the compensation committee approved threshold, target and maximum bonuses for each executive, as set forth below, based on each executive's annual base salary:

Named Executive Officer	Threshold Bonus	Target Bonus	Maximum Bonus
William Y. Tauscher	50%	100%	150%
Talbott Roche	50%	80%	120%
Jerry Ulrich	50%	80%	120%
David C. Tate	50%	80%	120%
Christopher C. Crum	50%	80%	120%

The actual annual cash bonuses payable under our 2014 Bonus Plan were based on achievement of results for each metric, as detailed in the table below. The bonuses earned by each executive is set forth in the "Summary Compensation Table" below in the column titled "Non-Equity Incentive Plan Compensation."

	Goals and Performance Attainment by Metric		
	Corporate Pre-Tax Income	US Direct Margin	
Threshold Goal	\$89.0M	\$187.7M	
Target Goal	\$111.3M	\$234.6M	
Maximum Goal	\$133.5M	\$281.5M	
Actual Results	\$112.8M	\$232.6M	
Attainment	101	% 99	%

For 2015, the compensation committee has approved a substantially similar bonus program.

#### Equity Awards

The goals of our long-term equity-based awards are to reward and encourage long-term corporate performance based on the value of our common stock and, thereby, to align the interests of our executive officers, including our named executive officers, with those of our stockholders.

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

The 2006 Plan provided for the grant of restricted stock and restricted stock units, and the 2007 Plan provided for the grant of stock options and stock appreciation rights. In March 2013, we adopted the 2013 Equity Incentive Award Plan (2013 Plan), which became effective in connection with our initial public offering in April 2013. Upon the effectiveness of the 2013 Plan, no further grants have been, or will be, made under the 2006 Plan or the 2007 Plan. In addition, in December 2013, we adopted the 2013 Employee Stock Purchase Plan (ESPP), in order to provide additional incentives for our employees and to align employee interests with the long term success of the Company.

We historically have used stock options as a key equity incentive vehicle because we believe stock options reward our named executive officers in a manner that best aligns their interests with the interests of our stockholders. Because our named executive officers are able to benefit from stock options only if the fair market value of our common stock increases relative to the option's exercise price, we believe stock options provide meaningful incentives to our named executive officers to achieve increases in the value of our stock over time and are an effective tool for meeting our compensation goal of increasing long-term stockholder value by tying the value of these incentive awards to our future performance. We believe our long-term equity compensation also encourages the retention of our named executive officers because the vesting of equity awards has been largely based on continued employment.

We also have granted restricted stock to our named executive officers. These awards are intended to enable our named executive officers to establish a meaningful equity stake in the Company that vests over a period of years based on continued service. We believe that these awards enable us to deliver competitive compensation value to named executive officers at levels sufficient to retain top talent within our executive officer ranks.



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The compensation committee generally grants annual equity awards at the first quarterly compensation committee meeting of the year, unless otherwise specified by our Board of Directors or the compensation committee. The exercise price of each stock option grant is at least equal to the fair market value of our common stock on the grant date. The compensation committee does not grant equity compensation awards in anticipation of the release of material nonpublic information, nor do we time the release of material nonpublic information based on equity award grant dates.

**2014 Equity**

In the fourth quarter of 2013, the compensation committee reviewed the equity award program for our named executive officers. Based on analysis and guidance provided by Mercer, the compensation committee decided to move from the practice of predominately using stock options as the key equity incentive vehicle to an approach utilizing a mix of stock options, restricted stock units and performance shares. The new approach is intended to be more aligned with peer practices, to increase performance linkage and to provide a broader spectrum of incentives for retention.

Legend:                    Stock Options/SARs                    Restricted Stock Shares/Units                    Performance Stock Shares/Units

\* Based on the Mercer Peer Prevalence Mix figures

In determining 2014 grant levels for each named executive officer, the compensation committee reviewed market long-term incentive grant values for comparable roles at comparable companies. The compensation committee also considered subjective individual factors such as performance in recent years, experience, leadership potential and perceived retention risk.

Based on the above analysis, the compensation committee in 2014 granted a mix of stock options, restricted stock units and performance shares to our named executive officers. The following table sets forth the stock option and restricted stock awards granted to our named executive officers in the 2014 fiscal year.

Named Executive Officer	2014	2014
	Stock Option Grants	Restricted Stock Unit Grants
William Y. Tauscher	115,550	35,050
Talbott Roche	69,100	21,000
Jerry Ulrich	34,400	10,450
David C. Tate	26,150	7,950
Christopher C. Crum	26,150	7,950

The stock options and restricted stock awards above vest in 25% annual installments over a period of four years which we believe aligns with the practices of our peer companies. We also believe the vesting schedule of our stock options and restricted stock appropriately encourages long-term employment with the Company while allowing our executives to realize compensation that corresponds to with the value they have created for our stockholders.

With the introduction of performance share awards as a portion of equity-based compensation for our executives in 2014, we have granted and expect to continue to grant performance share awards each year that are earned over a performance period based on the achievement of pre-determined performance goals. The performance share awards thus increase the linkage of pay to performance.

For awards granted in 2014, the performance period covered the 2014 fiscal year only. In future years we expect the performance period to cover two or more fiscal years. The number of performance shares earned with respect to the 2014

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awards is based on our attainment of adjusted operating revenue growth and adjusted EBITDA growth at certain levels. Adjusted operating revenue is calculated in accordance with the same methodology used to calculate such named Non-GAAP metric as reported in the Company's Part II, Item 7 as set forth in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A). Adjusted EBITDA is calculated in accordance with the same methodology used to calculate such named Non-GAAP metric as reported in the Company's 2015 Annual Report on Form 10-K, also as set forth in the MD&A section. Calculation of the percentage growth in each performance metric is determined by measuring the fiscal year 2014 metric against the same metric for fiscal year 2013. Each of the performance criteria is weighted at 50%. The following table sets forth the minimum, target and maximum performance goals for each performance criteria:

	Company 2014 Performance Criteria		
	Minimum	Target	Maximum
Adjusted EBITDA Growth	12.5%	20%	30%
Adjusted Operating Revenue Growth	12.5%	20%	30%

Each named executive officer is eligible to earn a number of shares of the Company's Class A Common Stock ranging from 0% - 200% of the target number of performance shares granted, based on the attainment of the performance goals. If the Company does not achieve at least the minimum goal for both performance goals, then all of the performance shares will be forfeited. The following table sets forth the threshold, target and maximum number of performance shares each named executive officer is eligible to earn based on the attainment of the applicable performance criteria at the threshold, target and maximum goals:

## Executive Officer Eligibility for 2014 Performance Shares

Named Executive Officer	Threshold Number of Performance Shares	Target Number of Performance Shares	Maximum Number of Performance Shares
William Y. Tauscher	17,525	35,050	70,100
Talbott Roche	10,500	21,000	42,000
Jerry Ulrich	5,225	10,450	20,900
David C. Tate	3,975	7,950	15,900
Christopher C. Crum	3,975	7,950	15,900

In 2014, the Company attained an adjusted EBITDA growth of 26% and an adjusted operating revenue net of certain non-cash partner distribution expenses growth of 30%. Accordingly, the named executive officers earned the following number of performance shares:

Named Executive Officer	Number of Earned 2014 Performance Shares
William Y. Tauscher	63,090
Talbott Roche	37,800
Jerry Ulrich	18,810
David C. Tate	14,310
Christopher C. Crum	14,310

These performance shares earned under the 2014 performance program will vest in full on January 3, 2017, subject to continued service with the Company.

## Other Elements of Compensation

## Retirement Plans

401(k) Plan. Our eligible employees, including our named executive officers, are 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. Under the Blackhawk Network 401(k) Plan, the Company may match a portion of our employee's annual contributions, within prescribed limits.





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### Employee Benefits and Perquisites

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. 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.

Historically, we have not provided any perquisites to our executives that are not available to other employees, nor have we made gross-up payments to cover our named executive officers' personal income taxes that may pertain to any of the compensation or benefits we offer. In the future, we may provide different and/or additional perquisites to our named executive officers to ensure that we provide a balanced and comprehensive compensation structure. We believe that it is important to maintain flexibility to adapt our compensation structure to properly attract, motivate and retain the top executive talent for which we compete.

### Severance and Change in Control Benefits

Historically, we have not entered into severance or change in control agreements with our named executive officers whether such termination is voluntary, for cause or otherwise, other than Mr. Ulrich, who is eligible under his employment agreement to receive continuation of his base salary for one year upon a termination of employment other than for cause.

However, in April 2014, the compensation committee adopted an executive change in control severance plan (Severance Plan), for certain employees of the Company, including each of the Company's named executive officers, because it believes change in control and severance benefits are essential to fulfill our objective of attracting and retaining key managerial talent. A summary of the Severance Plan is provided under the caption "Potential Payments Upon Termination or Change in Control" below.

### Other Guidelines and Policies

#### Stock Ownership Policy for Executives

In April 2014, we adopted a stock ownership policy for our executives to help ensure that each maintains an equity stake in the Company and, by doing so, to appropriately link their interests with those of other stockholders. The requirement for executive officers is based on a multiple of the executive's base salary. The current ownership requirements for executive officers are a value equal to 2.0 times base salary (4.0 times salary for the CEO) as determined on December 31 of each year. Executives are expected to meet their ownership requirements by December 31, 2019. Any newly hired or promoted executives are expected to meet their ownership requirements within five years of their hire or promotion date.

#### Clawback Policy

In April 2014, we adopted a clawback policy, pursuant to which the Company may seek reimbursement of incentive compensation (cash and equity-based) paid to executive officers on the basis of reported financial results that were later the subject of a financial statement restatement. Reimbursement under the policy, which became effective December 29, 2013, is limited to the extent the bonus, incentive compensation and/or equity based awards granted would have been less had they been based on the restated financial results.

### Tax and Accounting Considerations

#### Internal Revenue Code Section 162(m)

Generally, Section 162(m) of the Code (Section 162(m)), disallows a tax deduction for any publicly-held corporation for individual compensation exceeding \$1.0 million in any taxable year to its chief executive officer and each of its three other most highly compensated executive officers, other than its chief financial officer, unless compensation qualifies as "performance-based compensation" within the meaning of the Code. Prior to completion of our initial public offering in April 2013, the Board and Chief Executive Officer did not take into consideration the deductibility limit imposed by Section 162(m) for purposes of setting compensation. The compensation committee may seek to qualify the variable compensation paid to our named executive officers for an exemption from the deductibility limitations of Section 162(m). As such, in approving the amount and form of compensation for our named executive officers since the offering, the compensation committee considers all elements of the cost to the Company of providing such compensation, including the potential impact of Section 162(m). However, our compensation committee may, in its

judgment, authorize compensation payments that do not comply with the exemptions in Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent.

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Internal Revenue Code Section 409A

Section 409A of the Code requires that “nonqualified deferred compensation” be deferred and paid under plans or arrangements that satisfy the requirements of the statute with respect to the timing of deferral elections, timing of payments and certain other matters. Failure to satisfy these requirements can expose employees and other service providers to accelerated income tax liabilities, penalty taxes and interest on their vested compensation under such plans. Accordingly, as a general matter, it is our intention to design and administer our compensation and benefits plans and arrangements for all of our employees and other service providers, including our named executive officers, so that they are either exempt from, or satisfy the requirements of, Section 409A of the Internal Revenue Code.

Internal Revenue Code Section 280G

Section 280G of the Code (Section 280G), disallows a tax deduction with respect to excess parachute payments to certain executives of companies that undergo a change in control. In addition, Section 4999 of the Code (Section 4999), imposes a 20% excise tax on the individual with respect to the excess parachute payment. Parachute payments are compensation linked to or triggered by a change in control and may include, but are not limited to, bonus payments, severance payments, certain fringe benefits, and payments and acceleration of vesting from long-term incentive plans including stock options and other equity based compensation. Excess parachute payments are parachute payments that exceed a threshold determined under Section 280G based on the executive’s prior compensation. In approving the compensation arrangements for our named executive officers since our 2013 initial public offering, the Board considers all elements of the cost to the Company of providing such compensation, including the potential impact of Section 280G. However, the Board may, in its judgment, authorize compensation arrangements that could give rise to loss of deductibility under Section 280G and the imposition of excise taxes under Section 4999 when it believes that such arrangements are appropriate to attract and retain executive talent.

Accounting for Stock-Based Compensation

We follow Financial Accounting Standards Board Accounting Standards Codification Topic 718, or ASC Topic 718, for our stock based compensation awards. ASC Topic 718 requires companies to calculate the grant date “fair value” of their stock based awards using a variety of assumptions. ASC Topic 718 also requires companies to recognize the compensation cost of their stock based awards in their income statements over the period that an employee is required to render service in exchange for the award. Grants of stock options, restricted stock awards and other equity based awards under our equity incentive award plans will be accounted for under ASC Topic 718. The Board and/or compensation committee will regularly consider the accounting implications of significant compensation decisions, especially in connection with decisions that relate to our equity incentive award plans and programs. As accounting standards change, we may revise certain programs to appropriately align accounting expenses of our equity awards with our overall executive compensation philosophy and objectives.

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## Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for our 2012, 2013 and 2014 fiscal years ended December 29, 2012, December 28, 2013 and January 3, 2015, respectively.

Name and Principal Position	Year	Salary (\$)	Option Awards (\$ (1))	Stock Awards (\$ (1))	Non-Equity Incentive Plan Compensation (\$ (2))	Change in Pension and Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$ (3))	Total (\$)
William Y. Tauscher Chairman and Chief Executive Officer	2014	775,981	964,057	2,248,528	795,380	1,533	21,041	4,806,520
	2013	751,890	1,079,780	—	700,045	1,086	20,263	2,553,064
Talbott Roche President	2012	716,285	811,520	—	522,120	1,237	53,829	2,104,991
	2014	550,000	576,515	1,347,192	443,437	30,672	17,468	2,965,284
	2013	438,752	536,328	—	337,105	20,711	6,925	1,339,821
	2012	413,145	405,760	—	308,449	39,362	6,721	1,173,437
Jerry Ulrich Chief Financial Officer and Chief Administrative Officer	2014	393,990	287,006	670,388	323,072	8,190	22,735	1,705,381
	2013	366,683	453,816	—	278,993	5,907	13,526	1,118,925
	2012	346,514	344,896	—	290,000	7,647	9,186	998,243
David C. Tate (4) Senior Vice President, Products and Marketing	2014	340,000	218,175	510,008	274,125	14,053	8,737	1,365,098
	2013	256,674	226,908	372,000	225,589	11,634	54,994	1,147,799
	2012	—	—	—	—	—	—	—
Christopher C. Crum (5) Senior Vice President, Sales	2014	340,000	218,175	510,008	274,125	—	7,089	1,349,397
	2013	—	—	—	—	—	—	—
	2012	—	—	—	—	—	—	—

Amounts reflect the full grant-date fair value of stock options, restricted stock unit awards and performance share awards granted during 2014 computed in accordance with ASC Topic 718, rather than the amounts paid to or realized by the named individual. We provide information regarding the assumptions used to calculate the value of all of these awards in Notes 1 and 8 to our financial statements included in our Form 10-K filed March 4, 2015. In addition, the maximum potential value of the performance share awards granted to Messrs. Tauscher, Ulrich, Tate and Crum and Ms. Roche is \$1,873,773, \$558,657, \$425,007, \$425,007 and \$1,122,660, respectively, assuming the Company achieved the maximum goal for each performance criteria.

(1)

(2) Amounts represent bonuses paid with respect to 2014 services under our 2014 Bonus Plan. For a description of the 2014 Bonus Plan, refer to the discussion under the caption “2014 Bonuses” above.

(3) For 2014, the amounts shown include our incremental cost for the provision to our named executive officers of certain specified perquisites (as detailed below), matching contributions by the Company on the executive’s behalf to the Blackhawk Network 401(k) Plan, life insurance premiums paid by the Company for policies on behalf of our named executive officers, stock dividends payable declared on December 29, 2012 and payable to holders of unvested restricted stock awards if and when the shares vest, and, in the case of certain named executive officers, expenses associated with the executive’s spouse on business trips. The amounts reported in the Summary Compensation Table, and the amounts reported in this footnote (3) with respect to 2012 “All Other Compensation,”

revise the amounts previously disclosed in our Summary Compensation Table and related footnote (3) contained in our initial public offering prospectus filed with the SEC in 2013.

(4) Mr. Tate was not a “named executive officer” of the Company in 2012.

(5) Mr. Crum was not a “named executive officer” of the Company in 2012 or 2013. Mr. Crum received a distribution from the Safeway Employee Retirement Plan in 2014. Refer to the section “Pension Benefits.”

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## Grants of Plan-Based Awards in 2014

The following table sets forth information regarding grants of plan-based awards made to our named executive officers during the year ended January 3, 2015:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Possible Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards Per Share (\$)	Grant Date Fair Value of Stock and Option Awards (\$ (3)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
William Y. Tauscher	3/12/2014	—	—	—	17,525	35,050	101,100	—	—	—	1,311,641
	3/12/2014	—	—	—	—	—	—	35,050	—	—	936,887
	3/12/2014	—	—	—	—	—	—	—	115,500	26.73	964,057
	—	387,990	775,981	1,163,971	—	—	—	—	—	—	—
Talbot Roche	3/12/2014	—	—	—	10,500	21,000	62,000	—	—	—	785,862
	3/12/2014	—	—	—	—	—	—	21,000	—	—	561,330
	3/12/2014	—	—	—	—	—	—	—	69,100	26.73	576,515
	—	275,000	440,000	660,000	—	—	—	—	—	—	—
Jerry Ulrich	3/12/2014	—	—	—	5,225	10,450	30,900	—	—	—	391,060
	3/12/2014	—	—	—	—	—	—	10,450	—	—	279,328
	3/12/2014	—	—	—	—	—	—	—	34,400	26.73	287,006
	—	196,995	315,192	478,288	—	—	—	—	—	—	—
David C. Tate	3/12/2014	—	—	—	3,975	7,950	15,900	—	—	—	297,505
	3/12/2014	—	—	—	—	—	—	7,950	—	—	212,503
	3/12/2014	—	—	—	—	—	—	—	26,150	26.73	218,175
	—	170,000	272,000	408,000	—	—	—	—	—	—	—
Christopher C. Crum	3/12/2014	—	—	—	3,975	7,950	15,900	—	—	—	297,505
	3/12/2014	—	—	—	—	—	—	7,950	—	—	212,503
	3/12/2014	—	—	—	—	—	—	—	26,150	26.73	218,175
	—	170,000	272,000	408,000	—	—	—	—	—	—	—

Amounts shown in these columns represent each named executive officer's non-discretionary incentive bonus opportunity under our 2014 Bonus Plan. The "Target" amount represents the named executive officer's target bonus if (1) the performance goals under the 2014 Bonus Plan were achieved at the target levels, and the "Threshold" and "Maximum" amounts represent the named executive officer's minimum and maximum bonuses, respectively, if the performance goals under the 2014 Bonus Plan were achieved at the minimum or the maximum levels. (2) The performance share awards were awarded in 2014 for the performance period covering our 2014 fiscal year. The "Threshold" number of shares represents 50% of the target number of performance shares granted, which is the number of shares that would be earned based on achieving the minimum adjusted EBITDA and adjusted operating revenue growth goals during the performance period. The "Target" number of shares represents 100% of the performance shares granted, which is the number of shares that would be earned based on achieving the target

performance goals. The “Maximum” number of shares shown is 200% of the performance shares granted, which is the number of shares that would be earned based on achieving the maximum performance goals. Please see the section “Compensation



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Discussion and Analysis-Elements of Compensation-Equity Awards” for a detailed discussion of the performance share awards.

- (3) Amounts reflect the full grant-date fair value of stock options, restricted stock unit awards and performance share awards granted during 2014 computed in accordance with ASC Topic 718, rather than the amounts paid to or realized by the named individual. We provide information regarding the assumptions used to calculate the value of all of these awards in Notes 1 and 8 to our financial statements included in our Form 10-K filed March 4, 2015. In addition, the maximum potential value of the performance share awards granted to Messrs. Tauscher, Ulrich, Tate and Crum and Ms. Roche is \$1,873,773, \$558,657, \$425,007, \$425,007 and \$1,122,660, respectively, assuming the Company achieved the maximum goal for each performance criteria.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

For a discussion of the salaries, bonuses and equity awards and other compensation received by our named executive officers in 2014, please refer to the Compensation Discussion and Analysis above. We have not entered into any employment agreements with our named executive officers other than the severance agreement with Mr. Ulrich, as discussed above and further described below under the caption “Potential Payments upon Termination or Change in Control”.

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## Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the number of shares of Class A Common Stock and Class B Common Stock, as applicable, underlying the outstanding equity incentive plan awards identified for each named executive officer as of January 3, 2015.

Name	Option Awards (1)			Stock Awards (1)				
	Grant Date (2)	Class of Stock (3)	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares That Have Not Vested (#)	Market Value of Shares That Have Not Vested (\$ (3))
William Y. Tauscher	3/9/2010	Class B	300,000	75,000	\$13.63	3/9/2017		
	3/14/2011 (4)	Class B	300,000	75,000	\$17.53	3/14/2018		
	5/14/2012 (5)	Class B	40,000	60,000	\$18.49	5/14/2019		
	3/11/2013 (6)	Class B	40,625	121,875	\$20.00	3/11/2020		
	3/12/2014 (7)	Class A	—	115,550	\$26.73	3/12/2021		
	3/12/2014 (8)	Class A					35,050	1,297,201
	3/12/2014 (9)	Class A					63,090	2,334,961
	4/25/2008	Class B	25,000	—	\$6.63	4/25/2015		
	5/5/2009	Class B	14,000	3,500	\$9.15	5/5/2016		
Talbot Roche	3/9/2010	Class B	12,750	8,500	\$13.63	3/9/2017		
	3/9/2010	Class B					12,000	432,480
	12/6/2010	Class B	30,000	20,000	\$14.93	12/6/2017		
	10/18/2011 (10)	Class B	8,800	13,200	\$21.03	10/18/2018		
	5/14/2012 (5)	Class B	20,000	30,000	\$18.49	5/14/2019		
	3/26/2013 (6)	Class B	16,250	48,750	\$20.00	3/26/2020		
	3/12/2014 (7)	Class A	—	69,100	\$26.73	3/12/2021		
	3/12/2014 (8)	Class A					21,000	777,210
	3/12/2014 (9)	Class A					37,800	1,398,978
Jerry Ulrich	4/25/2008	Class B	15,000	—	\$6.63	4/25/2015		

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5/5/2009	Class B	25,000	—	\$6.63	5/5/2016		
3/9/2010	Class B	14,000	3,500	\$13.63	3/9/2017		
3/9/2010	Class B					6,000	216,240
10/18/2011 (10)	Class B	12,000	8,000	\$21.03	10/18/2018		
5/14/2012 (5)	Class B	17,000	25,500	\$18.49	5/14/2019		
3/26/2013 (6)	Class B	13,750	41,250	\$20	3/26/2020		
3/12/2014 (7)	Class A	—	34,400	\$26.73	3/21/2021		
3/12/2014 (8)	Class A					10,450	386,755
3/12/2014 (9)	Class A					18,810	696,158

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Name	Option Awards (1)						Stock Awards (1)	
	Grant Date (2)	Class of Stock (3)	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares That Have Not Vested (#)	Market Value of Shares That Have Not Vested (\$)(3)
David C. Tate	8/24/2009	Class B	1,000	—	\$12.27	8/24/2016		
	3/9/2010	Class B	—	1,900		3/9/2017		
	3/9/2010	Class B					2,500	90,100
	10/18/2011 (10)	Class B	—	5,000	\$21.03	10/18/2018		
	5/14/2012 (5)	Class B	—	13,500	\$18.49	5/14/2019		
	3/26/2013 (6)	Class B	—	20,625	\$20.00	3/26/2020		
	8/21/2013 (8)	Class A					11,250	416,363
	3/12/2014 (7)	Class A	—	26,150	\$26.73	3/12/2021		
	3/12/2014 (8)	Class A					7,950	294,230
	3/12/2014 (9)	Class A					14,310	529,613
Christopher C. Crum	3/9/2010	Class B	—	1,900	\$13.63	3/9/2017		
	10/18/2011 (10)	Class B	—	6,000	\$21.03	10/18/2018		
	5/14/2012 (5)	Class B	—	13,500	\$18.49	5/14/2019		
	3/26/2013 (6)	Class B	—	16,875	\$20.00	3/26/2020		
	3/12/2014 (7)	Class A	—	26,150	\$26.73	3/12/2021		
	3/12/2014 (8)	Class A					7,950	294,230
	3/12/2014 (9)	Class A					14,310	529,613

Each stock option or SAR granted prior to our initial public offering in April 2013 was pursuant to our 2007 Plan, (1) and each restricted stock award was granted prior to our initial public offering pursuant to our 2006 Plan. Each award granted after to our initial public offering in April 2013 was pursuant to our 2013 Plan.

(2) Unless otherwise noted, each stock option, SAR and restricted stock award vests as to 20% of the shares subject to the award on each of the first, second, third, fourth and fifth anniversaries of the grant date.

(3)

The market value of shares of stock that have not vested is calculated based on the fair market value of our Class A Common Stock as of January 3, 2015 (\$37.01 per share) or the fair market value of our Class B Common Stock as of January 3, 2015 (\$36.04 per share).

- (4) This option vested and will continue to vest as to 20% of the shares subject to the option on the first through fifth anniversary of August 12, 2010.
- (5) This SAR will vest as to 20% of the shares subject to the SAR on the first through fifth anniversaries of March 14, 2012.
- (6) This option vests as to 25% of the shares subject to the award on each of the first, second, third and fourth anniversaries of the grant date.
- (7) This option vested and will continue to vest as to 25% of the shares subject to the option on the first, second, third and fourth anniversaries of the grant date.
- (8) This restricted stock unit award vests as to 25% of the shares subject to the award on each of the first, second, third and fourth anniversaries of the grant date.
- (9) Represents performance shares earned but not yet vested. Earned performance shares will vest in full on January 3, 2017, subject to the executive's continued service.
- (10) This option vests as to 20% of the shares subject to the award on each of the first, second, third and fourth anniversaries of March 14, 2012.

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## 2014 Option Exercises and Stock Vested

The following table shows the number of shares of Class A Common Stock or Class B Common Stock, as applicable, acquired by each named executive officer during fiscal year 2014 upon the exercise of options and the number of shares of restricted stock held by each named executive officer that vested during fiscal year 2014.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$ (1))	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$ (2))
William Y. Tauscher	50,000	1,048,460	—	—
Talbott Roche	25,000	533,637	6,000	165,180
Jerry Ulrich	—	—	6,000	165,180
David C. Tate	21,275	181,703	2,500	68,825
Christopher C. Crum	28,025	241,668	2,000	47,480

(1) Represents the price at which shares acquired upon exercise of the stock options were sold net of the exercise price for acquiring shares.

(2) Represents the vesting date closing market price of a share of our common stock multiplied by the number of shares that have vested.

## Pension Benefits

The following table quantifies the benefits expected to be paid to our named executive officers under the Employee Retirement Plan of Safeway Inc. and its Domestic Subsidiaries (Safeway ERP), a qualified defined benefit pension plan, and the Safeway Retirement Restoration Plans (Safeway RRP), which are non-qualified and unfunded defined benefit pension plans. The Retirement Restoration Plan I (Safeway RRP I) was frozen as of December 31, 2004, and the Retirement Restoration Plan II (Safeway RRP II) became effective on January 1, 2005, in connection with the passage of Section 409A of the Code. The terms of the Safeway Retirement Plans ERP, Safeway RRP I and Safeway RRP II (collectively, Safeway Retirement Plans) are described below.

The following actuarial assumptions were employed to derive the calculations shown on the table below: (1) pension economic assumptions consistent with pension financial reporting for the 2014 fiscal year were used for calculations at the end of 2014; (2) demographic assumptions are also consistent with pension financial reporting, with the exception of modified retirement and pre-retirement decrements as required by SEC guidance; (3) a discount rate of 4.0% for the Safeway ERP and 3.90% for the Safeway RRP; and (4) a cash balance interest crediting and annuity conversion interest rate of 3.05%.

Additional actuarial assumptions used include the following: (1) mortality table for lump sum conversion—2014 IRS Applicable Mortality Table; (2) retirement table for post-retirement mortality—RP2014 fully generational using MP 2014 scale; (3) no pre-retirement mortality, turnover or disability; (4) form of payment assumption of 65% lump sum and 35% single life annuity for Safeway ERP and 100% single life annuity for Safeway RRP; and (5) retirement age of 65.

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Name	Plan Name	Number of Years Credited Service (#) (1)	Present Value of Accumulated Benefit (\$) (2)	Payments During Last Fiscal Year (\$)
William Y. Tauscher	Safeway ERP	0.750	8,101	—
	Safeway RRPs	0.750	9,609	—
Talbott Roche	Safeway ERP	9.417	147,229	—
	Safeway RRPs	—	—	—
Jerry Ulrich	Safeway ERP	4.5	54,040	—
	Safeway RRPs	4.5	37,174	—
David C. Tate	Safeway ERP	9.167	130,239	—
	Safeway RRPs	—	—	—
Christopher C. Crum	Safeway ERP	4.5	—	51,582
	Safeway RRPs	—	—	—

(1) The number of years of credited service are calculated as of December 30, 2011, when the accounts were frozen.

(2) The present value of accumulated benefits are calculated as of January 1, 2015.

(2) Amount is subject to forfeiture until the named executive officer reaches the age of 55.

#### Description of Safeway Retirement Plans

Prior to 2012, retirement, or pension, benefits were provided to our named executive officers under the Safeway Retirement Plans. The Safeway RRP provided benefits to our named executive officers that cannot be paid under the qualified Safeway ERP due to Code limitations on the amount of compensation that may be taken into account for benefit accruals and the amount of benefits that may be paid under the Safeway ERP. The Safeway RRPs also took into account all compensation deferred under deferred compensation plans for purposes of determining such benefits. As of December 31, 2011, our named executive officers no longer accrued benefits under the Safeway Retirement Plans, and as of December 30, 2011, each of their vested benefits, if any, in the Safeway Retirement Plans were frozen.

Effective July 1, 1999, the Safeway ERP was amended to provide benefits primarily under a cash balance formula. Benefits accrued prior to the change were converted to an opening cash balance as of July 1, 1999, equal to the present value of accrued benefits on June 30, 1999. Future benefits under the cash balance formula are accrued by the addition of compensation-based credits and interest credits to each participant's cash balance until retirement. Interest credits are based on the annual rate of return on 30-year treasury securities.

Under the Safeway ERP, the named executive officer became vested in his or her accrued benefits after three years of service with the Company or reaching age 55, whichever occurred first. If he or she had three years of service with us, vested benefits under the Safeway ERP are available following termination, regardless of age. The named executive officer ceased to accrue vesting service as of April 14, 2014 but they each were vested in their accrued benefit as of such date. Benefits under the Safeway RRPs are available to participants who vested by attaining age 55 while employed at Safeway. Under the Retirement Restoration Plan, vested benefits are payable in the same form and at the same time as benefits under the ERP. Under the Retirement Restoration Plan II, vested benefit payments commence within 90 days of the first day of the seventh month after such termination of employment. The normal retirement benefit under the Safeway Retirement Plans is determined as a life annuity that is actuarially equivalent (based on the annual rate of return on 30-year treasury securities and mortality assumptions specified in the Safeway ERP) to the cash balance at retirement.

For the purposes of the Safeway Retirement Plans, the compensation-based credits are determined as a percentage of the annual compensation we pay to the named executive officer, including any amounts deferred under non-qualified deferred compensation plans, but excluding stock options and restricted stock and any special pay made solely in the discretion of the employer. The percentage applied to each year's compensation increases with years of participation in the Safeway Retirement Plans (through December 30, 2008, from 6% upon commencement of participation to a

maximum of 13% after completing 25 years of participation; and as of December 31, 2008, from 3% upon commencement of participation to a maximum of 6 1/2% after completing 25 years of participation). Compensation under the cash balance formula for the named executive officers generally corresponds with the aggregate of the earned salary, plus bonuses for each such person.

Under the Safeway ERP, the accumulated benefit of each of the named executive officers will be payable if the executive dies after becoming vested. Under the Retirement Restoration Plan II, accumulated vested benefits are payable only if death



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occurs after age 55 while still an employee. Under the Retirement Restoration Plan, accumulated vested benefits are payable upon death regardless of age. The named executive officer's beneficiary can receive the executive's accumulated benefits in the form of a lump sum (Safeway ERP only), an annuity paid monthly or in installments (the required form of payment under the Retirement Restoration Plan II if the beneficiary is not the surviving spouse). In addition, under the Safeway RRP, each named executive officer with a vested benefit is 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. In December 2008, Safeway's board of directors amended the special death benefit to eliminate the post-retirement death benefit for any current employees below the level of Senior Vice President who were promoted to the position of Senior Vice President or higher on or after December 15, 2008 and for any new employees who were hired on or after December 15, 2008.

**Non-Qualified Deferred Compensation**

The following table shows the non-qualified deferred compensation benefits for each of the named executive officers for the fiscal year ended January 3, 2015. No Company contributions were made for the named executive officers during the fiscal year ended January 3, 2015.

Name	Aggregate Earnings in Last FY (\$)	Aggregate Balance at Last FYE (\$)
William Y. Tauscher	—	—
Talbott Roche	—	—
Jerry Ulrich	26,926	414,037
David C. Tate	—	—
Christopher C. Crum	—	—

**Description of the Safeway Executive Deferred Compensation Plans**

Safeway maintains two deferred compensation plans that are non-qualified and unfunded defined contribution plans: the Executive Deferred Compensation Plan and the Executive Deferred Compensation Plan II (collectively, Safeway Deferred Compensation Plans), in which our named executive officers were eligible to participate prior to 2012. The Executive Deferred Compensation Plan was frozen as of December 31, 2004, and the Executive Deferred Compensation Plan II became effective on January 1, 2005, in connection with the passage of Section 409A of the Code. As of January 1, 2012, our named executive officers are no longer eligible to make deferrals into the Safeway Deferred Compensation Plans.

The Safeway Deferred Compensation Plans allowed the named executive officer to defer salary or bonus and to have these credited amounts mirror the investment performance of a selection of mutual funds. Neither Safeway nor we credit matching contributions to the individual accounts of our executive officers under the Safeway Deferred Compensation Plans. The account balances of the named executives under the Safeway Deferred Compensation Plans will continue to be credited annually with an amount that mirrors the investment gains and losses attributable to the mutual funds selected until the account balance is fully distributed to the named executive officer.

Participants can defer up to 100% of base salary and up to 100% of bonus and a minimum of \$5,000 for any plan year. The deferred amounts are credited to accounts established for the participants. Deferred amounts and credited earnings are held in a rabbi trust. Each participant is fully vested in the portions attributable to his or her own deferrals of salary and bonus.

At the time a participant makes a deferral election, he or she must elect when the amount attributable to such deferral election is to be distributed and whether such amount is to be paid in a lump sum or installments (provided the account balance is at least \$50,000). Participants can schedule distributions to be paid while employed or upon retirement. If a participant terminates for reasons other than retirement (termination at age 55 or older) or disability, the participant's account balance will be paid in a lump sum (commencing within 90 days of the first day of the seventh month after

such termination of employment for any reason or if earlier, within 90 days of the date of the participant's death). The Safeway Executive Compensation Committee may permit an early distribution to a participant upon his or her demonstration of need due to an unforeseeable emergency.

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The table below shows the funds available under the Safeway Deferred Compensation Plans and the funds' annual rate of return for the calendar year ended December 31, 2014. The performance results reported below are net of investment management fees. Participants can change investment allocations monthly. Any earnings or losses on each participant's account are credited (or debited) with earnings (or losses) at the end of each month.

Name of Fund	Rate of Return	Name of Fund	Rate of Return
American Funds American Asset Allocation	4.48	% JHAM Money Market	(0.52 )%
Davis Fundamental Value*	6.50	% PIMCO Total Return	4.16 %
Franklin Templeton International Value	(12.99 )%	RCM/T. Rowe Price Science & Technology	12.28 %
GMO U.S. Equity	10.42	% T. Rowe Price Blue Chip Growth	8.48 %
Invesco-DFA Small Cap Opportunities	1.82	% T. Rowe Price Equity-Income	6.88 %
Jennison Capital Appreciation	9.06	% T. Rowe Price Mid Value	10.00 %
JHAM 500 Index—Class B	12.81	% T. Rowe Price Small Company Value	(0.44 )%
JHAM Bond	4.95	% Western Asset High Yield	(0.44 )%
JHAM Fundamental Large Cap Value*	10.01	% Wellington Mid Cap Stock	7.42 %

Reflects cumulative rate of return as fund was not in place for an entire year and, therefore, the rates are not annualized. The Davis Fundamental Value Fund was replaced by the JHAM Fundamental Large Cap Value Fund \*effective November 10, 2014. The cumulative rate of return for the Davis Fundamental Value Fund is for the year ended November 10, 2014. The cumulative rate of return for the JHAM Fundamental Large Cap Value Fund is for the period from November 10, 2014 through December 31, 2014.

In the event of a change in control, the Safeway board of directors, in its discretion, may terminate the Safeway Deferred Compensation Plans during the period from 30 days prior to the change in control to 12 months following the change in control. If the Safeway Deferred Compensation Plans are terminated, all vested benefits must be distributed to the plan participants within the 12-month period following termination. Safeway has the discretion to distribute such vested benefits in a lump sum payment or installments during that 12-month period.

#### Potential Payments upon Termination or Change in Control

Our named executive officers are entitled to certain payments and benefits upon a qualifying termination of employment or a change in control. The following discussion describes the payments and benefits to which our named executive officers would have become entitled pursuant to agreements in effect as of January 3, 2015.

#### Severance Arrangements

Upon a termination of employment other than for cause, Mr. Ulrich would be entitled to receive continuation of his base salary for one year.

The Severance Plan provides for the payment of severance and other benefits to the executives following a change in control (as defined therein) in the event of a subsequent termination of employment by the Company without "cause" or by the executive for "good reason" (each, as defined in the Severance Plan and each such termination, a "Qualifying Termination"). In the event of a Qualifying Termination during the 24-month period following a "change in control" (as defined in the Severance Plan), the Severance Plan provides for the following payments and benefits:

an amount equal to the product of (i) two (Mr. Tauscher), one and one half (Mr. Ulrich and Ms. Roche) or one (Messrs. Tate and Crum ), multiplied by (ii) the sum of the executive's base salary and target annual cash bonus opportunity for the fiscal year of termination, payable in substantially equal installments, in accordance with the Company's normal payroll procedures, over the 24-month period (Mr. Tauscher), 18-month period (Mr. Ulrich and Ms. Roche) or 12-month period (Messrs. Tate and Crum )following the termination date;

an additional lump sum payment equal to a prorated portion of the executive's target annual cash bonus opportunity for the fiscal year of termination;

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payment or reimbursement of COBRA premiums during the 18-month period (or, with respect to Messrs. Tate and Crum, the 12-month period) following the termination date; and

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full accelerated vesting of the executive's time-based equity awards and accelerated vesting of the executive's performance-based equity awards with respect to 100% of the "target" number of shares subject to such performance-based equity awards.

The executive's right to receive the severance payments pursuant to the Severance Plan is contingent on the executive executing a general release of claims against the Company. In addition, to the extent that any payment or benefit received by an executive would be subject to an excise tax under Section 4999 of the Code, such payments and/or benefits will be subject to a "best pay cap" reduction if such reduction would result in a greater net after-tax benefit to the executive than receiving the full amount of such payments.

**Safeway Retirement Plans and Executive Deferred Compensation Plans**

**Benefits Payable upon Termination (other than Death).** Under the Safeway Retirement Plans, in the event of a termination of employment of a named executive officer for any reason other than death, the named executive officer is entitled to receive any vested retirement benefits that have accumulated as of the date of termination. For a discussion of the benefits that would be payable and the manner of payment to our named executive officers under the Safeway Retirement Plans assuming a termination of employment as of December 31, 2014, see the section titled "Pension Benefits" above.

Under the Safeway Deferred Compensation Plans, in the event of a termination of employment of a named executive officer for any reason, including in connection with a change in control, the named executive officer is entitled to receive his or her account balance under such plan as of the date of termination. For a discussion of the amounts payable and manner of payment to each of our named executive officers under the Safeway Deferred Compensation Plans assuming a termination of employment as of December 31, 2014, see the section titled "Non-Qualified Deferred Compensation" above.

**Benefits Payable Upon Death.** Under Safeway's ERP or Retirement Restoration Plan, the accumulated benefit of each of the named executive officers will be payable if the executive dies after becoming vested or if death occurs prior to vesting but while the executive is still an employee. Under Safeway's Retirement Restoration Plan II, accumulated benefits are payable only if death occurs after age 55 while still an employee. The named executive officer's beneficiary can receive the executive's accumulated benefits in the form of a lump sum (Safeway ERP only), an annuity paid monthly or in installments (the required form of payment under Safeway's Retirement Restoration Plan II if the beneficiary is not the surviving spouse). In addition, under the Safeway RRP, each of the named executive officers is entitled to payment of a special death benefit if any of such individuals dies while employed as an executive officer or after retiring as an executive officer, regardless of age, as described in the section titled "Pension Benefits" above.

**Acceleration of Options and Restricted Stock upon a Change in Control**

In the event we undergo a change in control, stock options and SARs held by the named executive officers that were granted under the 2007 Plan will accelerate and vest in full.

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## Summary of Potential Payments

The following table summarizes the payments that would be made to certain of our named executive officers upon the occurrence of certain qualifying terminations of employment, assuming such named executive officer's termination of employment with us occurred on January 3, 2015 and, where relevant, that a change in control of the Company occurred on January 3, 2015. Amounts shown in the table below do not include (i) accrued but unpaid salary, and (ii) other benefits earned or accrued by the named executive officer during his or her employment that are available to all salaried employees, such as accrued vacation.

Name	Change in Control (No Termination) (\$)(1)	Non-Change in Control Severance (\$)(2)	Change in Control Severance (\$)(3)	Death (\$)(4)
William Y. Tauscher				
Cash	—	—	3,136,832	9,579
Continued Healthcare	—	—	32,833	—
Accelerated Vesting	19,705,650	—	24,555,638	—
Total	19,705,650	—	27,725,303	9,579
Talbot Roche				
Cash	—	—	1,571,568	—
Continued Healthcare	—	—	32,453	—
Accelerated Vesting	4,252,447	—	7,355,223	—
Total	4,252,447	—	8,959,244	—
Jerry N. Ulrich				
Cash	—	400,000	1,082,630	37,059
Continued Healthcare	—	—	32,833	—
Accelerated Vesting	3,797,573	—	5,774,717	—
Total	3,797,573	400,000	6,890,180	37,059
David C. Tate				
Cash	—	—	614,235	—
Continued Healthcare	—	—	13,641	—
Accelerated Vesting	709,128	—	2,024,740	—
Total	709,128	—	2,652,616	—
Christopher C. Crum				
Cash	—	—	614,235	—
Continued Healthcare	—	—	21,448	—
Accelerated Vesting	865,218	—	1,943,189	—
Total	865,218	—	2,578,872	—

(1) Represents the aggregate value of the named executive officer's unvested stock options that would have vested on an accelerated basis in connection with a change in control, determined by multiplying the number of accelerating option shares by the fair market value of our Class B Common Stock (\$36.04 per share) on January 3, 2015 and subtracting the applicable exercise prices.

(2) Represents cash severance payable upon a termination of employment other than for cause.

(3) Represents payments and benefits under the Severance Plan.

(4) Represents the special death benefit payable under the Safeway RRP upon a termination of employment due to death or upon retirement, regardless of age.

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## EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes compensation plans under which our equity securities are authorized for issuance as of January 3, 2015.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (2) (3) (4)	4,874,493	\$ 18.46	3,575,643
Equity compensation plans not approved by security holders	—	—	—
Total	4,874,493	\$ 18.46	3,575,643

- (1) Weighted Average Exercise Price of Outstanding Options does not include outstanding performance shares or restricted stock units or restricted stock awards.  
Consists of four plans: the Company's 2013 Equity Incentive Award Plan, 2013 Employee Stock Purchase Plan
- (2) (ESPP), Second Amended and Restated 2006 Restricted Stock and Restricted Stock Unit Plan (2006 Plan) and the Amended and Restated 2007 Stock Option and Stock Appreciation Right Plan (2007 Plan).
- (3) No further equity awards may be granted under the 2006 Plan or the 2007 Plan.  
Includes (i) 1,686,508 shares available for issuance under the 2013 Plan and (ii) 1,889,135 shares reserved for issuance under the ESPP. The number of securities available for issuance under the 2013 Plan is equal to the sum of (i) 3,000,000 shares plus (ii) any shares of our common stock subject to awards under the 2006 Plan or 2007 Plan that terminate, expire or lapse for any reason. Shares available for issuance under the 2013 Plan can be granted pursuant to stock options, restricted stock, restricted stock units, deferred stock, dividend equivalents, stock payments, performance awards, performance share awards and other incentive awards, as selected by the plan administrator. The number of securities available for issuance under the ESPP is equal to 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. In 2015, the Board determined the annual increase under the ESPP should be zero.

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REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION

The material in this report is not “soliciting material,” is not deemed “filed” with the SEC, and is not to be incorporated by reference into any filing of Blackhawk under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the compensation committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company’s 2014 Annual Report on Form 10-K.

Compensation Committee

Robert L. Edwards, Chairman until March 28, 2015

Paul Hazen, Chairman

Arun Sarin

Jane J. Thompson



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REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The material in this report is not “soliciting material,” is not deemed “filed” with the SEC, and is not to be incorporated by reference into any filing of Blackhawk under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The primary purpose of the audit committee is to oversee our financial reporting processes on behalf of the Board. The audit committee’s functions are more fully described in its charter, which is available on our website at <http://ir.blackhawknetwork.com>. Management has the primary responsibility for our financial statements and reporting processes, including our systems of internal controls. In fulfilling its oversight responsibilities, the audit committee reviewed and discussed with management Blackhawk’s audited consolidated financial statements as of and for the year ended January 3, 2015.

The audit committee has discussed with Deloitte & Touche LLP, the Company’s independent registered public accounting firm, the matters required to be discussed by Auditing Standard No. 16, “Communications with Audit Committees” as adopted by the Public Company Accounting Oversight Board (PCAOB). In addition, the audit committee discussed with Deloitte & Touche LLP their independence, and received from Deloitte & Touche LLP the written disclosures and the letter required by the PCAOB regarding the firm’s independence from Blackhawk. Finally, the audit committee discussed with Deloitte & Touche LLP, with and without management present, the scope and results of Deloitte & Touche LLP’s audit of such financial statements.

Based on these reviews and discussions, the audit committee has recommended to the Board that such audited financial statements be included in our Annual Report on Form 10-K for the year ended January 3, 2015 for filing with the SEC. The audit committee also has engaged Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 3, 2015 and is seeking ratification of such selection by the stockholders.

Audit Committee

Mohan Gyani, Chairman

Richard H. Bard

Lawrence F. Probst III

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CERTAIN RELATIONSHIPS AND RELATED PERSONS TRANSACTIONS

We describe below each transaction during fiscal year 2014 to which we were a party and for which:

the amounts involved exceeded or will exceed \$120,000; and  
a director, executive officer, holder or group of holders known to us to beneficially own more than 5% of any class of our voting securities or any member of their immediate family had or will have a direct or indirect material interest in the transaction.

Relationship with Safeway and Related Transactions

Our relationship with Safeway Inc. is currently governed by various agreements, including the agreements discussed below.

On April 14, 2014, Safeway distributed a special stock dividend in the form of a pro-rata common stock dividend. Safeway stockholders received 0.164291 of a share of our Class B Common Stock for every share of Safeway common stock held as of the close of business on April 3, 2014. No fractional shares of Class B Common Stock were distributed. Instead, Safeway delivered cash in lieu of fractional shares to Safeway stockholders entitled to receive less than one share of Class B Common Stock. Prior to the distribution, Safeway had held approximately 71.9% of the 52.6 million total outstanding Blackhawk shares, consisting of 37,838,709 shares of Class B Common Stock and 10,592 shares of Blackhawk's Class A Common Stock. Effective as of the distribution date, Safeway ceased to own any shares of Class B Common Stock and ceased to be a controlling stockholder of the Company.

Gift Card Transfer and Management Agreement

Under the Gift Card Transfer and Management Agreement that we entered into with Safeway in February 2006 (Card Management Agreement), we provide Safeway with certain operations, customer service, marketing and information technology support services for Safeway-branded gift cards issued by Safeway. In exchange for such services, we receive a portion of amounts outstanding on the Safeway-issued cards but not redeemed within a certain period of time. During 2014, we recognized revenue in the amount of \$1.6 million under the Card Management Agreement.

Gift Card Alliance Partners Program Agreement

We entered into the Amended and Restated Gift Card Alliance Partners Program Agreement with Safeway effective December 30, 2012, as amended in February 2014 (Alliance Partner Agreement). Under the Alliance Partner Agreement, Safeway offers gift cards, prepaid telecom cards and handsets and GPR cards provided by us for sale in Safeway stores in the United States, and Blackhawk provides funds and services relating to the management, marketing and service of products and services offered through the Alliance Partner Agreement, as well as relating to the launch and implementation of pilot programs for new products and services. Under the Alliance Partner Agreement, Safeway receives a portion of the commissions and other fees that we receive from our content providers and consumers in connection with the purchase, activation, load, reload and use of our products and services offered through Safeway stores in the United States. Safeway also may earn incremental shares of commission based on achievement of increased average load value per store in each of its U.S. operating divisions.

During 2014, under the Alliance Partner Agreement, we remitted to Safeway an aggregate of \$61.2 million, payable out of commissions and other fees. During 2014, under the Alliance Partner Agreement, Safeway remitted to us an aggregate of \$3.7 million for the purchase of telecom handsets and other products as well as the rebilling of miscellaneous costs.

Card Production and Card Services Agreement

In October 2011, we entered into a Card Production and Card Services Agreement (Card Production Agreement) with Safeway in the United States, under which we produce Safeway-branded gift cards and card carriers and provide to Safeway activation, data processing, customer service and related services for Safeway-branded gift cards. Under the Card Production Agreement, Safeway pays us a fee for each card we produce, as well as transaction-based fees for the services we provide. During 2014, we recognized revenue in the amount of \$0.9 million under the Card Production Agreement.

Bulk and Online Sales Agreement

In November 2007, we entered into a Gift Card Agreement—Bulk and Online Sales (Bulk and Online Sales Agreement) with Safeway, pursuant to which Safeway authorized us to offer, sell and distribute Safeway-branded gift cards

through our bulk sales program, through kiosks in malls, airports or other retail areas and through our online sales channels. Under the Bulk and Online Sales Agreement, Safeway pays us a percentage of the stored value of each activated gift card sold through the bulk

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sales or online sales channels. During 2014, we recognized revenue in the amount of \$0.7 million under the Bulk and Online Sales Agreement.

Amended and Restated Tax Sharing Agreement

On April 11, 2014, Blackhawk entered into a second Amended and Restated Tax Sharing Agreement (SARTSA) with Safeway Inc. Prior to our initial public offering, we and Safeway entered into a prior Amended and Restated Tax Sharing Agreement that was last amended effective as of December 30, 2012 (Prior TSA). The Prior TSA provided that we and Safeway would generally make payments to each other such that, with respect to U.S. federal income tax returns for any taxable period in which Blackhawk or any of its subsidiaries were included in Safeway's consolidated group for U.S. federal income tax purposes, the amount of taxes paid by Blackhawk was determined, subject to certain adjustments, as if Blackhawk and each of its subsidiaries included in such consolidated group filed their own consolidated federal income tax return. For state and local income tax purposes, the Prior TSA provided that we and Safeway would generally make payments to each other such that, with respect to state and local income tax returns for any taxable period in which Blackhawk or any of its subsidiaries were included in Safeway's combined, consolidated or unitary group for state or local income tax purposes, the amount of taxes to be paid by Blackhawk was determined, subject to certain limitations, by calculating the excess of any taxes shown due on any such return over the amount that would otherwise be due if the return were recalculated by excluding Blackhawk and any of its included subsidiaries. The Prior TSA also set forth the parties' respective rights, responsibilities and obligations with respect to a possible distribution of shares of Blackhawk's Class B Common Stock owned by Safeway described above; however, it did not contemplate some of the specific facts and circumstances relating to the actual distribution made on April 14, 2014 (Distribution).

The SARTSA, which became effective as of the Distribution, addresses certain tax matters related to the facts and circumstances of the Distribution, including, among other things, the manner, amount and timing of the tax payments related to the Distribution. The SARTSA also provides certain procedures for the allocation of taxes and the filing of returns that are consistent with the Prior TSA.

On January 30, 2015, the acquisition of Safeway by AB Acquisition LLC (Merger) was completed as contemplated by the Agreement and Plan of Merger entered into by Safeway and AB Acquisition LLC dated March 6, 2014 and amended on April 7, 2014 and June 13, 2014 (as amended, Merger Agreement). Following completion of the Merger, the Distribution became taxable to Safeway and Safeway's stockholders. Under the SARTSA, any corporate-level income tax incurred as a result of the Distribution due to the closing of the Merger will be borne by Safeway.

The SARTSA provides that if, as occurred upon completion of the Merger, the Distribution became taxable, then Safeway and Blackhawk will make an election that is intended to give rise to a step-up in the tax basis of Blackhawk's assets (Section 336(e) Election). This election is due September 15, 2015, which Safeway and Blackhawk intend to make on this date. The actual benefit realized by Blackhawk from the step-up will depend on, among other things, the value of Blackhawk at the time of the Distribution and whether Blackhawk generates adequate taxable income over time to enable it to fully utilize the deductions associated with any increased tax basis resulting from the Section 336(e) Election. The SARTSA governs the preparation of tax returns with respect to the Section 336(e) Election and contemplates the possibility that, as a result of the Section 336(e) Election, Blackhawk may be included in Safeway's consolidated group for U.S. federal income tax purposes until the date of the Distribution. In the event we and Safeway are not treated as consolidated for tax purposes through the date of the Distribution, Safeway is responsible, pursuant to the SARTSA, for certain taxes that may be payable by Blackhawk on its separate tax return. The method and timing of the funding of such taxes by Safeway are not certain, and such funding could be delayed until the receipt of a tax refund by Safeway. We have agreed to bear 50% of any taxes imposed on Safeway that might result from the payment by us to Safeway of certain taxes recovered by us and payable to Safeway under the SARTSA. During 2014, we paid Safeway \$13.1 million for current and prior years' taxes due under the SARTSA.

Lease Agreements

We lease our corporate office from Safeway under a sublease that expires in April 2017. We also leased approximately 6,000 square feet of office space from Safeway in Phoenix, Arizona under a lease agreement that expired in September 2014. During 2014, we paid Safeway an aggregate of \$1.9 million pursuant to these lease agreements.

Cash Management and Treasury Services Agreement

On April 4, 2013, we entered into a cash management and treasury services agreement with Safeway (CMATSA). The CMATSA permitted Safeway to borrow cash from our operating accounts in excess of our immediate working capital and other operating requirements, calculated in accordance with the CMATSA, on an overnight basis, to meet Safeway's short-term funding requirements. The CMATSA, together with the promissory notes thereunder, was terminated effective March 28, 2014

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in connection with our entry into the Credit Agreement dated March 28, 2014 (as later amended) with a group of banks led by Wells Fargo Bank, National Association, and the closing on the same date of the transactions contemplated thereby. Following termination of the CMATSA and in connection with the Distribution, certain related guaranties provided by Safeway to a limited number of our content providers were terminated.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors, executive officers and certain other employees. These agreements, among other things, require us to indemnify each individual to the fullest extent permitted by Delaware law, including indemnification of expenses such as attorneys' fees, judgments, fines and settlement amounts incurred by the individual in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director, officer or other employee.

Policies and Procedures for Related Party Transactions

The Board has adopted a written related party transaction policy that sets forth the policies and procedures for the review and approval or ratification of related party transactions. This policy covers, with certain exceptions set forth in Item 404 of Regulation S-K under the Securities Act of 1933, as amended, any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which we were or are to be a participant, where the amount involved exceeds \$120,000 and a related person had or will have a direct or indirect material interest, including, without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person.

As provided by our audit committee charter, our audit committee is responsible for reviewing and approving in advance any related party transaction.

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**OTHER MATTERS**

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

**NOTICE OF ELECTRONIC AVAILABILITY OF PROXY MATERIALS**

In accordance with regulations adopted by the SEC, instead of mailing a printed copy of our proxy materials, including the 2014 Annual Report (as defined below), to each stockholder of record, we may now furnish these materials on the Internet unless the stockholder has previously requested to receive these materials by mail or e-mail. On or about April 8, 2015, we mailed to our stockholders who have not previously requested to receive these materials by mail or e-mail a Notice of Internet Availability of Proxy Materials containing instructions on how to access this Proxy Statement and the 2014 Annual Report and to vote online. The Notice instructs you as to how you may access and review all of the important information contained in the proxy materials. The Notice also instructs you as to how you may submit your proxy on the Internet or by telephone. If you received the Notice by mail, you will not automatically receive a printed copy of our proxy materials or the 2014 Annual Report unless you follow the instructions for requesting these materials included in the Notice.

**INCORPORATION BY REFERENCE**

The information contained above under the captions “Report of the Compensation Committee” and “Report of the Audit Committee” shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor will such information be incorporated by reference into any future SEC filing except to the extent that Blackhawk specifically incorporates it by reference into such filing.

**ANNUAL REPORTS**

Our Annual Report on Form 10-K for the year ended January 3, 2015 (2014 Annual Report), which is not a part of our proxy soliciting materials, is being mailed with this Proxy Statement to those stockholders that request and receive a copy of the proxy materials in the mail. Stockholders that received the Notice of Internet Availability of Proxy Materials can access this Proxy Statement and our 2014 Annual Report at [www.proxyvote.com](http://www.proxyvote.com), which does not have “cookies” that identify visitors to the site. Requests for copies of our 2014 Annual Report also may be directed to General Counsel and Secretary, c/o Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road, Pleasanton, CA 94588.

We have filed our 2014 Annual Report with the SEC. It is available free of charge at the SEC’s web site at [www.sec.gov](http://www.sec.gov). Exhibits to the 2014 Annual Report are available upon payment of a reasonable fee, which is limited to our expenses in furnishing the requested exhibit. All requests should be directed to General Counsel and Secretary, c/o Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road, Pleasanton, CA 94588.

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ANNEX A

SECOND AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
BLACKHAWK NETWORK HOLDINGS, INC.

It is hereby certified that:

1. The name of the corporation is Blackhawk Network Holdings, Inc. (the “Corporation”), which was originally incorporated under the name “Blackhawk Network, Inc.”
2. The date of filing of its original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware was on January 27, 2006. The Amended and Restated Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on April 18, 2013 and an amendment thereto was filed with the Secretary of State of the State of Delaware on April 11, 2014 (as so amended, the “Amended and Restated Certificate of Incorporation”).
3. This Second Amended and Restated Certificate of Incorporation of the Corporation, which amends and restates the Amended and Restated Certificate of Incorporation, has been duly adopted by the Board of Directors and stockholders of the Corporation in accordance with Sections 222, 242 and 245 of the Delaware General Corporation Law and by of the written consent of its stockholders in accordance with Section 228 State of the Delaware General Corporation Law.
4. The original Amended and Restated Certificate of Incorporation, as amended, of the Corporation is hereby amended and restated in its entirety to read as follows: set forth in Exhibit A attached hereto.

IN WITNESS WHEREOF, the undersigned has executed this Second Amended and Restated Certificate of Incorporation on this      day of      , 2015.

BLACKHAWK NETWORK HOLDINGS, INC.

By:

David E. Durant  
Secretary and General Counsel



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EXHIBIT A

SECOND AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
BLACKHAWK NETWORK HOLDINGS, INC.

ARTICLE I  
NAME

The name of the corporation is Blackhawk Network Holdings, Inc. (the “Corporation”).

ARTICLE II  
REGISTERED OFFICE AND AGENT

The address of the Corporation’s registered office in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington 19808, County of New Castle, Delaware 19808. The name of its registered agent at such address is Corporation Service Company.

ARTICLE III  
PURPOSE AND DURATION

The purpose of the Corporation is to engage in any lawful activity for which corporations may be organized under the General Corporation Law of the State of Delaware, as amended (the “DGCL”). The Corporation is to have a perpetual existence.

ARTICLE IV  
CAPITAL STOCK

Section 1. Capital Stock

(a) Authorized Capital Stock. The total number of shares of stock which the Corporation is authorized to issue is 260220,000,000 shares, of which 125210,000,000 shares shall be shares of Class A Common Stock common stock, par value \$0.001 per share (the Class A Common Stock), 125,000,000 shares shall be shares of Class B Common Stock, par value \$0.001 per share (the Class B Common Stock, “Common Stock”), and together with the Class A Common Stock, the Common Stock), and 10,000,000 shares shall be shares of preferred stock, par value \$0.001 per share (the “Preferred Stock”).

(b) Reclassification of Existing Common Stock. Upon this Amended and Restated Certificate of Incorporation becoming effective pursuant to the DGCL (the “Effective Time”), each share of the Corporation’s common stock, par value \$0.001 per share, issued and outstanding immediately prior to the Effective Time (the “Existing Common Stock”) will automatically be reclassified into one share of Class B Common Stock. Each certificate that theretofore represented shares of Existing Common Stock shall thereafter represent such number of shares of Class B Common Stock, into which the shares of Existing Common Stock represented by such certificate have been reclassified.

Upon the effectiveness (the “Effective Time”) of the filing of this Second Amended and Restated Certificate of Incorporation (the “Certificate of Incorporation”), (i) the name of the class of stock designated as “Class A Common Stock” immediately prior to the Effective Time shall automatically, without any further action on the part of the Corporation or any holder thereof, be changed to “Common Stock” and (ii) each share of Class B Common Stock, par

value \$0.001 per share, of the Corporation (the “Class B Common Stock”) issued and outstanding immediately prior to the Effective Time shall automatically, without further action on the part of the Corporation or any holder of the Class B Common Stock, be reclassified as and become one fully paid and non-assessable share of Common Stock. All shares of the class of stock designated as “Class A Common Stock” immediately prior to the Effective Time registered in book-entry form shall, from and after the Effective Time, be deemed to be registered in book entry form as Common Stock. All shares of Class B Common Stock registered in book-entry form immediately prior to the Effective Time shall, from and after the Effective Time, be deemed to be registered in book entry form as that number of shares of Common Stock into which such shares of Class B Common Stock shall have been reclassified pursuant to this Certificate of Incorporation.

(cb) Increase or Decrease in Authorized Capital Stock. The number of authorized shares of Preferred Stock and

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each class of Common Stock may, without a class vote, be increased or decreased (but not below the number of shares thereof then outstanding) from time to time by the affirmative vote of the holders of at least a majority of the voting power of the Corporation's then outstanding capital stock, voting together as a single class, irrespective of the provisions of Section 242(b)(2) of the DGCL or any successor provision thereof.

Section 2. Preferred Stock. Shares of Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as stated in the resolution or resolutions providing for the establishment of such series adopted by the Board of Directors of the Corporation as hereinafter provided. Authority is hereby expressly granted to the Board of Directors of the Corporation to issue, from time to time, shares of Preferred Stock in one or more series, and, in connection with the establishment of any such series, by resolution or resolutions to determine and fix the designation of and the number of shares comprising such series, and such voting powers, full or limited, or no voting powers, and such other powers, designations, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, if any, including, without limitation, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be stated in such resolution or resolutions, all to the fullest extent permitted by the DGCL. Without limiting the generality of the foregoing, the resolution or resolutions providing for the establishment of any series of Preferred Stock may, to the extent permitted by law, provide that such series shall be superior to, rank equally with or be junior to the Preferred Stock of any other series. The powers, preferences and relative, participating, optional and other special rights of each series of Preferred Stock, and the qualifications, limitations or restrictions thereof, if any, may be different from those of any and all other series at any time outstanding. Except as otherwise expressly provided in the resolution or resolutions providing for the establishment of any series of Preferred Stock, no vote of the holders of shares of Preferred Stock or Common Stock shall be a prerequisite to the issuance of any shares of any series of the Preferred Stock so authorized in accordance with this Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation").

Section 3. Common Stock. The holders of shares of Common Stock shall have such rights as are set forth in the DGCL and, to the extent permitted thereunder, such additional rights as are set forth below:

(a) Conversion of Class B Common Stock.

(i) Voluntary Conversion. Subject to Section 3(a)(iii) of this Article IV, each share of Class B Common Stock shall be convertible, at the option of the holder thereof at any time and from time to time, into one fully paid and non-assessable share of Class A Common Stock. Such right shall be exercised by the surrender to the Corporation of the certificate or certificates, if any, representing the shares of Class B Common Stock to be converted at any time during normal business hours at the office of the Corporation's transfer agent (the Transfer Agent), accompanied by a written notice from the holder of such shares stating that such holder desires to convert such shares, or a stated number of the shares represented by such certificate or certificates, if any, into an equal number of shares of Class A Common Stock, and (if so required by the Transfer Agent) by instruments of transfer, in form satisfactory to the Transfer Agent, duly executed by such holder or such holder's duly authorized attorney, and transfer tax stamps or funds therefor if required pursuant to this Section 3(a)(i) of this Article IV. To the extent permitted by law, such conversion shall be deemed to have been effected at the close of business on the date of such surrender. Subject to the last sentence of Section 3(c) of this Article IV, immediately upon conversion of shares of Class B Common Stock, the rights of the holders of shares of Class B Common Stock as such shall cease, and such holders shall be treated for all purposes as having become the record holder or holders of such shares of Class A Common Stock. The issuance of certificates, if any, for shares of Class A Common Stock upon conversion of shares of Class B Common Stock shall be made without charge to the holders of such shares for any stamp or other similar tax in respect of such issuance; provided, however, that if any such certificate is to be issued in a name other than that of the holder of the share or shares of Class B Common Stock converted, then the individual, entity or other person requesting the issuance thereof shall pay to the Corporation the amount of any tax that may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid or is not payable.

(ii) Automatic Conversion. Subject to Section 3(a)(iii) of this Article IV, (A) each share of Class B Common Stock shall be automatically, without further action by the holder thereof, converted into one (1) fully paid and non-assessable share of Class A Common Stock, upon the occurrence of a Transfer (as defined in Section 5 of this Article IV) other than a Permitted Transfer (as defined in Section 5 of this Article IV) of such share of Class B Common Stock, (B) all shares of Class B Common Stock shall be automatically, without further action by any holder thereof, converted into an identical number of shares of fully paid and non-assessable Class A Common Stock at such time as Safeway ceases to beneficially own at least fifteen percent (15%) of the then outstanding capital stock of, or other equity interests in, the Corporation (on an as-converted to Class A Common Stock basis) other than as a result of a Spin-Off (as defined in Section 5 of this Article IV), and (C) all shares of Class B Common Stock shall be automatically, without further action by any holder thereof, converted into an identical number of shares of fully paid and non-assessable Class A Common Stock at such date and time, or upon the occurrence of an event, specified by the affirmative vote (or written consent if action by written consent of stockholders is

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permitted at such time under this Certificate of Incorporation) of the holders of a majority of the then outstanding shares of Class B Common Stock, voting as a separate class (the occurrence of an event described in clause (A), (B) or (C) of this Section 3(a)(ii) of this Article IV, a Conversion Event). Each outstanding stock certificate that, immediately prior to a Conversion Event, represented one or more shares of Class B Common Stock subject to such Conversion Event shall, upon such Conversion Event, be deemed to represent an equal number of shares of Class A Common Stock, without the need for surrender or exchange thereof. The Corporation shall, upon the request of any holder whose shares of Class B Common Stock have been converted into shares of Class A Common Stock as a result of a Conversion Event and upon surrender by such holder to the Corporation of the outstanding certificate(s) formerly representing such holder's shares of Class B Common Stock (if any), issue and deliver to such holder certificate(s) representing the shares of Class A Common Stock into which such holder's shares of Class B Common Stock were converted as a result of such Conversion Event (if such shares are certificated) or, if such shares are uncertificated, register such shares in book-entry form. Each share of Class B Common Stock that is converted pursuant to this Section 3(a)(ii) shall thereupon be retired by the Corporation and shall not be available for reissuance.

(iii) Notwithstanding the foregoing, upon the occurrence of any Spin-Off (as defined in Section 5 of this Article IV), (x) any shares of Class B Common Stock transferred to stockholders of Safeway Inc. or any successor thereto by merger, consolidation, acquisition of all or substantially all assets or otherwise by operation of law (Safeway) in a Spin-Off shall not be converted into shares of Class A Common Stock and (y) from and following the Spin-Off, the provisions of Section 3(a)(i) and 3(a)(ii) of this Article IV shall terminate and cease to apply to any shares of Class B Common Stock outstanding.

(b) Voting. Except as otherwise expressly provided by this Certificate of Incorporation or as provided by law, the holders of shares of Class A Common Stock and Class B Common Stock shall (i) have the right at all times to vote together as a single class on all matters (including the election of directors) or for the consent (if action by written consent of the stockholders is permitted at such time under this Certificate of Incorporation) submitted to a vote of the stockholders of the Corporation, (ii) be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation and (iii) be entitled to vote upon such matters and in such manner as may be provided by applicable law; provided that, except as otherwise expressly provided herein or required by applicable law, each holder of Class A Common Stock shall have the right to one (1) vote per share of Class A Common Stock held of record by such holder and each holder of Class B Common Stock shall have the right to ten (10) votes per share of Class B Common Stock held of record by such holder. Notwithstanding any other provision of this Certificate of Incorporation to the contrary, (i) so long as any shares of Class A Common Stock are outstanding, the Corporation shall not, without the affirmative vote of the holders of a majority of the voting power of the outstanding shares of Class A Common Stock, amend, alter or repeal any provision of this Certificate of Incorporation so as to adversely affect the relative rights, preferences, qualifications, limitations or restrictions of the Class A Common Stock as compared to those of the Class B Common Stock and (ii) so long as any shares of Class B Common Stock are outstanding, the Corporation shall not, without the affirmative vote of the holders of a majority of the voting power of the outstanding shares of Class B Common Stock, amend, alter or repeal any provision of this Certificate of Incorporation so as to adversely affect the relative rights, preferences, qualifications, limitations or restrictions of the Class B Common Stock as compared to those of the Class A Common Stock. Each holder of Common Stock shall have the right to one (1) vote per share of Common Stock held of record by such holder.

(c) Dividends. The holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to share equally, on a per share basis, in such dividends and other distributions of cash, property, shares of capital stock or rights to acquire shares of capital stock of the Corporation as may be declared by the Board of Directors from time to time with respect to Common Stock out of assets or funds of the Corporation legally available therefor and no dividend or distribution may be declared or paid on the outstanding shares of Class A Common Stock unless a dividend or distribution, payable in the same consideration and manner, is simultaneously declared or paid, as the case may be, on each share of Class B Common Stock, nor shall any dividend or distribution be declared or paid on any

share of Class B Common Stock unless a dividend or distribution, payable in the same consideration and manner, is simultaneously declared or paid, as the case may be, on each share of Class A Common Stock, in each case without preference or priority of any kind; provided, however, that if dividends or distributions are declared or paid in shares of Common Stock or rights to acquire shares of Common Stock, the dividends or distributions payable to holders of Class A Common Stock shall be payable in Class A Common Stock or rights to acquire Class A Common Stock, as applicable, and the dividends or distributions payable to the holders of Class B Common Stock shall be payable in Class B Common Stock or rights to acquire Class B Common Stock, as applicable, and the number of shares of Class A Common Stock or rights to acquire shares of Class A Common Stock, as applicable, paid or distributed in respect of each outstanding share of Class A Common Stock shall be equal to the number of shares of Class B Common Stock or rights to acquire shares of Class B Common Stock, as applicable, paid or distributed in respect of each outstanding share of Class B Common Stock. Notwithstanding the foregoing, if the date on which any share of Class B Common Stock is converted into Class A Common Stock pursuant to Section 3(a) of this Article IV is after the record date for the determination of the holders of Class B Common Stock entitled to receive any dividend or distribution and prior to the date on which such dividend or

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distribution is to be paid to such holders, the holder of the Class A Common Stock issued upon the conversion of such converted share of Class B Common Stock will be entitled to receive such dividend or distribution on such payment date; provided, however, that to the extent that such dividend or distribution is payable in shares of Class B Common Stock or rights to acquire Class B Common Stock, as applicable, no such shares of Class B Common Stock or rights to acquire shares of Class B Common Stock, as applicable, shall be issued in payment thereof and such dividend or distribution shall instead be paid by the issuance of such number of shares of Class A Common Stock or rights to acquire shares of Class A Common Stock, as applicable, into which such shares of Class B Common Stock or rights to acquire Class B Common Stock, as applicable, if issued or exercised, as applicable, would have been convertible on such payment date.

(db) Dividends. The holders of Common Stock shall be entitled to share equally, on a per share basis, in such dividends and other distributions of cash, property, shares of capital stock or rights to acquire shares of capital stock of the Corporation as may be declared by the Board of Directors from time to time with respect to Common Stock out of assets or funds of the Corporation legally available therefor.

(c) Liquidation, Dissolution, etc. In the event of a voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the Corporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to share equally, on a per share basis, in all assets of the Corporation of whatever kind available for distribution to the holders of Common Stock.

(e) Subdivision or Combination. If the Corporation in any manner subdivides or combines the outstanding shares of one class of Common Stock, the outstanding shares of the other class of Common Stock will be subdivided or combined in the same manner.

(f) Treatment in a Merger. The consideration received per share by the holders of the Class A Common Stock and the holders of the Class B Common Stock in any merger, consolidation, reorganization or other business combination shall be identical; provided, however, that if (i) such consideration consists, in whole or in part, of shares of capital stock of, or other equity interests in, the Corporation or any other corporation, partnership, limited liability company or other entity, (ii) the powers, designations, preferences and relative, optional or other special rights and qualifications, limitations and restrictions of shares of capital stock or other equity interests received in respect of the shares of Class B Common Stock differ solely to the extent that the powers, designations, preferences and relative, optional or other special rights and qualifications, limitations and restrictions of the Class A Common Stock and the Class B Common Stock differ as described in Section 3 of this Article IV and (iii) upon receipt of such consideration, Safeway will beneficially own at least a majority of the voting power of the surviving entity, then the powers, designations, preferences and relative, optional or other special rights and qualifications, limitations and restrictions of such shares of capital stock or other equity interests may differ to the extent that the powers, designations, preferences and relative, common, participating, optional or other special rights and qualifications, limitations and restrictions of the Class A Common Stock and Class B Common Stock differ as provided herein (including, without limitation, with respect to the voting rights and conversion provisions hereof) (such event, a Safeway Continued Control Event); and provided further, that, if the holders of the Class A Common Stock or the holders of the Class B Common Stock are granted the right to elect to receive one of two or more alternative forms of consideration, the foregoing provisions shall be deemed satisfied if holders of the other class are granted identical election rights (subject to the limited exceptions provided in the case of a Safeway Continued Control Event).

(gd) No Preemptive or Subscription Rights. No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

(h) Conversion Shares. So long as any shares of Class B Common Stock remain outstanding, the Corporation shall at all times reserve and keep available, out of its authorized but unissued Common Stock, such number of shares of Class

A Common Stock as would become issuable upon the conversion of all shares of Class B Common Stock then outstanding.

(i) Equal Status. Except as expressly provided in this Article IV, shares of Class A Common Stock and Class B Common Stock shall have the same rights and privileges and rank equally, share ratably and be identical in all respect as to all matters.

Section 4. Power to Sell and Purchase Shares. Subject to the requirements of applicable law, the Corporation shall have the power to issue and sell all or any part of any shares of any class of stock herein or hereafter authorized to such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not greater consideration could be received upon the issuance or sale of the same number of shares of another class, and as otherwise permitted by law. Subject to the requirements of applicable law, the Corporation shall have the power to purchase all or any part of any shares of any class of stock herein or hereafter authorized from such persons, and for such consideration, as



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the Board of Directors shall from time to time, in its discretion, determine, whether or not less consideration could be paid upon the purchase of the same number of shares of another class, and as otherwise permitted by law.

Section 5. Definitions. For purposes of this Certificate of Incorporation:

- (a) “Code” shall mean the Internal Revenue Code of 1986, as amended.
- (b) “Permitted Transfer” shall mean the Transfer of any share or shares of Class B Common Stock to one or more direct or indirect, wholly-owned subsidiaries of the transferor.
- (c) “Spin-Off” shall mean any distribution of shares of Common Stock then beneficially owned by Safeway to the holders of equity securities of Safeway in a spin-off, split-off or split-up transaction, whether or not intended to be tax-free for federal income tax purposes, including any distribution in exchange for Safeway shares or securities.
- (d) “Transfer” of a share of Class B Common Stock shall mean, directly or indirectly, any sale, assignment, transfer, conveyance, hypothecation or other transfer or disposition of such share or any legal or beneficial interest in such share, whether or not for value and whether voluntary or involuntary or by operation of law (including by merger, consolidation or otherwise), including, without limitation, a transfer of a share of Class B Common Stock to a broker or other nominee (regardless of whether there is a corresponding change in beneficial ownership), or the transfer of, or entering into a binding agreement with respect to, Voting Control (as defined below) over such share by proxy or otherwise. Notwithstanding the foregoing, the following shall not be considered a Transfer within the meaning of this Article IV:
- (i) the granting of a revocable proxy to officers or directors of the Corporation at the request of the Board of Directors in connection with actions to be taken at an annual or special meeting of stockholders or in connection with any action by written consent of the stockholders solicited by the Board of Directors (if action by written consent of stockholders is permitted at such time under this Certificate of Incorporation);
- (ii) entering into a voting trust, agreement or arrangement (with or without granting a proxy) solely with stockholders who are holders of Class B Common Stock, which voting trust, agreement or arrangement (A) is disclosed either in a Schedule 13D filed with the Securities and Exchange Commission or in writing to the Secretary of the Corporation; (B) either has a term not exceeding one (1) year or is terminable by the holder of the shares subject thereto at any time; and (C) does not involve any payment of cash, securities, property or other consideration to the holder of the shares subject thereto other than the mutual promise to vote shares in a designated manner; or
- (iii) the sale of shares of Class B Common Stock by a stockholder that creates a mere security interest in such shares pursuant to a bona fide loan or indebtedness transaction for so long as such stockholder continues to exercise Voting Control over such pledged shares; provided, however, that a foreclosure on such shares or other similar action by the pledgee shall constitute a Transfer unless such foreclosure or similar action independently qualifies as a Permitted Transfer at such time.
- (e) “Voting Control” shall mean, with respect to a share of Class B Common Stock, the power (whether exclusive or shared) to vote or direct the voting of such share by proxy, voting agreement or otherwise.

ARTICLE V  
BOARD OF DIRECTORS

Section 1. Powers of the Board. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by

applicable law or by this Certificate of Incorporation or the Bylaws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

Section 2. Classification of the Board. Except as may be provided in a resolution or resolutions of the Board of Directors providing for any series of Preferred Stock with respect to any directors elected (or to be elected) by the holders of such series, the directors shall be divided into three classes, designated as Class I, Class II and Class III, as nearly equal in number as possible. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders following the effectiveness of this Certificate of Incorporation (the "Qualifying Record Date"), the term of office of the Class I directors shall expire and Class I directors shall be elected for a term expiring at the third succeeding annual meeting. At the second annual meeting of stockholders following the Qualifying Record Date, scheduled to be held in 2017; the term of office of the Class II directors shall expire and Class II directors shall be elected for a term expiring at the third succeeding annual meeting. At the third at the annual meeting of

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stockholders following the Qualifying Record Datescheduled to be held in 2015; and the term of office of the Class III directors shall expire and Class III directors shall be elected for a term expiring at the third succeeding annual meeting of stockholders scheduled to be held in 2016. At each succeedingannual meeting of stockholders, directors shall be elected for a full term of three years to succeed the directors of the class whose terms expire at such annual meeting. Notwithstanding the foregoing provisions of this Section 2 of Article V, each director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation, disqualification, retirement, or removal.

Section 3. Number of Directors. Subject to the rights of any series of Preferred Stock to elect additional directors under specified circumstances, the total number of authorized directors constituting the Board of Directors shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the directors then in office.

Section 4. Removal of Directors. Except as may be provided in a resolution or resolutions of the Board of Directors providing for any series of Preferred Stock with respect to any directors elected (or to be elected) by the holders of such series and except as otherwise required by applicable law, (a) until such time as Safeway ceases to beneficially own shares of Common Stock representing at least a majority of the voting power (Safeway Control) of all the then outstanding shares of capital stock of the Corporation entitled to vote at an election of directors (the Voting Stock), the Board of Directors or any individual director may be removed from office at any time with or without cause by the affirmative vote of the holders of a majority of the voting power of the Voting Stock and (b) from and after such time as Safeway beneficially owns less than a majority of the voting power of the Voting Stock (Common Control), the Board of Directors or any individual director may be removed from office at any time only for cause by the affirmative vote of the holders of a majority of the voting power of the Voting Stockall the then outstanding shares of capital stock of the Corporation entitled to vote at an election of directors (the "Voting Stock").

Section 5. Vacancies and Newly Created Directorships. Except as may be provided in a resolution or resolutions providing for any series of Preferred Stock with respect to any directors elected (or to be elected) by the holders of such series and except as otherwise required by law, any vacancies on the Board of Directors resulting from death, resignation, disqualification, retirement, removal or other causes and any newly created directorships resulting from any increase in the number of directors shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by the stockholders, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors, and not by the stockholders. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor shall have been elected and qualified or until such director's death, resignation, disqualification, retirement, or removal.

Section 6. Bylaws. The Board of Directors is expressly authorized to make, alter or repeal Bylaws of the Corporation. Notwithstanding the foregoing, the Bylaws of the Corporation may be rescinded, altered, amended or repealed in any respect by the affirmative vote of the holders of (a) a majority of the voting power of the Voting Stock while the Corporation is under Safeway Control and (b) at least seventy-five percent (75%) of the voting power of the Voting Stockfrom and after the time that the Corporation is under Common Control.

Section 7. Elections of Directors. Elections of directors need not be by ballot unless the Bylaws of the Corporation shall so provide.

Section 8. Officers. Except as otherwise expressly delegated by resolution of the Board of Directors, the Board of Directors shall have the exclusive power and authority to appoint and remove officers of the Corporation.

ARTICLE VI  
STOCKHOLDERS

Section 1. Actions by Consent. Except as may be provided in a resolution or resolutions of the Board of Directors providing for any series of Preferred Stock, any action required or permitted to be taken by the stockholders of the Corporation may be effected by an action by written consent in lieu of a meeting with the approval of the holders of outstanding capital stock having not less than the minimum voting power that would be necessary to authorize or take such action at a meeting at which all shares of capital stock entitled to vote thereon were present and voted; provided, that from and after the time that the Corporation is under Common Control, any action required or permitted to be taken by the stockholders of the Corporation must be effected only at a duly called annual or special meeting of such stockholders and may not be effected by any written consent in lieu of a meeting by such stockholders.

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Section 2. Special Meetings of Stockholders. Except as may be provided in a resolution or resolutions of the Board of Directors providing for any series of Preferred Stock, special meetings of stockholders of the Corporation may be called at any time (a) by the Chairman of the Board of Directors or by the Secretary of the Corporation upon direction of the Board of Directors pursuant to a resolution adopted by a majority of the entire Board of Directors or by the holders of a majority of the voting power of the Voting Stock while the Corporation is under Safeway Control and (b) only by the Chairman of the Board of Directors or by the Secretary of the Corporation upon direction of the Board of Directors pursuant to a resolution adopted by a majority of the entire Board of Directors, but such special meetings may not be called by any other person or persons from and after the time that the Corporation is under Common Control.

Section 3. Meeting Location. Meetings of stockholders may be held within or outside the State of Delaware, as the Bylaws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ARTICLE VII  
LIABILITY AND INDEMNIFICATION

Section 1. Director Liability. To the maximum extent permitted by the DGCL, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL is amended after approval by the stockholders of this Article VII to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended, automatically and without further action, upon the date of such amendment.

Section 2. Right to Indemnification.

(a) Directors and Officers. The Corporation shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative (a "Proceeding"), by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the Corporation or any predecessor of the Corporation, or serves or served at any other enterprise as a director or officer at the request of the Corporation, or any predecessor to the Corporation against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding. Such right may include the right to be paid by the Corporation expenses incurred in defending any such Proceeding in advance of its final disposition to the maximum extent permitted under the DGCL, as the same exists or may hereafter be amended. Notwithstanding the preceding sentence, except as otherwise provided in the Bylaws, the Corporation shall be required to indemnify a person in connection with a Proceeding initiated by such person only if the Proceeding was authorized in the specific case by the Board.

(b) Employees and Agents. The Corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to a Proceeding, by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was an employee or agent of the Corporation or any predecessor of the Corporation, or serves or served at any other enterprise as an employee or agent at the request of the Corporation or any predecessor to the Corporation, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding. Such right may include the right to be paid by the Corporation expenses incurred in defending any such Proceeding in advance of its final disposition to the maximum extent permitted under the DGCL, as the same exists or may hereafter be amended.

Section 3. Amendment or Repeal. Neither any amendment nor repeal of this Article VII, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article VII, shall eliminate or reduce the effect of this Article VII in respect of any matter occurring, or any Proceeding accruing or arising or that, but for this Article VII, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE VIII  
SECTION 203

The Corporation shall not be governed by Section 203 of the DGCL (or any successor provision thereto) (“Section 203”), and the restrictions contained in Section 203 shall not apply to the Corporation, until immediately following the time at which both of the following conditions exist (if ever): (a) Section 203 by its terms would, but for the provisions of this Article

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VIII, apply to the Corporation; and (b) Safeway does not beneficially own shares of capital stock of the Corporation representing at least fifteen percent (15%) of the voting power of all the then outstanding shares of capital stock of the Corporation, and the Corporation shall thereafter be governed by Section 203 if and) for so long as Section 203 by its terms shall apply to the Corporation.

ARTICLE IX  
EXCLUSIVE FORUM

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (the “Delaware Court”) shall, to the fullest extent permitted by law, be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by, or other wrongdoing by, any director or officer, of the Corporation to the Corporation or the Corporation’s stockholders, (c) any action asserting a claim against the Corporation arising pursuant to any provision of the DGCL or this Certificate of Incorporation or the Bylaws of the Corporation, (d) any action to interpret, apply, enforce or determine the validity of this Certificate of Incorporation or the Bylaws of the Corporation, or (e) any action asserting a claim against the Corporation governed by the internal affairs doctrine (any action described in clauses (a) through (e) being referred to as a “Covered Action”), in each such case unless the Delaware Court determines that there is an indispensable party named as a defendant in such Covered Action not subject to the personal jurisdiction of the Delaware Court (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within 15 days following such determination) and can be subject to the jurisdiction of another court or forum within the United States.

ARTICLE X  
AMENDMENT

Notwithstanding any other provisions of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law or by the Bylaws of the Corporation or by this Certificate of Incorporation (or by any certificate of designation hereto), any alteration, amendment or repeal of Articles V, VI, VII, VIII, IX, X or XIX of this Certificate of Incorporation shall require the affirmative vote of (a) a majority of the voting power of the Voting Stock while the Corporation is under Safeway Control and (b) at least seventy-five percent (75%) of the voting power of the Voting Stock from and after the time that the Corporation is under Common Control.

ARTICLE XI  
CORPORATE OPPORTUNITIES

To the extent that an opportunity may be of interest to both the Corporation and Safeway (which for purposes of this Article XI only, shall be deemed to include any subsidiary of Safeway other than the Corporation), if the opportunity is offered to:

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

(b) one of the directors of the Corporation who is also an officer or employee of Safeway, that opportunity will belong to Safeway unless expressly offered to that person primarily in his or her capacity as a director of the Corporation, in which case it will belong to the Corporation; and

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

Any corporate opportunity that belongs to the Corporation or Safeway, as the case may be, may not be pursued by the other, unless and until the party to whom the opportunity belongs determines not to pursue the opportunity and so informs the other party. Furthermore, so long as the material facts of any transaction between the Corporation and Safeway have been disclosed to or are known by the Board of Directors or relevant committee thereof, and the Board of Directors or such committee (which pursuant to Section 144(b) of the DGCL, may include directors who are directors or officers of Safeway for purposes of establishing the presence of a quorum) authorizes the transaction by an affirmative vote of a majority of the disinterested directors, then, to the fullest extent permitted by law, Safeway will be deemed to have satisfied its fiduciary duties



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and not be liable to the Corporation or the Corporation's stockholders for any breach of fiduciary duty or duty of loyalty relating to that transaction.

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ANNEX B

FIRST AMENDMENT TO  
BLACKHAWK NETWORK HOLDINGS, INC.  
2013 EQUITY INCENTIVE AWARD PLAN

This First Amendment (“ First Amendment ”) to the Blackhawk Network Holdings, Inc. 2013 Equity Incentive Award Plan (the “ Plan ”), is adopted by the Board of Directors (the “ Board ”) of Blackhawk Network Holdings, Inc., a Delaware corporation (the “ Company ”), effective as of March 20 , 2015 (the “ Amendment Date ”). Capitalized terms used in this First Amendment and not otherwise defined herein shall have the meanings ascribed to such terms in the Plan.

RECITALS

A. The Company currently maintains the Plan.

Pursuant to Section 14.1 of the Plan, (i) the Administrator has the authority to amend the Plan at any time or from time to time, and (ii) the Administrator has the authority to amend the Plan to increase the limits imposed in Section 3.1 on the maximum number of shares which may be issued under the Plan (the “Share Limit”), subject to approval by the stockholders of the Company twelve (12) months before or after such action.

C. The Administrator believes it is in the best interests of the Company and its stockholders to amend the Plan to increase the Share Limit.

AMENDMENT

The Plan is hereby amended as follows, effective as of the Amendment Date, subject to approval by the stockholders of the Company within twelve (12) months of the Amendment Date:

1. Section 3.1(a). The first sentence of Section 3.1(a) of the Plan is hereby deleted and replaced in its entirety with the following:

“Subject to Sections 3.1(b), 14.1 and 14.2 hereof, the aggregate number of Shares which may be issued or transferred pursuant to Awards under the Plan (the “Share Limit”) shall be equal to the sum of (i) seven million (7,000,000) Shares and (ii) any shares of Class B Common Stock which, as of the Effective Date, are (A) available for issuance under the Prior Plans or (B) underlying awards outstanding under the Prior Plans that, on or after the Effective Date, terminate, expire or lapse for any reason without the delivery of shares to the holder thereof, up to a maximum of four million six hundred twenty-three thousand eight hundred ninety-two (4,623,892) shares, all of which may be issued as Incentive Stock Options; provided, however, that notwithstanding the foregoing, Shares added to the Share Limit pursuant to Section 3.1(a)(ii) shall be available for issuance as Incentive Stock Options only to the extent that making such Shares available for issuance as Incentive Stock Options would not cause any Incentive Stock Option to cease to qualify as such. For the avoidance of doubt, any shares of Class B Common Stock that are referenced in Section 3.1(a)(ii) shall be added to the Share Limit as shares of Common Stock.”

2. Section 3.3. Section 3.3 of the Plan is hereby deleted and replaced in its entirety with the following:

“Notwithstanding any provision in the Plan to the contrary, and subject to Section 14.2 hereof, the maximum aggregate number of Shares with respect to one or more Awards that may be granted to any one person during any calendar year (measured from the date of any grant) shall be one million (1,000,000) and the maximum aggregate amount of cash

that may be paid in cash during any calendar

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year (measured from the date of any payment) with respect to one or more Awards payable in cash shall be two million dollars (\$2,000,000) (together, the "Individual Award Limits")."

3. Section 11.10. A new Section 11.10 is hereby added to the Plan:

"Vesting Limitations. Notwithstanding any other provision of the Plan to the contrary, Awards (including each tranche of an Award) issued pursuant to the Plan following May 20, 2015 shall have a minimum vesting period of one year (which for Non-Employee Director Awards granted pursuant to Section 12.1 hereof in connection with an annual meeting of the Company's stockholders shall be the earlier of the one-year anniversary of the grant date and the next following annual meeting of the Company's stockholders); provided, however, that, notwithstanding the foregoing, (a) the Administrator may provide that such one-year vesting restrictions may lapse or be waived upon the Participant's Termination of Service due to death or disability and/or in connection with a Change in Control, and (b) Awards (including each tranche of an Award) that result in the issuance of an aggregate of up to 5% of the Shares available pursuant to Section 3.1(a) may be granted to any one or more Participants without respect to such minimum vesting requirement."

4. This First Amendment shall be and, as of the Amendment Date, is hereby incorporated in and forms a part of the Plan, subject to approval by the stockholders of the Company within twelve (12) months of the Amendment Date.

5. Except as expressly provided herein, all terms and conditions of the Plan shall remain in full force and effect.

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I hereby certify that this First Amendment was duly adopted by the Board of Directors of Blackhawk Network Holdings, Inc. on February 23, 2015.

I hereby certify that this First Amendment was duly adopted by the Compensation Committee of Blackhawk Network Holdings, Inc. on March 20, 2015.

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I hereby certify that this First Amendment was approved by the stockholders of Blackhawk Network Holdings, Inc. on \_\_\_\_\_, 2015.

Executed on this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

Blackhawk Network Holdings, Inc.

By: \_\_\_\_\_  
Name: David E. Durant  
Title: General Counsel and Secretary













