BLACKHAWK NETWORK HOLDINGS, INC
Form DEF 14A
April 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Information Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

BLACKHAWK NETWORK HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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BLACKHAWK NETWORK HOLDINGS, INC.

6220 Stoneridge Mall Road

Pleasanton, CA 94588

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 21, 2014

On May 21, 2014, Blackhawk Network Holdings, Inc. will hold its Annual Meeting of Stockholders at 2:00 p.m. Pacific Time. The meeting will be held at the Hilton Pleasanton at the Club, 7050 Johnson Drive, Pleasanton, California 94588, for the following purposes:

1. To elect Douglas J. Mackenzie and Lawrence F. Probst III as Class I directors to hold office until the 2017 annual meeting of stockholders or until their successors are elected and qualified;

2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 3, 2015;

3. To approve, on a non-binding, advisory basis, the compensation of our named executive officers (the say-on-pay vote) as disclosed in the attached Proxy Statement pursuant to compensation disclosure rules under the Securities Exchange Act of 1934, as amended;

4. To cast a non-binding, advisory vote on the frequency of future say-on-pay votes;

5. To approve our 2013 Equity Incentive Award Plan; and

6. To transact such other business as may properly come before the meeting or at any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. Only stockholders who owned our common stock at the close of business on March 28, 2014 (the Record Date) can vote at this meeting or any adjournments or postponements thereof.

Our Board of Directors recommends that you vote FOR the election of the director nominees named in Proposal No. 1 of the Proxy Statement, FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm as described in Proposal No. 2 of the Proxy Statement; FOR the approval, on a non-binding, advisory basis, of the compensation of our named executive officers as described in Proposal No. 3 of the Proxy Statement; for every 3 YEARS with respect to the non-binding, advisory vote on the frequency of say-on-pay votes as described in Proposal No. 4 of the Proxy Statement; and FOR the approval of our 2013 Equity Incentive Award Plan as described in Proposal No. 5 of the Proxy Statement.

For our Annual Meeting, we have elected to use the Internet as our primary means of providing our proxy materials to stockholders. Consequently, most stockholders will not receive paper copies of our proxy materials. We will instead send to these stockholders a Notice of Internet Availability of Proxy Materials with instructions for accessing the proxy materials, including our Proxy Statement and Annual Report to Stockholders, and for voting via the Internet. The Notice of Internet Availability of Proxy Materials also provides information on how stockholders may obtain paper copies of our proxy materials free of charge, if they so choose. The electronic delivery of our proxy materials will significantly reduce our printing and mailing costs and the environmental impact of the proxy materials.

The Notice of Internet Availability of Proxy Materials will also provide the date, time and location of the Annual Meeting; the matters to be acted upon at the meeting and the recommendation of the Board of Directors with regard to each matter; a toll-free number, an e-mail address and a website where stockholders can request a

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paper or email copy of the Proxy Statement, our Annual Report to Stockholders and a form of proxy relating to the Annual Meeting; information on how to access the form of proxy; and information on how to attend the Annual Meeting and vote in person.

You are cordially invited to attend the Annual Meeting, but whether or not you expect to attend in person, you are urged to vote and submit your proxy by following the voting procedures described in the Notice of Internet Availability of Proxy Materials or on the proxy card.

By Order of the Board of Directors,

David E. Durant

Secretary

Pleasanton, California

Dated: April 10, 2014

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BLACKHAWK NETWORK HOLDINGS, INC.

6220 Stoneridge Mall Road

Pleasanton, CA 94588

2014 PROXY STATEMENT

FOR THE 2014 ANNUAL MEETING OF THE STOCKHOLDERS

MAY 21, 2014

The Board of Directors of Blackhawk Network Holdings, Inc. is soliciting your proxy to vote at the Annual Meeting of Stockholders to be held on May 21, 2014, at 2:00 p.m., local time, and any adjournment or postponement of that meeting (the Annual Meeting). The Annual Meeting will be held at the Hilton Pleasanton at the Club, 7050 Johnson Drive, Pleasanton, California 94588.

We have elected to use the Internet as the primary means of providing our proxy materials to stockholders. Accordingly, on or about April 10, 2014, we are making this Proxy Statement and the accompanying proxy card, Notice of Annual Meeting of Stockholders and Annual Report to Stockholders available on the Internet and mailing a Notice of Internet Availability of Proxy Materials to stockholders of record as of March 28, 2014 (the Record Date). Brokers and other nominees who hold shares on behalf of beneficial owners will be sending their own similar notice. All stockholders as of the Record Date will have the ability to access the proxy materials on the website referred to in the Notice of Internet Availability of Proxy Materials or request to receive a printed set of the proxy materials. Instructions on how to request a printed copy by mail or electronically, including an option to request paper copies on an ongoing basis, may be found in the Notice of Internet Availability of Proxy Materials and on the website referred to in the notice. We intend to mail this Proxy Statement, together with the accompanying proxy card, to those stockholders entitled to vote at the Annual Meeting who have properly requested paper copies of such materials within three business days of request.

The only voting securities of Blackhawk Network Holdings, Inc. are shares of Class A common stock, par value $0.001 per share (the Class A Common Stock), of which there were 12,530,246 shares outstanding as of the Record Date (excluding any treasury shares) and Class B common stock, par value $0.001 per share (Class B Common Stock and, together with Class A Common Stock, the Common Stock), of which there were 40,059,834 shares outstanding as of the Record Date (excluding any treasury shares). We need the holders of a majority in voting power of the shares of Common Stock issued and outstanding and entitled to vote, present in person or represented by proxy, to hold the Annual Meeting.

In this Proxy Statement, we refer to Blackhawk Network Holdings, Inc. as the Company, Blackhawk, we or us and Board of Directors as the Board. When we refer to Blackhawk s fiscal year, we mean the 52-week or 53-week fiscal year ending on the Saturday closest to December 31. The fiscal year presented in this Proxy Statement consists of the 52-week period ended December 28, 2013.

The Company s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC), is available in the Financials section of our website at http://ir.blackhawknetwork.com. You also may obtain a copy of the Company s Annual Report on Form 10-K, without charge, by contacting: Secretary, c/o Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road, Pleasanton, CA 94588.

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QUESTIONS AND ANSWERS

Proxy Material and Voting Information

Who can vote at the Annual Meeting?

Only stockholders that our records show owned shares of either class of our Common Stock as of the close of business on the Record Date may vote at the Annual Meeting. As of the Record Date, we had a total of 12,530,246 shares of Class A Common Stock issued and outstanding, which were held of record by approximately 119 stockholders, and a total of 40,059,834 shares of Class B Common Stock issued and outstanding, which were held of record by approximately 395 stockholders. As of the Record Date, Safeway Inc. (Safeway) was the holder of 10,592 shares of Class A Common Stock, representing approximately 0.08% of our total outstanding shares of Class A Common Stock and 0.08% of the voting power of our Class A Common Stock, and 37,838,709 shares of our Class B Common Stock, representing approximately 94.46% of our total outstanding shares of Class B Common Stock and 94.46% of our voting power of our Class B Common Stock, and together representing approximately 72.0% of our total outstanding shares of Common Stock and 91.59% of the combined voting power of our outstanding Common Stock. On March 24, 2014, Safeway announced that its board of directors had declared a special stock dividend to Safeway s stockholders of the 37,838,709 shares of our Class B Common Stock owned by Safeway. The date of distribution by Safeway of the special stock dividend is contemplated to be April 14, 2014, and the distribution will take place in the form of a pro rata dividend of Class B Common Stock to each Safeway stockholder of record as of the close of business on April 3, 2014. Accordingly, because it will continue to be the holder of record of 91.59% of the combined voting power of our outstanding Common Stock as of the Record Date, Safeway will be able to control the outcome of each of the proposals included in this Proxy Statement and any other matters that are properly brought before the Annual Meeting.

The stock transfer books will not be closed between the Record Date and the date of the Annual Meeting. Each share of Class A Common Stock is entitled to one vote on each proposal and each share of Class B Common Stock is entitled to ten votes on each proposal. The Class A Common Stock and Class B Common Stock will vote as a single class on all matters described in this Proxy Statement for which your vote is being solicited.

Stockholder of Record: Shares Registered in Your Name

If your shares were registered directly in your name with the transfer agent for our Common Stock, Wells Fargo Shareowner Services, then you are a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, we urge you to fill out and return the proxy card or vote by proxy over the telephone or on the Internet as instructed below to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker, Bank or Other Agent

If your shares were held in an account at a brokerage firm, bank, dealer or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a valid proxy card from your broker or other agent.

What am I being asked to vote on?

You are being asked to vote FOR the following:

To elect Douglas J. Mackenzie and Lawrence F. Probst III as Class I directors to hold office until the 2017 annual meeting of stockholders or until their successors are elected and qualified;

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To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 3, 2015;

To approve, on a non-binding, advisory basis, the say-on-pay vote; and

To approve our 2013 Equity Incentive Plan.

You are being asked to vote for every 3 YEARS with respect to the non-binding, advisory vote on the frequency of future say-on-pay votes.

In addition, you are entitled to vote on any other matters that are properly brought before the Annual Meeting.

How do I vote?

You may vote by mail or follow any alternative voting procedure described on the proxy card or the Notice of Internet Availability of Proxy Materials. To use an alternative voting procedure, follow the instructions on each proxy card that you receive or on the Notice of Internet Availability of Proxy Materials.

For the election of directors, you may either vote FOR each of the two nominees or you may withhold your vote for any nominee you specify. For the ratification of the selection of the Company s independent auditors and the non-binding, advisory vote to approve named executive officer compensation, or approval of the 2013 Equity Incentive Plan, you may vote FOR or AGAINST or abstain from voting. For the non-binding, advisory vote on the frequency of future say-on-pay votes, you may choose (1) every year (1 YEAR on the proxy card), (2) every two years (2 YEARS on the proxy card) or (3) every three years (3 YEARS on the proxy card); in addition, you may choose to abstain from voting on this proposal.

The procedures for voting are as follows:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting. Alternatively, you may vote by proxy over the Internet or, if you properly request and receive a proxy card by mail or email, by signing, dating and returning the proxy card, over the Internet or by telephone. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. Even if you have submitted a proxy before the Annual Meeting, you may still attend the Annual Meeting and vote in person. In such case, your previously submitted proxy will be disregarded.

To vote by proxy over the Internet, follow the instructions provided in the Notice of Internet Availability of Proxy Materials or on the proxy card.

To vote by telephone, if you properly requested and received a proxy card by mail or email, you may vote by proxy by calling the toll free number found on the proxy card.

To vote by mail, if you properly requested and received a proxy card by mail or email, simply complete, sign and date the proxy card and return it promptly. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

To vote in person, come to the Annual Meeting, and we will give you a ballot when you arrive.

Beneficial Owner: Shares Registered in the Name of Broker, Bank or Other Agent

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a voting instruction card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the voting instruction card to ensure that your vote is

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counted. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker, bank or other agent included with these proxy materials, or contact your broker, bank or other agent to request a proxy form.

Who counts the votes?

Broadridge Financial Solutions, Inc. (Broadridge) has been engaged as our independent agent to tabulate stockholder votes. If you are a stockholder of record, and you choose to vote over the Internet or by telephone, Broadridge will access and tabulate your vote electronically. If you choose to sign and mail your proxy card, your executed proxy card is returned directly to Broadridge for tabulation. As noted above, if you hold your shares through a broker, your broker (or its agent for tabulating votes of shares held in street name, as applicable) returns one proxy card to Broadridge on behalf of all its clients.

How are votes counted?

With respect to Proposal No. 1, the election of directors, the two nominees receiving the highest number of votes will be elected. With respect to Proposal Nos. 2, 3 and 5, the affirmative vote of the holders of a majority in voting power of the shares of Common Stock that are present in person or by proxy and entitled to vote on such proposal is required for approval. With respect to Proposal No. 4, the affirmative vote of the holders of a majority in voting power of the shares of Common Stock that are present in person or by proxy and entitled to vote on such proposal is required for approval. However, if none of the frequency alternatives (one, two or three years) receive a majority vote, we will consider the frequency that receives the highest number of votes by stockholders to be the frequency that has been selected by our stockholders.

Brokers who hold shares in street name for the accounts of their clients may vote such shares either as directed by their clients or, in the absence of such direction, in their own discretion if permitted by the stock exchange or other organization of which they are members. If your shares are held by a broker on your behalf, and you do not instruct the broker as to how to vote these shares on Proposal No. 2, the broker may exercise its discretion to vote for or against that proposal in the absence of your instruction. With respect to Proposal Nos. 1, 3, 4 and 5, the broker may not exercise discretion to vote on these proposals. This would be a broker non-vote and these shares will not be counted as having been voted on the applicable proposal. However, broker non-votes will be considered present and entitled to vote at the Annual Meeting and will be counted towards determining whether or not a quorum is present. Please instruct your bank or broker so your vote can be counted.

If stockholders abstain from voting, these shares will be considered present and entitled to vote at the Annual Meeting and will be counted towards determining whether or not a quorum is present. Abstentions will have no effect with regard to Proposal No. 1, and with regard to Proposal Nos. 2, 3, 4 and 5, will have the same effect as an AGAINST vote.

How do I vote via Internet or telephone?

You may vote by proxy via the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials or on the proxy card. If you properly request and receive printed copies of the proxy materials by mail, you may vote by proxy by calling the toll-free number found on the proxy card. Please be aware that if you vote over the Internet or by telephone, you may incur costs such as telephone and Internet access charges, as applicable, for which you will be responsible. The Internet and telephone voting facilities for eligible stockholders of record will close at 11:59 p.m. Pacific Time on May 14, 2014. The giving of such a telephonic or Internet proxy will not affect your right to vote in person should you decide to attend the Annual Meeting.

The telephone and Internet voting procedures are designed to authenticate stockholders identities, to allow stockholders to give their voting instructions and to confirm that stockholders instructions have been recorded properly.

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What if I return a proxy card but do not make specific choices?

If we receive a signed and dated proxy card and the proxy card does not specify how your shares are to be voted, your shares will be voted FOR the election of each of the two nominees for director, FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, FOR approval, on a non-binding, advisory basis, of the compensation of our named executive officers, for every 3 YEARS with respect to the non-binding, advisory vote on the frequency of future say-on-pay votes and FOR approval of our 2013 Equity Incentive Plan. If any other matter is properly presented at the Annual Meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these proxy materials, our directors, officers and employees may also solicit proxies in person, by telephone or by other means of communication. Directors, officers and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one set of materials?

If you receive more than one set of materials, your shares are registered in more than one name or are registered in different accounts. In order to vote all the shares you own, you must follow the instructions for voting on each Notice of Internet Availability of Proxy Materials or the proxy card that you receive by mail or email pursuant to your request, which include instructions for voting over the Internet, by telephone or by signing, dating and returning any of such proxy cards.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another properly completed proxy over the Internet, by telephone or by mail with a later date.
- You may send a written notice that you are revoking your proxy to our Secretary at Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road, Pleasanton, CA 94588.
- You may attend the Annual Meeting and vote in person. Simply attending the Annual Meeting will not, by itself, revoke your proxy.

If your shares are held by your broker, bank or other agent, you should follow the instructions provided by them.

When are stockholder proposals due for next year s Annual Meeting?

To be considered for inclusion in the proxy materials for next year s annual meeting, your proposal must be submitted in writing by December 10, 2014 to our Secretary at Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road,

Pleasanton, CA 94588. If you wish to submit a proposal that is not to be included in next year s proxy materials pursuant to the SEC s stockholder proposal procedures or to nominate a director, you must do so between January 21, 2015 and February 20, 2015; provided that if the date of the annual meeting is earlier than April 21, 2015 or later than July 20, 2015 your proposal to be timely must be submitted not earlier than the 120th day prior to the annual meeting date and not later than the 90th day prior to the annual meeting date or, if later, the 10th day following the day on which public disclosure of the annual meeting date is first made. You are also advised to review our amended and restated bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

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What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if the holders of a majority in voting power of the shares of Common Stock issued and outstanding and entitled to vote are present in person or represented by proxy at the Annual Meeting. As of the Record Date, there were 12,530,246 shares of Class A Common Stock and 40,059,834 shares of Class B Common Stock outstanding. Each share of Class A Common Stock is entitled to one vote on each proposal and each share of Class B Common Stock is entitled to ten votes on each proposal. As of the Record Date, an aggregate of 206,564,294 votes constituted the requisite majority in voting power for a quorum. Your shares will be counted towards the quorum only if you submit a valid proxy vote or vote at the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, either the chairperson of the Annual Meeting or a majority in voting power of the stockholders entitled to vote at the Annual Meeting, present in person or represented by proxy, may adjourn the Annual Meeting to another time or place.

How can I find out the results of the voting at the Annual Meeting?

Voting results will be announced by the filing of a Current Report on Form 8-K within four business days after the Annual Meeting. If final voting results are unavailable at that time, we will file an amended Current Report on Form 8-K within four business days following the day the final results are available.

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PROPOSAL NO. 1: ELECTION OF CLASS I DIRECTORS

The Board is composed of nine authorized seats and eight members, with one vacancy. In accordance with our amended and restated certificate of incorporation, the Board is divided into three classes with staggered three-year terms. At each annual general meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Our directors are divided among the three classes as follows:

Class I directors: Douglas J. Mackenzie and Lawrence F. Probst III, whose current terms will expire at the Annual Meeting;

Class II directors: Mohan Gyani, Paul Hazen and Arun Sarin, whose current terms will expire at the annual meeting of stockholders to be held in 2015; and

Class III directors: Steven A. Burd, Robert L. Edwards and William Y. Tauscher, whose current terms will expire at the annual meeting of stockholders to be held in 2016.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

Messrs. Mackenzie and Probst have been nominated to serve as Class I directors and have each elected to stand for reelection. Each director to be elected will hold office from the date of his election by the stockholders until the third subsequent annual meeting of stockholders or until his successor is elected and has been qualified, or until such director s earlier death, resignation or removal.

Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the two nominees named above. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as the Board may propose. Each person nominated for election has agreed to serve if elected, and management has no reason to believe that any nominee will be unable to serve. Directors are elected by a plurality of the votes cast at the meeting. Proxies cannot be voted for a greater number of persons than the number of nominees named.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE

FOR

THE ELECTION OF EACH NAMED NOMINEE.

Set forth below is information as of March 28, 2014 regarding our Class I nominees and our other current directors who will continue in office after the Annual Meeting:

Name	Age	Director Since	Position/Office Held With the Company
Class I Directors whose terms expire at the 2014 Annual Meeting			
Douglas J. Mackenzie	54	August 2007	Director
Lawrence F. Probst III	63	April 2008	Director

Class II Directors whose terms expire at the 2015 Annual Meeting			
Mohan Gyani	62	August 2007	Director
Paul Hazen	72	August 2007	Director
Arun Sarin	59	August 2009	Director
Class III Directors whose terms expire at the 2016 Annual Meeting			
Steven A. Burd	64	August 2007	Director
Robert L. Edwards	58	July 2008	Director
William Y. Tauscher	64	August 2010	Chief Executive Officer and Chairman of the Board of Directors

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Set forth below is biographical information for the nominees and each person whose term of office as a director will continue after the Annual Meeting. The following includes certain information regarding our directors individual experience, qualifications, attributes and skills that led the Board to conclude that they should serve as directors.

Class I Directors/Nominees for Election to a Three-Year Term Expiring at the 2017 Annual Meeting of Stockholders

Douglas J. Mackenzie has served on the Board since August 2007. Mr. Mackenzie has been a managing member of Radar Management, LLC, a private equity and venture capital firm, since January 2005, and has been a partner with Kleiner Perkins Caufield & Byers (KPCB), a venture capital firm, since 1992. He joined KPCB in 1989 and has focused his investment activities in the software sector. Mr. Mackenzie served as a member of the board of directors of Safeway, from March 2005 through May 2009. He also served on the board of directors of Marimba Inc., a software provider, from August 1996 to July 2004, and Epiphany, Inc., a software provider, from January 1998 to September 2006, as well as numerous privately held companies. In addition, he serves as an advisory council member of the Stanford Engineering School, as a board member of the Monterey Peninsula Foundation, and as a Trustee of the U.S. Ski and Snowboard Team Foundation.

Mr. Mackenzie brings to the Board extensive knowledge in investment and operations in the software sector.

Lawrence F. Probst III has served on the Board since April 2008. Mr. Probst has served on the board of directors of Electronic Arts Inc. (EA), a software company, since January 1991 and as Chairman of the board since July 1994. He has served as Executive Chairman of EA since March 2013. In addition, Mr. Probst served in a variety of senior management and executive positions at EA from 1984 until September 2008, including Chief Executive Officer from May 1991 to April 2007 and President from December 1990 to October 1997. Mr. Probst also sits on the board of two cancer research groups, the V Foundation and ABC2, and has served as the Chairman of the board of directors of the U.S. Olympic Committee since October 2008 and a member of the International Olympic Committee since September 2013.

Mr. Probst brings to the Board extensive management, operational and board governance experience.

Class II Directors Continuing in Office until the 2015 Annual Meeting of Stockholders

Mohan Gyani has served on the Board since August 2007. Mr. Gyani has served as a director of Safeway since October 2004. He has served as Vice Chairman of the board of directors of Roamware, Inc., a provider of mobile operator solutions, since January 2006, and also served as Chairman of the board of directors and Chief Executive Officer of Roamware from May 2005 through December 2005. Mr. Gyani served as the President and Chief Executive Officer of AT&T Wireless Mobility Services from 2000 until his retirement from that company in 2003, after which he served as a senior advisor to the Chairman and Chief Executive Officer of AT&T Wireless through December 2004. From 1995 through 1999, he served as the Executive Vice President and Chief Financial Officer of AirTouch Communications, Inc., a telecommunications device company. Mr. Gyani currently serves as a director of Keynote Systems, Inc., a mobile and web cloud testing and monitoring company, where he serves as lead independent director and also serves on the compensation committee. He is a director of the UnionBanCal Corporation, a bank holding company, where he serves as the chair of the audit committee and a member of the compensation committee, and its banking subsidiary, Union Bank of California. Mr. Gyani also serves as a director of a number of privately held companies.

Mr. Gyani brings to the Board an in-depth knowledge of, and years of experience in, public company governance.

Paul Hazen has served on the Board since August 2007. Mr. Hazen is the former Chairman and Chief Executive Officer of Wells Fargo & Company (Wells Fargo). Mr. Hazen joined Wells Fargo in 1970. He

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served as Vice Chairman from 1981 to 1984, President and Chief Operating Officer from 1984 to 1995, Chairman and Chief Executive Officer from January 1995 to November 1998, and Chairman from January 1995 to May 2001. Mr. Hazen was also the President of Wells Fargo Real Estate Investment Trust, a publicly traded REIT, from 1973 to 1978. Mr. Hazen retired after he left his post as Chairman of Wells Fargo in May 2001. Mr. Hazen is currently Chairman of KKR Financial Holdings LLC and Accel-KKR and serves on the boards of KSL Resorts and Horny Toad Activewear. He is also a senior advisor to KKR, an investment firm. Past board positions include Safeway (Lead Independent Director), Phelps Dodge, Vodafone Group Plc (Deputy Chairman and Lead Independent Director), Willis Group Holdings Ltd., Prosper Marketplace, National Retirement Partners, Xstrata, the San Francisco Symphony, and the San Francisco Museum of Modern Art. Mr. Hazen also served on the Federal Advisory Council to the Federal Reserve from 1987 to 1991, acting as President of the Council in 1991, reporting to Alan Greenspan as Chairman.

Mr. Hazen brings to the Board significant experience in business strategy as a senior executive of a large company, as well as considerable directorial and board committee experience.

Arun Sarin has served on the Board since August 2009. Mr. Sarin has served on the board of directors of Safeway since August 2009. From April 2003 to July 2008, Mr. Sarin was the Chief Executive Officer of Vodafone Group Plc. (Vodafone), a global mobile communications company. From 1999 to 2008, Mr. Sarin was a director of Vodafone. Mr. Sarin has served on the board of directors of The Charles Schwab Corporation, a provider of brokerage, banking and financial advisory services, and Cisco Systems, Inc., a networking technology company since September 2009. He previously served as a member of the Court of Directors of the Bank of England, ending in 2009. From 1999 to 2003, he served as a director of The Gap, Inc., a specialty retailer. Mr. Sarin is currently a senior advisor to KKR, an investment firm.

Mr. Sarin brings to the Board significant experience as a former senior executive of a large, global company, where he developed expertise in finance, marketing and operations, and considerable directorial and board committee experience.

Class III Directors Continuing in Office until the 2016 Annual Meeting of Stockholders

Steven A. Burd has served on the Board since August 2007. Mr. Burd served on the board of directors of Safeway from September 1993 to May 2013 and as Chairman of the board of directors of Safeway from May 1998 to May 2013. He served as Chief Executive Officer of Safeway from April 1993 to May 2013 and as President from October 1992 to April 2012. Mr. Burd is also a director of Kohl s Corporation, a specialty department store company, where he serves as lead independent director and on the compensation and nominating and corporate governance committees.

Mr. Burd brings to the Board considerable management, directorial, board committee experience and an understanding of our business.

Robert L. Edwards has served on the Board since July 2008, and previously served on our board of directors from January 2006 to August 2007. Mr. Edwards has been Chief Executive Officer of Safeway since May 2013, President of Safeway since April 2012 and served as Executive Vice President and Chief Financial Officer of Safeway from March 2004 to April 2012. Prior to joining Safeway, from September 2003 to March 2004, he served as Executive Vice President and Chief Financial Officer of Maxtor Corporation, a hard disk drive manufacturer. From 1998 to August 2003, Mr. Edwards held various executive positions, including Chief Financial Officer and Chief Administrative Officer at Imation Corporation, a developer, manufacturer and supplier of magnetic and optical data storage media. Mr. Edwards is also a director of KKR Financial Holdings LLC, a specialty finance company, where he serves on the audit committee.

Mr. Edwards brings to the Board both a strong understanding of our business and extensive knowledge of financial reporting.

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William Y. Tauscher has served as our Chief Executive Officer since August 2010, as a member of the Board of directors since August 2007 and as Chairman of the Board since August 2009. He also served as our Executive Chairman from March 2010 to August 2010 and as President from August 2010 to November 2010. Mr. Tauscher has served on the board of directors of Safeway since May 1998, and currently serves on the executive committee of the board of directors of Safeway. Since 1986, he has been a managing member of the Tauscher Group, which invests and assists in the management of enterprises involved with home products, transportation, telecommunications and real estate. From 2004 to August 2010, he served as the Chief Executive Officer, and continues to serve as the Chairman of the board of directors, of Vertical Communications, Inc., a communications technology company. Mr. Tauscher also serves as a director of a number of privately held companies. Mr. Tauscher holds a B.S. in administrative sciences from Yale University.

Mr. Tauscher brings to the Board significant experience as a senior executive and director of multiple companies.

Executive Officers

The executive officers of the Company at March 28, 2014, other than those already discussed above, are set forth in the table below.

Name	Age	Position/Office Held With the Company
Talbott Roche	47	President
Jerry N. Ulrich	59	Chief Financial Officer and Chief Administrative Officer
David C. Tate	45	Senior Vice President, Products and Marketing
Christopher C. Crum	52	Senior Vice President, Sales
David E. Durant	51	Group Vice President, General Counsel & Secretary

Talbott Roche has served as our President since November 2010. Ms. Roche originally joined us as Assistant Vice President in July 2001 while we were a specialty marketing division of Safeway. Ms. Roche transitioned to the role of our Senior Vice President, Marketing, Product and Business Development in January 2005 and served in that position until November 2010. Prior to joining us, Ms. Roche served as a Branding Consultant and Director of New Business Development for Landor Associates, a marketing consulting firm, from October 2000 to July 2001. From 1996 to 2000, Ms. Roche held various executive positions at News Corporation, a media and marketing services company, including Senior Vice President, Sales for the Smart Source iGroup and Vice President, Sales for News America Marketing. Ms. Roche holds a B.A. in economics from Stanford University.

Jerry N. Ulrich has served as our Chief Financial Officer since June 2006. Mr. Ulrich was appointed to the additional position of Chief Administrative Officer of Blackhawk in March 2007. Prior to joining Blackhawk, Mr. Ulrich served as the Vice President Operations and Chief Financial Officer of Xign Corporation, an electronic payments service provider, from January 2001 through June 2006. In addition, Mr. Ulrich served as interim President and Chief Executive Officer of Optimal Networks Corporation, an information technology solutions provider, from 1999 to 2000; as President of Netwave Technologies, Inc., a wireless network products company, from 1996 to 1999; and in various positions including Chief Financial Officer and Chief Operating Officer for Xircom, Inc., a computer networking company, from 1992 to 1996. Mr. Ulrich received a B.S. in business administration with a major in accounting from The Ohio State University.

David C. Tate has served as our Senior Vice President, Products and Marketing since December 2013. Mr. Tate originally joined us as Regional Vice President, Business Development in October 2001 while we were a specialty marketing division of Safeway. Mr. Tate was promoted to Group Vice President, Gift Cards in January 2005. Mr. Tate

was promoted to General Manager, Core Business in January 2011. Prior to joining Blackhawk, Mr. Tate served in various sales, management and executive roles at On Technology and NewChannel Inc. Mr. Tate holds a B.A. in business from Southern New Hampshire University.

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Christopher C. Crum has served as our Senior Vice President, Sales since December 2013. Mr. Crum originally joined us in May 2006 as Regional Vice President, Alliance Sales until his promotion to Vice President, West in March 2007. Mr. Crum was promoted to Group Vice President, North America Sales in February 2009. Prior to joining Blackhawk, Mr. Crum served in various sales and executive roles at Endeca Technologies and Broadvision, Inc. Mr. Crum holds a B.B.A. in economics from California State University of Fresno.

David E. Durant has served as our Group Vice President, General Counsel and Secretary since December 2008. Mr. Durant originally joined us in July 2001, serving as a Senior Corporate Counsel while we were a specialty marketing division of Safeway. Mr. Durant became our Assistant Vice President and Assistant Secretary upon our incorporation in July 2003. Mr. Durant then transitioned to the role of Group Vice President, Legal in June 2006. Prior to joining us, Mr. Durant served as Senior Corporate Counsel at Safeway from 1999 to 2006. Mr. Durant holds a B.A. in political science from Rutgers University and a J.D. from The University of Chicago Law School.

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CORPORATE GOVERNANCE

General

Blackhawk aspires to the highest ethical standards for its employees, officers and directors, and remains committed to the interests of its stockholders. We believe we can achieve these objectives only with a plan for corporate governance that clearly defines responsibilities, sets high standards of conduct and promotes compliance with the law. The Board has adopted formal corporate governance guidelines, as well as policies and procedures designed to foster the appropriate level of corporate governance. Some of these guidelines and procedures are discussed below. For further information, including electronic versions of our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, our Audit Committee Charter, our Compensation Committee Charter, our Conflicts Committee Charter and our Nominating and Corporate Governance Committee Charter, please visit the Corporate Governance section of our website (http://ir.blackhawknetwork.com) located under the Investor Overview heading.

Independence of the Board of Directors

Because Safeway owns more than 50% of our outstanding voting securities, we are a controlled company within the meaning of the NASDAQ Stock Market corporate governance rules. As a controlled company, we are exempt from the rules that would otherwise require that the Board be composed of a majority of independent directors and that our compensation committee and nominating and corporate governance committee be composed entirely of independent directors. The controlled company exemption does not modify the independence requirements for the audit committee, and we have complied with the requirements of the SEC and the NASDAQ Stock Market corporate governance rules requiring that our audit committee be composed exclusively of independent directors, subject to the phase-in provisions of the applicable listing requirements and the SEC s rules, which permit up to one committee member who does not satisfy the applicable independence requirements (Mr. Edwards) for up to one year after the date of our initial public offering. We expect that Mr. Edwards will resign from the audit committee and the Board will appoint an independent director to the audit committee in compliance with applicable listing requirements and the SEC s rules no later than the one-year anniversary of our initial public offering.

On March 24, 2014, Safeway announced that its board of directors had declared a special stock dividend to Safeway s stockholders of the 37,838,709 shares of our Class B Common Stock owned by Safeway (the Spin-Off). The date of distribution by Safeway of the special stock dividend is contemplated to be April 14, 2014, and the distribution will take place in the form of a pro rata dividend of Class B Common Stock to each Safeway stockholder of record as of the close of business on April 3, 2014. Following the distribution, we will no longer be a controlled company and generally will have one year from when we cease to be a controlled company to comply with the rules that require that our compensation committee and nominating and corporate governance committee be composed entirely of independent directors.

The Board has undertaken a review of the independence of each director and considered whether any director has a material relationship with us that could compromise his ability to exercise independent judgment in carrying out his responsibilities. As a result of this review, the Board determined that Messrs. Gyani, Hazen, Mackenzie, Probst and Sarin, representing five of our eight directors, are independent directors as defined under the NASDAQ Stock Market corporate governance rules and in accordance with the regulations of the SEC.

There are no family relationships among any of our directors or executive officers.

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics that is applicable to all of our directors, officers and employees. A copy of Blackhawk s Code of Business Conduct and Ethics is available in the Corporate Governance section of our website (http://ir.blackhawknetwork.com) located under the Investor Overview heading and is also available in print upon request. Any amendments or waivers of the Code of Business Conduct and Ethics

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also will be posted on our website within four business days following the amendment or waiver as required by applicable rules and regulations of the SEC and the rules of the NASDAQ Stock Market.

Information Regarding the Board of Directors and its Committees

Board Leadership; Role in Risk Oversight

We believe that our Board and committee structure provides strong overall management of the Company. Currently, five of the eight members of the Board are independent. Mr. Tauscher currently serves as our Chairman and Chief Executive Officer. The Board recognizes that one of its key responsibilities is to evaluate and determine the optimal leadership structure of the Company so as to provide independent oversight of management. We do not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board, as we believe it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board. The Board has determined that having the Company s Chief Executive Officer serve as Chairman of the Board is in the best interest of the Company s stockholders at this time. This structure makes the best use of the Chief Executive Officer s knowledge of the Company. The Company does not have a lead independent director at this time.

The Board as a whole has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant Board committees. These committees then provide reports to the full Board. The oversight responsibility of the Board and its committees is enabled by management reporting processes that are designed to provide visibility to the Board about the identification, assessment and management of critical risks and management s risk mitigation strategies. These areas of focus include strategic, operational, financial and reporting, succession and compensation, compliance and other risks. Our Board and its committees oversee risks associated with their respective areas of responsibility, as summarized below. Each committee meets in executive session with key management personnel and representatives of outside advisors as required.

Board/Committee	Primary Areas of Risk Oversight
Full Board	Strategic, financial and execution risks and exposures associated with our business strategy, product innovation and sales road map, policy matters, significant litigation and regulatory exposures, and other current matters that may present material risk to our financial performance, operations, infrastructure, plans, prospects or reputation, acquisitions and divestitures.
Audit Committee	Risks and exposures associated with financial matters, particularly financial reporting, tax, accounting, disclosure, internal control over financial reporting, investment guidelines and credit and liquidity matters, our programs and policies relating to legal compliance and strategy, and our operational infrastructure, particularly reliability, business continuity and capacity.
Nominating and Corporate Governance Committee	Risks and exposures associated with director and management succession planning, corporate governance and overall Board effectiveness.

Compensation Committee	Risks and exposures associated with leadership assessment, executive compensation programs and arrangements, including overall incentive and equity plans.
Conflicts Committee	Risks and exposures associated with related party transactions in which Safeway is a party with an interest adverse to our interests.

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Board Meetings and Committees

Committees of the Board of Directors

The Board has established the following standing committees: an audit committee, a compensation committee, a conflicts committee and a nominating and corporate governance committee.

The following chart details the membership of each standing committee, which is current as of April 10, 2014.

Name of Director	Audit	Compensation	Conflicts	Nominating and Corporate Governance
Steven A. Burd				C
Robert L. Edwards	M	C		
Mohan Gyani	C			M
Paul Hazen		M		
Douglas J. Mackenzie			M	M
Lawrence F. Probst III	M		M	
Arun Sarin		M		

M = Member

C = Chair

Meetings of the Board of Directors, Board and Committee Member Attendance and Annual Meeting Attendance

The Board met seven times during 2013. The audit committee met seven times, the compensation committee met two times, the nominating and corporate governance committee met one time and the conflicts committee met one time during 2013. During 2013, each Board member attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he served. We are encouraging all of our directors and nominees for director to attend our annual meeting of stockholders; however, attendance is not mandatory.

Audit Committee

Our audit committee oversees the corporate accounting and financial reporting process. Among other matters, the audit committee evaluates our independent registered public accounting firm s qualifications, independence and performance, determines the engagement of the independent registered public accounting firm, reviews and approves the scope of the annual audit and the audit fees, discusses with management and our independent registered public accounting firm the results of the annual audit and the review of our quarterly consolidated financial statements, approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services, monitors the rotation of partners of the independent registered public accounting firm on the Blackhawk engagement team as required by law, reviews our critical accounting policies and estimates, oversees our internal audit function and annually reviews the audit committee charter and the committee s performance. The current members of our audit committee are Mr. Gyani, who is the chair of the committee, Mr. Edwards and Mr. Probst. All members of the audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and the NASDAQ Stock Market. The Board has determined that Mr. Gyani is an audit committee financial

expert as defined under the applicable rules of the SEC and has the requisite financial sophistication as defined under the applicable rules and regulations of the NASDAQ Stock Market. Mr. Gyani and Mr. Probst are independent directors as defined under the applicable rules and regulations of the SEC and the NASDAQ Stock Market. Mr. Edwards is President and Chief Executive Officer of Safeway, our parent company, and therefore is not an independent director but serves on the audit committee under the phase-in provisions described above under Corporate Governance Independence of the Board of Directors. The audit committee operates under a written charter that satisfies the applicable standards

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of the SEC and the NASDAQ Stock Market. A copy of the audit committee charter is available to stockholders on the Company s website at http://ir.blackhawknetwork.com.

Compensation Committee

Our compensation committee reviews and recommends policies relating to compensation and benefits of our officers and employees. Among other things, the compensation committee reviews and approves corporate goals and objectives relevant to compensation of our Chief Executive Officer and other executive officers, evaluates the performance of these officers in light of those goals and objectives, sets the compensation of these officers based on such evaluations, administers the issuance of stock options and other awards under our stock plans and annually reviews the compensation committee charter and the committee s performance. The current members of the compensation committee are Mr. Edwards, who is the chair of the committee, Mr. Hazen and Mr. Sarin. Mr. Hazen and Mr. Sarin are independent directors as defined under the applicable rules and regulations of the SEC, the NASDAQ Stock Market and Internal Revenue Code of 1986, as amended (the Code). We will have one year from when we cease to be a controlled company in connection with the distribution by Safeway of its shares of our Class B Common Stock to comply with the rules that require that our compensation committee be composed entirely of independent directors. During 2013, the compensation committee continued to engage Mercer, a wholly-owned subsidiary of Marsh & McLennan Companies, Inc., to assist the compensation committee with its responsibilities related to the Company s executive and board of director compensation programs. Based on information provided by Mercer and by Company management, in April 2013, the compensation committee determined that no conflict of interest exists with, or was raised during the 2013 fiscal year by the work of, Mercer, and Mercer is independent considering all of the six factors enumerated by the SEC for evaluating adviser independence. The compensation committee reviews and evaluates, at least annually, the performance of the compensation committee and its members, including compliance of the compensation committee with its charter. A copy of the compensation committee charter is available to stockholders on the Company s website at http://ir.blackhawknetwork.com.

Compensation Consultant Fee Disclosure

Other than advising the compensation committee, Mercer did not provide any material services to our company in 2013. Because of the policies and procedures that Mercer and the compensation committee have in place, the compensation committee is confident that the advice it receives from the individual executive compensation consultant is objective and not influenced by Mercer s or its affiliates relationships with the Company.

Mercer s fees for executive compensation consulting to the compensation committee in fiscal year 2013 were $74,193.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is responsible for making recommendations regarding candidates for directorships and the size and composition of the Board. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations concerning governance matters. For Board membership, the nominating and corporate governance committee takes into consideration applicable laws and regulations (including the NASDAQ Stock Market listing standards), diversity, age, skills, experience, integrity, ability to make independent analytical inquires, understanding of the Company s business and business environment, willingness to devote adequate time and effort to Board responsibilities and other relevant factors.

The nominating and corporate governance committee will consider director candidates recommended by stockholders. Though the committee has not established a formal policy with regard to consideration of director candidates

recommended by stockholders, the Board believes that such the procedures set forth in the Company s amended and restated bylaws are currently sufficient and that the establishment of a formal policy is not necessary.

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Stockholders who wish to recommend individuals for consideration by the nominating and corporate governance committee to become nominees for election to the Board may do so by delivering, along with any updates or supplements required by the Company s amended and restated bylaws, a written recommendation, c/o the Company s Secretary, to the following address: Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road, Pleasanton, CA 94588 not earlier than the 120th day prior to and not later than the 90th day prior to the first anniversary of the Company s annual meeting of stockholders for the preceding year; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, such recommendation shall be delivered not earlier than the 120th day prior to the Company s annual meeting and not later than the 90th day prior to such annual meeting, or, if later, the 10th day following the day on which public disclosure of the date of such annual meeting was first made. Submissions must include the required information and follow the specified procedures set forth in the Company s amended and restated bylaws. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected. The nominating and corporate governance committee will evaluate any director candidates that are properly recommended by stockholders in the same manner as it evaluates all other director candidates, as described above.

The nominating and corporate governance committee is composed of Messrs. Burd, Gyani and Mackenzie, with Mr. Burd serving as the chair of the committee. Potential candidates for nomination to the Board will be discussed by the committee. The Board has affirmatively determined that each of Messrs. Gyani and Mackenzie meets the definition of independent director for purposes of the NASDAQ Stock Market listing rules. We will have one year from when we cease to be a controlled company in connection with the distribution by Safeway of its shares of our Class B Common Stock to comply with the rules that require that our nominating and corporate governance committee be composed entirely of independent directors. A copy of the nominating and corporate governance committee charter is available to stockholders on the Company s website at http://ir.blackhawknetwork.com.

Conflicts Committee

Our conflicts committee is responsible for reviewing all of our related party transactions in which Safeway is a party with an interest adverse to our interests. Each member of the conflicts committee (a) must satisfy the audit committee independence requirements under the rules and regulations of the SEC that would be applicable to the Company, (b) must not have been an employee or director of Safeway at any time in the three years prior to his or her appointment to the conflicts committee and (c) must not have any material interest in Safeway. The current members of the conflicts committee are Mr. Mackenzie and Mr. Probst, each of whom meets the independence requirements described in the immediately preceding sentence. A copy of the conflicts committee charter is available to stockholders on the Company s website at http://ir.blackhawknetwork.com.

Stockholder Communications with the Board of Directors

Stockholders and other interested parties may communicate with the Board at the following address:

The Board of Directors

c/o Secretary

Blackhawk Network Holdings, Inc.

6220 Stoneridge Mall Road

Pleasanton, CA 94588

Communications are distributed to the Board or to any individual director, as appropriate, depending on the facts and circumstances outlined in the communication. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any non-management director upon request.

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Compensation Committee Interlocks and Insider Participation

During 2013, Messrs. Edwards, Hazen and Sarin served on our compensation committee. None of the members of our compensation committee is or has at any time been one of our officers or was during fiscal year 2013 an employee.

During our last fiscal year, Mr. Tauscher, our Chairman and Chief Executive Officer, served on the board of directors of Safeway and on the executive committee of the board of Safeway. Mr. Edwards, Safeway s President and Chief Executive Officer, also served on the Board. Mr. Burd, who was Safeway s Chief Executive Officer until May 14, 2013, also served on the Board. Please see Certain Relationships and Related Party Transactions.

There are no family relationships among any of our directors or executive officers.

Limitation of Liability and Indemnification

Our amended and restated certificate of incorporation and amended and restated bylaws, provide that we will limit the liability of, and indemnify, our directors and officers and may limit the liability of, and indemnify, our employees and agents to the fullest extent permitted by the Delaware General Corporation Law, which prohibits our amended and restated certificate of incorporation from limiting the liability of our directors for the following:

- any breach of the director s duty of loyalty to us or to our stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or unlawful stock repurchases or redemptions; and
- any transaction from which the director derived an improper personal benefit.

If Delaware law is amended to authorize corporate action further eliminating or limiting the personal liability of a director, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law, as so amended. Our amended and restated certificate of incorporation does not eliminate a director s duty of care and, in appropriate circumstances, equitable remedies, such as injunctive or other forms of non-monetary relief, remain available under Delaware law. This provision also does not affect a director s responsibilities under any other laws, such as the federal securities laws or other state or federal laws. Under our amended and restated bylaws, the Company also is empowered to enter into indemnification agreements with our directors, officers, employees and other agents and to purchase and maintain insurance on behalf of any person who is or was a director or officer against any loss arising from any claim asserted against him or her and incurred by him or her in that capacity, subject to certain exclusions and limits of the amount of coverage.

In addition to the indemnification required in our amended and restated certificate of incorporation and amended and restated bylaws, we have entered into indemnification agreements with each of our directors, officers and certain employees. These agreements provide for the indemnification of our directors, officers and certain employees for all reasonable expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were our agents.

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PROPOSAL NO. 2: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of the Board 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 our stockholders at the Annual Meeting. Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our amended and restated bylaws nor other governing documents or law require stockholder ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm. However, the audit committee is submitting the selection of Deloitte & Touche LLP to our stockholders for ratification as a matter of good corporate practice. If our stockholders fail to ratify the selection, the audit committee will reconsider whether or not to retain Deloitte & Touche LLP. Even if the selection is ratified, the audit committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and our stockholders.

To be approved, the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm must receive a FOR vote from the holders of a majority in voting power of the shares of Common Stock that are present in person or represented by proxy and entitled to vote on the 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.

Principal Accountant Fees and Services

Fee Category	*Fiscal 2013 Fees*	*Fiscal 2012 Fees*
Audit Fees	$ 3,006,400	$ 2,535,100
Audit-Related Fees	42,000	2,000
Tax Fees	425,900	177,000
All Other Fees	0	0
Total Fees	$ 3,474,300	$ 2,714,100

Audit Fees

Audit fees represent fees billed for professional services rendered for the audit of our annual financial statements, including reviews or our quarterly financial statements, as well as audit services provided in connection with certain other regulatory filings including our 2013 filings of reports or registration statements on Form 10-K, Form 10-Q, Form S-1, Form S-8 and Form 8-K. Included in Audit Fees are $0.8 million and $1.5 million for services rendered in connection with our registration statements on Form S-1, related to our initial public offering, and Form S-8, comfort letter consents and other SEC-related work for 2013 and 2012, respectively.

Audit-Related Fees

Audit-related fees primarily include fees for certain consultations on various accounting and reporting matters.

Tax Fees

Tax fees include fees for services relating to tax compliance, tax planning and tax advice. These services include assistance regarding federal, state and international tax compliance and tax return preparation.

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All Other Fees

There were no other fees of Deloitte during 2013 and 2012.

Pre-Approval Policies and Procedures

The audit committee pre-approves all audit and non-audit services provided by its independent registered public accounting firm. This policy is set forth in the charter of the audit committee and available at http://ir.blackhawknetwork.com. The audit committee approved all audit and other services provided by Deloitte for 2013 and the estimated costs of those services. Actual amounts billed, to the extent in excess of the estimated amounts, were periodically reviewed and approved by the audit committee.

The audit committee considered whether the non-audit services rendered by Deloitte were compatible with maintaining Deloitte s independence and concluded that they were so compatible.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE

FOR

THE RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP

AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE FISCAL YEAR ENDING JANUARY 3, 2015.

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PROPOSAL NO. 3: ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) enables our stockholders to vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with SEC rules.

Summary

We are asking our stockholders to provide advisory approval of the compensation of our named executive officers (which consist of our Chief Executive Officer, Chief Financial Officer and our next three highest paid executives), as such compensation is described in the Compensation Discussion & Analysis section below, the tabular disclosure regarding such compensation and the accompanying narrative disclosure set forth in this Proxy Statement, beginning on page 40. Our executive compensation programs are designed to enable us to attract, motivate and retain executive talent, who are critical to our success. These programs reward corporate and individual performance and provide long-term incentive compensation that focuses our executives efforts on building stockholder value by aligning their interests with those of our stockholders. The following summarizes some of our 2013 business highlights and the key aspects of our executive compensation program. We urge our stockholders to review the Compensation Discussion & Analysis and Summary Compensation Table sections of this proxy statement for more information.

2013 Business Highlights

In April 2013, we completed our initial public offering (the Offering) for the sale of 11,500,000 shares of our Class A Common Stock at an offering price of $23.00 per share. All of these shares were sold by existing stockholders, and we remained a subsidiary of Safeway. In connection with the Offering, we amended our certificate of incorporation to provide for dual classes of common stock. Our previously existing common stock was re-designated as Class B Common Stock and currently has ten votes per share. Our newly-designated Class A Common Stock has one vote per share and trades on the NASDAQ Global Select Market under the symbol HAWK.

In 2013, we purchased InteliSpend Prepaid Solutions, LLC and its subsidiaries (InteliSpend), which broadened our distribution channels to include businesses that offer prepaid cards for their incentives and rewards programs. Our InteliSpend business unit also sells its solutions through approximately 300 channel partners that offer a full range of incentives products in the United States and Canada.

We also expanded our international presence through our 2013 acquisition of Retailo AG and its subsidiaries, a leading third-party gift card distribution network in Germany, Austria and Switzerland.

We emphasize pay-for-performance and tie a significant amount of our named executive officers pay to our performance. We believe that a significant portion of our executives compensation should be variable, at-risk and tied to performance. Our short-term incentive plan rewards annual performance based on our compensation committee s evaluation of company and individual performance. The performance goals under our short-term incentive plan, which relate to achievement of pre-tax income and direct margin goals, are key drivers of performance in our business.

We believe that our executive compensation programs are strongly aligned with the long-term interests of our stockholders. We believe that our compensation programs strongly align our executives interests with those of our stockholders. We have used stock options as a key equity incentive vehicle because our executives are able to benefit

from stock options only if the market price of our common stock increases relative to the option s exercise price, which provides meaningful incentives to our executives to achieve increases in the value of our stock over time. As a result, stock options are an effective tool for meeting our compensation goal of increasing long-term stockholder value by tying the value of these awards to our future performance. In addition to linking compensation value to stockholder value, stock options generally require

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continued service over a multi-year period (typically four years) as a condition to vesting, which creates a strong retention incentive and helps ensure the continuity of our operations. For fiscal year 2014, we have further strengthened the alignment of executives with stockholders by granting performance-based equity awards to the named executive officers, which are earned only upon the achievement of specified financial performance goals.

We maintain strong governance standards and best practices for our compensation programs. Our compensation committee meets regularly to address compensation matters in a timely manner and consistently reviews our executive compensation program to ensure that it provides competitive pay opportunities to help attract and retain the highly-qualified and dedicated executive talent that is so important to our business. As part of its commitment to strong corporate governance and best practices, our compensation committee engaged and received advice on the compensation program from an independent, third-party compensation consultant and in 2014, we anticipate adopting stock ownership guidelines for our executives and directors to promote further alignment of interests with stockholders over the long-term. In addition, our compensation committee has adopted an insider trading policy.

Recommendation

As an advisory vote, this proposal will not bind our company. However, our compensation committee, which is responsible for the design and administration of our executive compensation practices, values the opinions of our stockholders, including those expressed through the vote on this proposal. The compensation committee will consider the outcome of this vote in making future compensation decisions for our named executive officers.

Accordingly, we are presenting the following say-on-pay resolution for vote at the 2014 Annual Meeting of Stockholders:

RESOLVED, that the stockholders of Blackhawk Network Holdings, Inc. approve, on an advisory basis, the compensation of Blackhawk s named executive officers as described in the Compensation Discussion & Analysis and disclosed in the Summary Compensation Table and related compensation tables and narrative disclosure as set forth in this proxy statement.

The Board of Directors unanimously recommends that you vote FOR the approval, on an advisory basis, of our executive compensation program as presented in this proxy statement.

The affirmative vote of the holders of a majority in voting power of the shares of Common Stock 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 approval, on an advisory basis, of the compensation of our named executive officers as disclosed in this proxy statement. 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, ON AN ADVISORY BASIS, OF THE COMPENSATION OF

OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN

THE COMPENSATION DISCUSSION AND ANALYSIS, THE ACCOMPANYING COMPENSATION TABLES AND THE RELATED NARRATIVE DISCLOSURE.

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PROPOSAL NO. 4: ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION PROGRAM

Background

The Dodd-Frank Act also enables our stockholders to indicate how frequently they believe we should seek an advisory vote on the compensation of our named executive officers. We are seeking an advisory, non-binding determination from our stockholders as to the frequency with which stockholders would like to have an opportunity to provide an advisory approval of our executive compensation program. We are providing stockholders the option of selecting a frequency of every one, two or three years, or abstaining. For the reasons described below, we recommend that our stockholders select a frequency of three years, or a triennial vote.

Our executive compensation programs are designed to support long-term value creation. A triennial vote will allow stockholders to better judge our compensation programs in relation to our long-term performance.

A triennial vote will provide our compensation committee and our Board sufficient time to thoughtfully evaluate the results of the most recent advisory vote on executive compensation, to discuss the implications of the vote with our stockholders and to develop and implement any changes to our executive compensation programs that may be appropriate in light of the vote. Less frequent say-on-pay votes will improve the ability of institutional stockholders to exercise their voting rights in a more deliberate, thoughtful and informed way that is in the best interests of stockholders, and is less burdensome to such stockholders than a more frequent vote.

A triennial vote will allow for any changes to our executive compensation programs to be in place long enough for stockholders to see and evaluate the effectiveness of these changes.

We have in the past been, and will in the future continue to be, engaged with our stockholders on a number of topics and in a number of forums. Thus, we view the advisory vote on executive compensation as an additional, but not exclusive, opportunity for our stockholders to communicate with us regarding their views on our executive compensation programs.

Recommendation

Based on the factors discussed above, our Board recommends that future say-on-pay votes occur every three years until the next frequency vote. Stockholders are not being asked to approve or disapprove the Board s recommendation, but rather to indicate their choice among the following say-on-pay frequency options: every one year, every two years or every three years, or to abstain from voting.

The Board of Directors unanimously recommends that you vote for every THREE YEARS as the frequency for the presentation of an advisory vote on our executive compensation programs.

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 vote regarding the frequency of an advisory vote on the compensation of our named executive officers. 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. With respect to this proposal, if none of the frequency alternatives (one year, two years or three years) receives a majority vote, we will consider the frequency that receives the highest number of votes by stockholders to be the frequency that has been selected by our stockholders.

This vote is advisory, and therefore not binding on our company, our compensation committee or our Board. Although the vote is non-binding, our Board values the opinions of our stockholders and will take into account the outcome of the vote when considering how frequently we should conduct a say-on-pay vote going forward. However, because this vote is advisory and not binding on our company or our Board, our Board may decide that

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it is in our company s and our stockholders best interests to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE

FOR

THE OPTION OF THREE YEARS FOR FUTURE ADVISORY VOTES

TO APPROVE EXECUTIVE COMPENSATION PROGRAM.

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PROPOSAL NO. 5: APPROVAL OF THE 2013 EQUITY INCENTIVE AWARD PLAN

Introduction

We are asking our stockholders to approve the Blackhawk Network Holdings, Inc. 2013 Equity Incentive Award Plan (the 2013 Plan), to satisfy the stockholder approval requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (Section 162(m)). A copy of the 2013 Plan is attached hereto as Appendix A.

In general, Section 162(m) places a limit on the deductibility for federal income tax purposes of the compensation paid to our Chief Executive Officer or any of our three other most highly compensated executive officers (other than our Chief Financial Officer) (covered employees). Under Section 162(m), compensation paid to such persons in excess of $1 million in a taxable year generally is not deductible. However, compensation that qualifies as performance-based under Section 162(m) does not count against the $1 million deduction limitation. One of the requirements of performance-based compensation for purposes of Section 162(m) is that the material terms of the performance goals under which compensation may be paid be disclosed to and approved by our public stockholders. For purposes of Section 162(m), the material terms include (a) the employees eligible to receive compensation, (b) a description of the business criteria on which the performance goals may be based and (c) the maximum amount of compensation that can be paid to an employee under the performance goals. Each of these aspects of the 2013 Plan is discussed below, and stockholder approval of this Proposal 5 will be deemed to constitute approval of the material terms of the performance goals under the 2013 Plan for purposes of the stockholder approval requirements of Section 162(m).

Stockholder approval of the material terms of the performance goals under the 2013 Plan is only one of several requirements under Section 162(m) that must be satisfied for amounts paid under the 2013 Plan to qualify for the performance-based compensation exemption under Section 162(m), and submission of the material terms of the 2013 Plan s performance goals for stockholder approval should not be viewed as a guarantee that we will be able to deduct any or all compensation under the 2013 Plan. Nothing in this proposal precludes us or our compensation committee from making any payment or granting awards that are not intended to qualify for tax deductibility under Section 162(m).

If our stockholders do not approve the 2013 Plan pursuant to this Proposal 5, we will not make any further grants under the 2013 Plan to Section 162(m) covered employees or pay any compensation under the 2013 Plan to Section 162(m) covered employees (other than pursuant to awards granted prior to the date of our Annual Meeting). The 2013 Plan will, however, remain in effect with respect to individuals other than covered employees and we may continue to grant performance-vesting and other equity awards under the 2013 Plan to such individuals, subject to the terms and conditions of the 2013 Plan. In addition, all previously granted awards will continue to be subject to the 2013 Plan.

As of March 28, 2014, the number of shares remaining available for issuance pursuant to awards granted under the 2013 Plan was approximately 1,945,000 and the closing sale price of our common stock on that date was $25.63.

Highlights of 2013 Plan

The 2013 Plan authorizes the compensation committee of our Board (or, if our Board determines, another committee of our Board) to provide equity-based compensation for the purpose of providing the Company s directors, officers, employees and consultants equity compensation, incentives and rewards for superior performance. Some of the key features of the 2013 Plan that reflect our commitment to effective management of incentive compensation are as follows:

No Repricing or Replacement of Options or Stock Appreciation Rights. The 2013 Plan prohibits, without stockholder approval: (i) the amendment of options or stock appreciation rights to reduce the

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exercise price and (ii) the replacement of an option or stock appreciation right with cash or any other award when the price per share of the option or stock appreciation right exceeds the fair market value of underlying shares.

No In-the-Money Option or Stock Appreciation Right Grants. The 2013 Plan prohibits the grant of options or stock appreciation rights with an exercise or base price less than the fair market value of our common stock, generally the closing price of our common stock, on the date of grant.

No Liberal Share-Counting . The following shares are not be added back to the 2013 Plan s share limit: (i) shares tendered or withheld to cover any exercise price or tax withholding; (ii) shares subject to stock appreciation rights that are not issued when the stock appreciation right is stock-settled; (iii) shares purchased on the open market with cash proceeds from the exercise of an option.

Section 162(m) Qualification. The 2013 Plan is designed to allow awards under the 2013 Plan, including incentive bonuses, to qualify as performance-based compensation under Section 162(m) of the Code.

Material Terms of the 2013 Plan

The material terms of the 2013 Plan are summarized below. This description is qualified in its entirety by reference to the 2013 Plan attached hereto as Appendix A.

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 our company or certain of our subsidiaries may be granted incentive stock options, or ISOs. Currently, there are approximately 1,350 employees, 6 non-employee directors and 0 consultants eligible to participate in the 2013 Plan.

The 2013 Plan is administered by our board of directors 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 of directors. Our board of directors may at any time remove the compensation committee as the administrator and revest 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. Under the 2013 Plan, 3,000,000 shares of our Class A Common Stock were initially 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 Second Amended and Restated 2006 Restricted Stock and Restricted Stock Unit Plan (the 2006 Plan) and our Amended and Restated 2007 Stock Option and Stock Appreciation Right Plan (the 2007 Plan) as of the completion of our initial public offering in April 2013. The number of shares reserved for issuance or transfer

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pursuant to awards under the 2013 Plan will be increased by the number of shares represented by awards outstanding under our 2006 Plan or 2007 Plan that are terminated, expire or lapse on or after the effective date and are not issued under the 2006 Plan or 2007 Plan; 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 shares of our Class A Common Stock are repurchased by us 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 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 us 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

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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 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 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 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 us, 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 of directors, 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.

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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; (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

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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, 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 subplans 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. All awards will be subject to the provisions of any claw-back policy implemented by our company to the extent set forth in such claw-back policy and/or in the applicable award agreement. 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 (with board approval) may terminate, amend or modify the 2013 Plan at any time and from time to time. However, we must generally obtain stockholder approval:

- 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

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 compensation committee in the future, and our compensation committee has not made any determination to make future grants to any persons under the 2013 Plan 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 or the benefits that would have been received by such participants if the 2013 Plan had been in effect in the year ended December 28, 2013.

Name and Position	Dollar Value of Restricted Shares ($)	Grants of Restricted Shares (#)
William Y. Tauscher, Chairman and Chief Executive Officer	0	0
Talbott Roche, President	0	0
Jerry Ulrich, Chief Financial Officer and Chief Administrative Officer	0	0
David C. Tate, Senior Vice President, Products and Marketing	0	0
David E. Durant, Secretary and General Counsel	0	0
Executive Group	0	0
Non-Executive Director Group (1)	500,625	22,500
Non-Executive Officer Employee Group	0	0

(1) Pursuant to our director compensation program, each non-employee director serving on our board of directors (i.e., excluding Messrs. Tauscher and Edwards) will receive an annual award of 3,750 restricted shares, that 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 continued service through the applicable vesting date.

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Awards to Certain Persons Granted as of March 28, 2014

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 28, 2014. 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	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	115,500	$ 26.73	0	35,050	35,050
Talbott Roche, President	69,100	$ 26.73	0	21,000	21,000
Jerry Ulrich, Chief Financial Officer and Chief Administrative Officer	34,400	$ 26.73	0	10,450	10,450
David C. Tate, Senior Vice President, Products and Marketing	27,500	$ 26.73	15,000	7,950	7,950
David E. Durant, Secretary and General Counsel	21,300	$ 26.73	0	6,500	6,500
All current executive officers as a group (5 persons)	267,850	$ 26.73	15,000	80,950	80,950
All current non-employee directors as a group (7 persons)	0	$ 0.00	22,500	0	0
Douglas J. Mackenzie	0	$ 0.00	3,750	0	0
Lawrence F. Probst III	0	$ 0.00	3,750	0	0
Each associate of any such directors, executive officers or nominees	0	$ 0.00	0	0	0
Each other person who received or is to receive 5 percent of such options or rights	0	$ 0.00	0	0	0
All employees, including all current officers who are not executive officers, as a group	287,661	$ 27.29	122,110	779,110	113,550

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: stock appreciation rights (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. If the 2013 Plan is approved by our

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stockholders, the compensation committee may, but is not obligated to, grant awards under the 2013 Plan that constitute qualified performance based compensation under Section 162(m). If stockholders do not approve the proposal in this Proposal No. 5, we will not make any further grants under the 2013 Plan to Section 162(m) covered employees or pay any compensation under the 2013 Plan to Section 162(m) covered employees (other than pursuant to awards granted prior to the date of our Annual Meeting).

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 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 our 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 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 28, 2014 by (i) each person or group of affiliated persons known to us to be the beneficial owner of more than 5% of our Common Stock, (ii) each named executive officer and each director and (iii) all of our executive officers and directors as a group. Unless otherwise indicated in the table below, the address of each beneficial owner listed in the table is c/o Blackhawk Network Holdings, Inc., 6220 Stoneridge Mall Road, Pleasanton, California 94588.

	Class A Common Stock		Class B Common Stock		
	Number of Shares Beneficially Owned (1)	% of Class A Common Stock (1)	Number of Shares Beneficially Owned (1)(2)	% of Class B Common Stock (1)	% of Total Voting Power
5% Stockholders:					
Safeway Inc. (3) 5918 Stoneridge Mall Rd. Pleasanton, CA 94588	10,592	*	37,838,709	94.46%	91.59%
Columbia Wanger Asset Management, LLC (4) 227 West Monroe Street, Suite 3000 Chicago, IL 60606	2,181,500	17.41%	0		*
Lazard Asset Management LLC (5) 30 Rockefeller Plaza New York, New York 10112	1,115,109	8.90%	0		*

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It should be noted that no company used in the above analysis is identical to us. In evaluating companies identified by FT Partners as comparable to us, FT Partners made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond our control, such as the impact of competition on our business and the industry generally, industry growth and the absence of any material change in our financial condition and prospects or the industry or in the financial markets in general. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading values of such comparable companies to which they are being compared; mathematical analysis (such as determining the mean or median) is not in itself a meaningful method of using selected company data.

Comparable Transactions Analysis

Using FactSet Mergerstat and publicly available information, FT Partners examined the following transactions that FT Partners deemed to be relevant to determine the multiple of the value of such transactions at the time of announcement to estimates at the time of announcement of the last twelve month (LTM) revenues and LTM EBITDA for the target companies. FactSet Mergerstat, LLC provides an online investment research and database service that tracks global mergers and acquisitions involving business entities excluding the exchange of business assets, private placements, spin-offs, and open-market transactions. The FactSet service is used by many financial institutions. The precedent transactions that FT Partners considered were:

Acquirer	**Target**
CheckFree Corporation	Carreker Corporation
M & F Worldwide Corp.	John H. Harland Company
Intuit Inc.	Electronic Clearing House, Inc.
Intuit Inc.	Digital Insight Corporation
Private Equity Consortium	Open Solutions Inc.
Oracle Corporation	i-flex Solutions
Transaction Systems Architects Inc.	Politzer & Haney (P&H) Solutions
Online Resources Corporation	Princeton eCom Corporation
Solera, Inc.	Claims Services Group (a division of Automatic Data Processing)
Investcorp	CCC Information Service Group Inc.
Fidelity National Information Services, Inc.	Certegy Inc.
Oracle Corporation	i-flex Solutions
The Carlyle Group	SS&C Technologies, Inc.
Silver Lake	SunGard Data Systems Inc.
SS&C Technologies, Inc.	Financial Models Company Inc.
John H. Harland Company	Intrieve, Inc.
Computershare Limited	EquiServe
Fidelity National Financial, Inc.	InterCept Inc.
Open Solutions Inc.	Datawest Solutions Inc.
Fair Isaac Corporation	London Bridge Software Holdings plc
Fidelity National Financial, Inc.	Aurum Technology, Inc.
Fidelity National Financial, Inc.	Sanchez Computer Associates, Inc.

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All calculations of multiples paid in the selected transactions were based on FactSet Mergerstat and public information available at the time of public announcement. FT Partners analysis did not take into account different market and other conditions during the period in which the selected transactions occurred. Based upon its analysis of the full ranges of multiples calculated for the transactions identified above and its consideration of various factors and judgments about current market conditions and the characteristics of such transactions and the companies involved in such transactions (including qualitative factors and judgments involving non-mathematical considerations), FT Partners determined relevant ranges of multiples for such transactions. The following table summarizes the derived relevant ranges of multiples and the ranges of our share prices implied by such multiples:

	Median Multiple	Implied Share Price
LTM Revenue	2.4x	$ 3.64
LTM EBITDA	14.7x	$ 1.86

FT Partners observed that the $5.15 per share value of the merger consideration to be received by holders of Corillian common stock was above the per share value implied by the median multiples for the comparable transactions.

It should be noted that no transaction utilized in the analysis above is identical to the proposed merger. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved in these transactions and other factors that could affect the transaction multiples or premiums paid in such comparable transactions to which the transaction is being compared; mathematical analysis (such as determining the mean or the median) is not in itself a meaningful method of using selected transaction data.

Transaction Premiums Paid Analysis

FT Partners reviewed premiums to stock price paid in recent acquisitions that it judged to be reasonably applicable to the merger. These transactions included:

Acquirer	Target
CheckFree Corporation	Carreker Corporation
M & F Worldwide Corp.	John H. Harland Company
Intuit Inc.	Electronic Clearing House, Inc.
Intuit Inc.	Digital Insight Corporation
Private Equity Consortium	Open Solutions Inc.
Oracle Corporation	i-flex Solutions
Investcorp	CCC Information Service Group Inc.
Oracle Corporation	i-flex Solutions
The Carlyle Group	SS&C Technologies, Inc.
Private Equity Group Led by Silver Lake Partners	SunGard Data Systems Inc.
SS&C Technologies, Inc.	Financial Models Company Inc.

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FT Partners reviewed the premiums paid in these transactions over the average price of the target stock as reported by FactSet one trading day prior, five trading days prior and thirty trading days prior to announcement of such transactions. Based upon its analysis of the full ranges of multiples calculated for the transactions identified above and its consideration of various factors and judgments about current market conditions, the characteristics of such transactions and the companies involved in such transactions (including qualitative factors and judgments involving non-mathematical considerations), FT Partners determined relevant ranges of multiples for such transactions. The following table summarizes the median premium and the range of premiums (discounts) for these transactions:

	Median Premium	Range of Premiums (Discounts)
Premium (Discount) Paid to Target s Share Price One Trading Day Prior to Announcement	18%	(3)% - 47%
Premium (Discount) Paid to Target s Share Price 5 Trading Days Prior to Announcement	19%	(12)% - 45%
Premium (Discount) Paid to Target s Share Price 30 Trading Days Prior to Announcement	28%	9% - 64%

The implied values of our common stock, calculated by using the median premiums shown above, were $4.01, $3.90 and $4.63, respectively, and the premiums (discounts) that these implied values represent relative to the $5.15 per share value of the merger consideration to be received by holders of Corillian common stock were (22.1)%, (24.2)% and (10.0)%, respectively.

FT Partners also reviewed premiums to stock price paid in acquisitions where the targets were business services or prepackaged software companies. These transactions included:

Acquirer	Target
CheckFree Corporation	Carreker Corporation
Oracle Corporation	Stellent, Inc.
Oracle Corporation	MetaSolv, Inc.
MDSI Mobile Data Solutions Incorporated	Indus International, Inc.
Thoma Cressey Equity Partners	Embarcadero Technologies, Inc.
Illinois Tool Works Inc.	Click Commerce, Inc.
Corel Corporation	InterVideo, Inc.
Symphony Technology Group LLC	Hummingbird Ltd.
Extensity Inc.	Systems Union Group plc
Attachmate Corporation	NetIQ Corp.
JDA Software Group, Inc.	Manugistics Group, Inc.
Dassault Systemes S.A.	MatrixOne, Inc.
Infor Global Solutions, Inc.	Datastream Systems, Inc.
Nokia Oyj	Intellisync Corp.
Autonomy Corporation plc	Verity, Inc.
Symantec Corporation	BindView Development Corporation
Hewlett-Packard Company	Peregrine Systems, Inc.
Access Co., Ltd.	PalmSource, Inc.

BEA Systems, Inc.	Plumtree Software, Inc.
Secure Computing Corporation	CyberGuard Corporation
EAS Group, Inc.	Brooktrout, Inc.
Cerberus Capital Management LP	Epiphany, Inc.
Sun Microsystems, Inc.	SeeBeyond Technology Corporation
Computer Associates International Inc.	Niku Corporation
Computer Associates International Inc.	Concord Communications, Inc.

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FT Partners reviewed the premiums paid in these transactions over the average price of the target stock as reported by FactSet one trading day prior, five trading days prior and thirty trading days prior to announcement of such transactions. Based upon its analysis of the full ranges of multiples calculated for the transactions identified above and its consideration of various factors and judgments about current market conditions and the characteristics of such transactions and the companies involved in such transactions (including qualitative factors and judgments involving non-mathematical considerations), FT Partners determined relevant ranges of multiples for such transactions. The following table summarizes the median premium and the range of premiums (discounts) for these transactions:

	Median Premium	Range of Premiums (Discounts)
Premium (Discount) Paid to Target s Share Price One Trading Day Prior to Announcement	21%	(5)% - 83%
Premium (Discount) Paid to Target s Share Price 5 Trading Days Prior to Announcement	26%	1% - 76%
Premium (Discount) Paid to Target s Share Price 30 Trading Days Prior to Announcement	31%	10% - 137%

The implied values of our common stock, calculated by using the median premiums shown above, were $4.11, $4.13 and $4.74, respectively, and the premiums (discounts) that these implied values represent relative to the $5.15 per share value of the merger consideration to be received by holders of Corillian common stock were (20.1)%, (19.8)% and (7.9)%, respectively.

Discounted Cash Flow Valuation

FT Partners derived a range of equity values for our common stock based upon the discounted present value of our after-tax cash flows from financial forecasts for the fiscal years ended December 31, 2007 through December 31, 2010, and the terminal value of Corillian at December 31, 2010, using the following three methods:

- the EBITDA method, using forward terminal EBITDA multiples of 6x, 9x and 12x;
- the Unlevered Net Income method, using forward terminal Unlevered Net Income multiples of 16x, 19x and 22x; and
- the Dividend Discount method, assuming a dividend payout ratio of 0%.

FT Partners utilized discount rates ranging from 15% to 25% based on sensitivities to the capital asset pricing model. FT Partners utilized revenue growth rates for 2008 2010 of 5%, 10% and 15%, respectively, and EBITDA margins for 2008 2010 of 14%, 18% and 22%, respectively.

All projected data for the fiscal year ended December 31, 2007, were prepared and furnished by our management. Projected data for fiscal years ended 2008 through 2010 was prepared by FT Partners based upon assumptions derived from the fiscal year ended 2007 and guidance provided by us. All assumptions were reviewed by our management, who agreed they were reasonable in light of our historical operations and forecasted financial performance. FT Partners did not include the net present value of our net operating losses that we determined ranged from $0.41 to $0.45 on a per share basis.

This analysis resulted in a range of implied equity values per share for our common stock of $1.45 to $5.18.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, FT Partners considered the results of all of its analyses as a whole and, except as expressly noted above, did not attribute any particular weight to any analysis or factor considered by it. Furthermore, FT Partners believes that selecting any portion of its analysis, without considering all analyses, would create an incomplete view of the process underlying its opinion.

In performing its analyses, FT Partners made numerous assumptions with respect to industry performance and general business and economic conditions and other matters, many of which are beyond our control. The analyses

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performed by FT Partners are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. FT Partners made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all such analyses. The foregoing summary does not purport to be a complete description of the analyses performed by FT Partners. Additionally, analyses relating to the value of businesses or securities are not appraisals. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty. The merger consideration and other terms of the merger agreement were determined through negotiations between Corillian and CheckFree, and were approved by our board of directors subsequent to the determinations and recommendation of our board of directors. FT Partners did not recommend any specific consideration to our board of directors or that any specific consideration constituted the only appropriate consideration with respect to the merger agreement and the transactions contemplated thereby, including the merger. In addition, FT Partners opinion and presentation to our board of directors was one of many factors taken into consideration by our board of directors in making its decision to approve and adopt the merger agreement and approve the transactions contemplated thereby, including the merger. Consequently, the FT Partners analyses as described above should not be viewed as determinative of the opinion of our board of directors with respect to the value of Corillian or whether our board of directors would have been willing to agree to different consideration.

Based upon and subject to the foregoing qualifications and limitations and those set forth below, FT Partners was of the opinion that, as of February 13, 2007, the right to receive $5.15 per share in cash was fair, from a financial point of view, to the Shareholders.

FT Partners acted as financial advisor to our board of directors, was entitled to receive a customary fee from us upon delivery of its opinion and will receive an additional customary fee upon the successful conclusion of the merger. In addition, we have agreed to indemnify FT Partners and its affiliates and related parties in connection with its engagement, including liabilities under the federal securities laws, and to reimburse certain of their expenses. FT Partners was not requested to provide, or to identify potential sources of, financing to us or to explore strategic alternatives other than a sale of Corillian. Except as set forth in the preceding sentence, no limitations were imposed on FT Partners by our board of directors with respect to the investigations made or procedures followed by FT Partners in rendering its opinion. In the ordinary course of its business, FT Partners and its affiliates may publish research reports regarding the securities of Corillian or CheckFree or their respective affiliates, may trade or hold such securities for their own accounts and for the accounts of their customers and, accordingly, may at any time hold long or short positions in those securities.

Effects on Corillian if the Merger is Not Completed

In the event that the merger agreement is not approved by our shareholders or if the merger is not completed for any other reason, shareholders will not receive any payment for their shares in connection with the merger. Instead, Corillian will remain an independent public company and our common stock will continue to be listed and traded on Nasdaq. In addition, if the merger is not completed, we expect that our management will continue to operate the business and that our shareholders will continue to be subject to risks and opportunities that are similar to those to which they are currently subject, including, among other things, risks identified under Special Note Regarding Forward-Looking Information above. Accordingly, if the merger is not consummated, there can be no assurance as to the effect of these risks and opportunities on the future value of your shares. If the merger agreement is not approved by our shareholders or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to us will be offered or that our business, prospects or results of operations will not be adversely impacted. If the merger agreement is terminated under certain circumstances, we will be obligated to pay CheckFree a termination fee of $5.5 million. See The Merger Agreement Termination.

Interests of Our Directors and Executive Officers in the Merger

In considering the recommendation of our board of directors with respect to the merger, you should be aware that some of our directors and executive officers have interests in the merger that are different from, or in addition to, the interests of our shareholders generally. These interests may present them with actual or potential conflicts of interest, and these interests, to the extent material, are described below. Our board of directors was aware of these

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interests and considered them, among other matters, in approving the merger and approving and adopting the merger agreement.

Stock Options

As of March 12, 2007, our current executive officers and directors held 2,882,675 shares of our common stock subject to outstanding stock options with an exercise price of less than $5.15 per share, which options were granted under our Amended and Restated 1997 Stock Option Plan, Amended and Restated 2000 Stock Incentive Compensation Plan and 2003 Nonqualified Stock Incentive Compensation Plan (collectively referred to as the Company Stock Plans). Each outstanding stock option that remains outstanding at the effective time of the merger, including those held by our executive officers and directors, will become fully vested and exercisable, and will then terminate and thereafter represent the right to receive a cash payment, without interest and less applicable tax withholding, equal to the product of the number of shares of our common stock subject to the option as of the effective time of the merger, multiplied by the excess, if any, of $5.15 over the exercise price per share of common stock subject to such option.

Following is a table which sets forth, as of March 12, 2007, the number of outstanding options with exercise prices of less than $5.15 per share held by our executive officers and directors of the Company who have served as such at any time since January 1, 2006, the beginning of our last fiscal year, the weighted average exercise prices of such options, and the consideration that each such option holder will be entitled to receive pursuant to the merger agreement in connection with such options (not taking into account any applicable tax withholding).

	Number of Options with an Exercise Price less than $5.15 per Share	Weighted Average Exercise Price of Such Options	Resulting Consideration
Alex P. Hart	1,371,667	$ 2.69	$ 3,371,850
Robert G. Barrett	23,334	$ 2.54	$ 60,869
Andre Bouchard	100,000	$ 4.52	$ 63,000
Chris Brooks	410,071	$ 2.25	$ 1,188,663
Eric Dunn	25,000	$ 4.05	$ 27,500
Brian Kissel	325,000	$ 3.18	$ 640,250
Erich J. Litch	400,937	$ 2.54	$ 1,046,857
Tyree B. Miller	20,000	$ 3.47	$ 33,600
James R. Stojak	20,000	$ 4.45	$ 14,000
Jay N. Whipple, III	10,000	$ 3.93	$ 12,200
Paul K. Wilde	200,000	$ 2.87	$ 456,000

Severance Arrangements

Each of our current executive officers has a change of control agreement with us that will remain in effect after the completion of the merger, each of which contain specific change of control severance payment provisions. Under these provisions, if the officer s employment is terminated under certain circumstances following a change of control (such as the merger), the officer will be entitled to receive a lump sum severance payment as set forth in the officer s employment agreement. Following is a table showing the amount of this severance payment for each of our executive officers.

	Severance Payment Amount
Alex P. Hart	12 months base salary, plus grossed up amount of outstanding debt obligation to Corillian
Andre Bouchard	6 months base salary, plus 6 months of COBRA payments
Chris Brooks	12 months base salary
Brian Kissel	12 months base salary
Erich J. Litch	12 months base salary
Paul K. Wilde	12 months base salary

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Indemnification and Insurance

Without limiting any additional rights that any officer or director may have under any written indemnification agreement, the merger agreement provides that CheckFree and the surviving corporation will indemnify and hold harmless each person who was a director or officer of Corillian or any of our subsidiaries at any time prior to the effective time of the merger, against all losses, claims, damages, costs and expenses (including reasonable attorneys fees and expenses), liabilities, amounts paid in settlement or judgments incurred in connection with any claim arising out of or pertaining to the fact that he or she is or was an officer or director of Corillian or any of our subsidiaries. In this regard, Corillian, and after the merger, CheckFree and the surviving corporation, will also be required to advance expenses as incurred to an indemnified officer or director to the fullest extent permitted by law.

The merger agreement also provides that the indemnification or advancement of expenses provisions in our charter and bylaws and indemnification agreements will continue in force and effect.

In addition, the merger agreement provides that prior to the effective time of the merger, CheckFree will cause to be maintained our existing directors and officers insurance policy for a period of six years from the effective time of the merger or, at our option, we may obtain, prior to the effective time of the merger, a six-year run-off program for our existing directors and officers insurance policy.

Material United States Federal Income Tax Consequences

The following is a general discussion of the material U.S. federal income tax consequences of the merger to holders of our common stock. We base this summary on the provisions of the Code, applicable current and proposed U.S. Treasury Regulations, judicial authority, and administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis.

For purposes of this discussion, we use the term U.S. holder to mean:

a citizen or individual resident of the U.S. for U.S. federal income tax purposes;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S. or any state or the District of Columbia;

a trust if it (1) is subject to the primary supervision of a court within the U.S. and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person; or

an estate the income of which is subject to U.S. federal income tax regardless of its source.

A non-U.S. holder is a person (other than an entity taxed as a partnership for federal income tax purposes) that is not a U.S. holder.

This discussion assumes that a holder holds the shares of our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income tax law that may be relevant to a holder in light of its particular circumstances, or that may apply to a holder that is subject to special treatment under the U.S. federal income tax laws (including, for example, insurance companies, dealers in securities or foreign currencies, traders in securities who elect the mark-to-market method of accounting for their securities, shareholders subject to the alternative minimum tax, persons that have a functional currency other than the U.S. dollar, tax-exempt organizations, regulated investment companies, real estate

investment trusts, financial institutions, mutual funds, entities treated as partnerships or other pass through entities for U.S. federal income tax purposes, controlled foreign corporations, passive foreign investment companies, certain expatriates, corporations that accumulate earnings to avoid U.S. federal income tax, corporations subject to anti-inversion rules, shareholders who hold shares of our common stock as part of a hedge, straddle, constructive sale or conversion transaction, or shareholders who acquired their shares of our common stock through the exercise of employee stock options or other compensation arrangements). In addition, the discussion does not address any tax considerations under state, local or foreign laws or U.S. federal laws other than those pertaining to the U.S. federal income tax that may apply to holders. **Holders are urged to consult their own**

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tax advisors to determine the particular tax consequences, including the application and effect of any state, local or foreign income and other tax laws, of the receipt of cash in exchange for our common stock pursuant to the merger.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If you are a partner of a partnership holding our common stock, you should consult your tax advisors.

U.S. Holders

The receipt of cash in the merger by U.S. holders of our common stock will be a taxable transaction for U.S. federal income tax purposes. In general, for U.S. federal income tax purposes, a U.S. holder of our common stock will recognize gain or loss equal to the difference between:

the amount of cash received in exchange for such common stock; and

the U.S. holder s adjusted tax basis in such common stock.

If the holding period in our common stock surrendered in the merger is greater than one year as of the date of the merger, the gain or loss will be long-term capital gain or loss. The deductibility of a capital loss recognized on the exchange is subject to limitations under the Code. If a U.S. holder acquired different blocks of our common stock at different times and different prices, such holder must determine its adjusted tax basis and holding period separately with respect to each block of our common stock.

Under the Code, a U.S. holder of our common stock may be subject, under certain circumstances, to information reporting on the cash received in the merger unless such U.S. holder is a corporation or other exempt recipient. Backup withholding will also apply (currently at a rate of 28%) with respect to the amount of cash received, unless a U.S. holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. holder s U.S. federal income tax liability, if any, provided that such U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner.

Non-U.S. Holders

Any gain realized on the receipt of cash in the merger by a non-U.S. holder generally will not be subject to U.S. federal income tax unless:

the gain is effectively connected with a trade or business of the non-U.S. holder in the U.S. (and, if required by an applicable income tax treaty, the gain is attributable to a U.S. permanent establishment of the non-U.S. holder);

the non-U.S. holder is an individual who is present in the U.S. for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes and the non-U.S. holder owned more than 5% of the Company s common stock at any time during the five years preceding the merger.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the merger under regular graduated U.S. federal income tax rates. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits (reduced by any increase in its investment in its U.S. business) or at such lower rate as may be specified by an applicable income tax treaty. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax

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on the gain derived from the merger, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States.

We believe we are not, have not been and do not anticipate becoming a United States real property holding corporation for U.S. federal income tax purposes.

Information reporting and, under certain circumstances, backup withholding (currently at a rate of 28%) will apply to the cash received in the merger, unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person as defined under the Code) or such owner otherwise establishes an exemption. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a non-U.S. holder s U.S. federal income tax liability, if any, provided that such non-U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner.

Regulatory Approvals

Except for the filing of articles of merger in Oregon at or before the effective date of the merger, and for the pre-merger notification filing required by the HSR Act, we are unaware of any material federal, state or foreign regulatory requirements or approvals required for the execution of the merger agreement or completion of the merger. Certain transactions such as the merger are reviewed by the Antitrust Division of the Department of Justice (the Antitrust Division) or the Federal Trade Commission (the FTC) to determine whether such transactions comply with applicable antitrust laws. Under the provisions of the HSR Act, the merger may not be consummated until certain information has been furnished to the Antitrust Division and the FTC and a 30-day waiting period, subject to possible extension by the Antitrust Division or the FTC, has been satisfied. Corillian and CheckFree submitted the filings required by the HSR Act on March 5, 2007, and the applicable waiting period has not yet expired. The Antitrust Division notified Corillian and CheckFree on March 15, 2007 that it was conducting a preliminary investigation. Corillian and CheckFree have scheduled meetings with the Antitrust Division and are providing it with additional information. The expiration or early termination of the HSR Act waiting period would not preclude the Antitrust Division or the FTC from challenging the merger on antitrust grounds. Neither Corillian nor CheckFree believes that the merger will violate federal antitrust laws. If the merger is not consummated within 12 months after the expiration or early termination of the initial HSR Act waiting period, Corillian and CheckFree would be required to submit new information to the Antitrust Division and the FTC and a new HSR Act waiting period would have to expire or be earlier terminated before the merger could be consummated.

Accounting Treatment

We expect that the merger will be accounted for by CheckFree using the purchase method of accounting, in accordance with generally accepted accounting principles.

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THE MERGER AGREEMENT

The description of the merger agreement in this proxy statement does not purport to be complete and is qualified in its entirety by reference to the full text of the merger agreement, which is attached as Annex A. The merger agreement is included to provide investors and security holders with information regarding its terms. It is not intended to provide any other factual information about Corillian or the other parties thereto. In particular, the assertions embodied in Corillian s representations and warranties contained in the merger agreement are qualified by information in the disclosure schedule provided by Corillian to CheckFree in connection with the signing of the merger agreement. This disclosure schedule contains information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the merger agreement. Moreover, certain representations and warranties in the merger agreement were used for the purpose of allocating risk between Corillian and CheckFree rather than establishing matters as facts. Accordingly, investors and securityholders should not rely on the representations and warranties in the merger agreement as characterizations of the actual state of facts about Corillian or CheckFree.

Effective Time

The effective time of the merger will occur at the time that we file articles of merger with the Secretary of State of the State of Oregon (or such later time as provided in the articles of merger).

Structure

At the effective time of the merger, Merger Sub will merge with and into Corillian. Corillian will survive the merger and continue to exist after the merger as a wholly owned subsidiary of CheckFree. All of Corillian s and Merger Sub s properties (including real, personal and mixed properties), rights, privileges, powers and franchises (both public and private), and all of their debts, liabilities, obligations, restrictions, disabilities and duties, will become those of the surviving corporation.

Treatment of Stock and Options

Corillian Common Stock

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger will automatically be canceled and will cease to exist and will be converted into the right to receive $5.15 in cash, without interest, other than shares of Corillian common stock held in the treasury of Corillian or owned by CheckFree, Merger Sub or any wholly owned direct or indirect subsidiary of Corillian or CheckFree immediately prior to the effective time of the merger, which shares will be canceled without conversion or consideration.

After the effective time of the merger, each of our outstanding stock certificates or book-entry shares representing shares of common stock converted in the merger will represent only the right to receive the merger consideration without any interest. The merger consideration paid upon surrender of each certificate will be paid in full satisfaction of all rights pertaining to the shares of our common stock represented by that certificate or book-entry share.

Corillian Stock Options

All outstanding Corillian stock options will become fully vested and exercisable at the effective time of the merger and, as of the effective time of the merger, will then terminate and thereafter represent only the right to receive an

amount in cash, without interest and less applicable tax withholding, equal to the product of:

the number of shares of our common stock subject to each option as of the effective time of the merger, multiplied by

the excess, if any, of $5.15 over the exercise price per share of common stock subject to such option.

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No holder of an outstanding Company stock option that has an exercise price per share that is equal to or greater than $5.15 shall be entitled to any payment with respect to the terminated stock option before or after the effective time of the merger.

Exchange and Payment Procedures

Prior to the effective time of the merger, CheckFree will deposit in trust an amount of cash sufficient to pay the merger consideration to each holder of shares of our common stock with Mellon Investor Services LLC or another entity (the paying agent). Promptly after the effective time of the merger, the paying agent will mail a letter of transmittal and instructions to each of our registered shareholders (each shareholder that holds stock in its own name as of the effective time of the merger). The letter of transmittal and instructions will tell such shareholders how to surrender their common stock certificates or shares they may hold represented by book entry in exchange for the merger consideration. If your shares are held in street name by your broker, you will not receive a letter of transmittal and will automatically receive the merger consideration in exchange for your shares of stock through your broker.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.

Registered shareholders will not be entitled to receive the merger consideration until they surrender their stock certificate or certificates (or book-entry shares) to the paying agent, together with a duly completed and executed letter of transmittal and any other documents as may be required by the letter of transmittal. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if the certificate is properly endorsed or is otherwise in the proper form for transfer. In addition, the person who surrenders such certificate must either pay any transfer or other applicable taxes or establish to the satisfaction of the surviving corporation that such taxes have been paid or are not applicable.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates (or book-entry shares). The paying agent will be entitled to deduct and withhold, and pay to the appropriate taxing authorities, any applicable taxes from the merger consideration. Any sum which is withheld and paid to a taxing authority by the paying agent will be deemed to have been paid to the person with regard to whom it is withheld.

At the effective time of the merger, our stock transfer books will be closed, and there will be no further registration of transfers of outstanding shares of our common stock. If, after the effective time of the merger, certificates are presented to the surviving corporation for transfer, they will be canceled and exchanged for the merger consideration.

None of the paying agent, CheckFree or the surviving corporation will be liable to any person for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Any portion of the merger consideration deposited with the paying agent that remains undistributed to the holders of our common stock for one year after the effective time of the merger, will be delivered, upon demand, to the surviving corporation. Any portion of the merger consideration that remains unclaimed as of a date that is immediately prior to such time as such amounts would otherwise escheat to or become property of any governmental authority will, to the extent permitted by applicable law, become the property of the surviving corporation. Shareholders who have not received the merger consideration prior to the delivery of such funds to the surviving corporation may look only to the surviving corporation for the payment of the merger consideration.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to make an affidavit of the fact, in a form reasonably satisfactory to CheckFree and the paying agent.

Representations and Warranties

We make various representations and warranties in the merger agreement that are subject, in some cases, to specified exceptions and qualifications. Our representations and warranties relate to, among other things:

our and our subsidiaries organization, good standing and qualification to do business;

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our and our subsidiaries articles of incorporation and bylaws and equivalent organizational documents;

our capitalization, including in particular the number of shares of our common stock and stock options;

our corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement (including that our board of directors has approved, adopted and declared advisable the merger agreement, the merger and the transactions contemplated thereby and that such approval and adoption was made in accordance with the Oregon Business Corporation Act);

the absence of violations of or conflicts with our and our subsidiaries governing documents, material contracts or applicable law as a result of entering into the merger agreement and consummating the merger;

our SEC filings since December 31, 2003, including the financial statements contained therein;

our evaluation of our disclosure controls and procedures and the absence of significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting;

stock option grant practices;

the absence of undisclosed liabilities;

the absence of a material adverse effect and certain other changes or events related to us or our subsidiaries since September 30, 2006;

material contracts;

matters relating to our and our subsidiaries employee benefit plans;

legal proceedings and governmental investigations;

compliance with laws and the possession of permits to operate the business and compliance with applicable legal requirements and certain agreements;

intellectual property;

taxes;

our and our subsidiaries title to assets;

environmental matters;

employment and labor matters affecting us or our subsidiaries;

accuracy and compliance as to form with applicable securities law of this proxy statement;

the receipt by us of a fairness opinion from FT Partners; and

the absence of undisclosed broker s or finder s fees.

For the purposes of the merger agreement, a material adverse effect with respect to us means any material adverse change in, or material adverse effect on, our business, financial condition or continuing operations or of our subsidiaries, taken as a whole.

A material adverse effect will not have occurred, however, as a result of any event, circumstance, change or effect resulting from:

- general changes in the industries in which we and our subsidiaries operate, except those events, circumstances, changes or effects that adversely affect us and our subsidiaries to a greater extent than they affect other entities operating in such industries;
- changes in general economic conditions in the United States that do not have a disproportionate effect on us or our subsidiaries;
- changes in the United States securities markets;
- the execution of the merger agreement, including its announcement, pendency or consummation of the transactions;

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changes in generally accepted accounting principles or accounting rules and regulations; or

any action provided for by the merger agreement or taken at the request of CheckFree or the Merger Sub.

You should be aware that these representations and warranties are made by us to CheckFree and Merger Sub, may be subject to important limitations and qualifications set forth in the merger agreement and the disclosure schedules thereto and do not purport to be accurate as of the date of this proxy statement. See the introduction to this section, Where You Can Find Additional Information.

The merger agreement also contains various representations and warranties made by CheckFree and Merger Sub that are subject, in some cases, to specified exceptions and qualifications. The representations and warranties relate to, among other things:

their organization, valid existence and good standing;

their corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

the absence of any violation of or conflict with their governing documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;

compliance with laws;

the formation and purposes of Merger Sub;

the absence of undisclosed broker s and finder s fees;

the accuracy of information supplied for this proxy statement;

the possession by CheckFree of sufficient funds to permit it and Merger Sub to consummate the merger;

CheckFree s and Merger Sub s ownership of Corillian common stock; and

CheckFree s and Merger Sub s review and analysis of the businesses, assets, condition, operations and prospects of Corillian and our subsidiaries.

The representations and warranties of each of the parties to the merger agreement will expire upon the effective time of the merger.

Conduct of Our Business Pending the Merger

For the period between February 13, 2007 and the completion of the merger, we and our subsidiaries have agreed that we will, except as otherwise contemplated by the merger agreement:

conduct our business in the ordinary course of business consistent with past practice; and

use reasonable commercial efforts to preserve intact our business organization and relationships with customers, suppliers and other persons with whom we have significant business relations.

Without the limitation of the foregoing, under the merger agreement we have agreed that we will not, except as otherwise contemplated by the merger agreement or unless CheckFree gives its prior written consent:

amend or otherwise change our articles of incorporation or bylaws;

issue any shares of our common stock or rights to purchase our common stock, other than pursuant to the exercise of currently outstanding stock options;

acquire any share of our outstanding common stock;

split or reclassify our common stock or declare or pay any dividend or other distribution in respect of any common stock or otherwise make any payments to shareholders in their capacity as such;

adopt a plan of complete or partial liquidation, dissolution, merger, recapitalization or other reorganization of the Company or any of our subsidiaries, other than the merger described in this proxy statement;

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other than in the ordinary course of business consistent with past practice, acquire or dispose of any assets that, in the aggregate, are material to Corillian and our subsidiaries;

other than in the ordinary course of business consistent with past practice, incur any new material indebtedness for borrowed money or guarantee any such indebtedness or make any loans or advances other than pursuant to transactions among our subsidiaries and us;

increase the compensation of our directors or officers, or enter into or amend any employment or severance agreements with any director, officer or key employee, or materially increase the compensation of any key employee, other than in the ordinary course consistent with past practice and certain specific exceptions;

except in connection with the merger agreement or in the ordinary course of business consistent with past practices, terminate, materially amend or create any benefit plans or pay or accelerate any employee benefit plan or pay or accelerate any benefit thereunder, other than be required by the terms of any the benefit plan;

change any of the accounting methods we use unless required by GAAP or applicable law;

acquire (including by merger, consolidation, or acquisition of stock or assets or any other business combination) any corporation, partnership, other business organization or any division thereof or any significant amount of assets;

pay, discharge or satisfy any material claim, liability or obligation other than in the ordinary course of business and consistent with past practice and other than to the extent reserved against in our most recent consolidated financial statements;

authorize or make any commitment with respect to, any capital expenditure not in our capital budget in excess of $100,000 individually, or $500,000 in the aggregate;

make, revoke or change any material tax election or material method of tax accounting, file any amended tax return (unless required by law), enter into any closing agreement relating to a material amount of taxes, settle or compromise any material liability with respect to taxes or consent to any material claim or assessment relating to taxes;

(i) abandon, sell, assign, or grant any security interest in or to any item of intellectual property we own or license that is material to or necessary to operate our business in the ordinary course, (ii) grant to any third party any license, sublicense or covenant not to sue with respect to any intellectual property we own or license, other than in the ordinary course of business consistent with past practice; (iii) develop, create or invent any intellectual property jointly with any third party (other than consultants in the ordinary course of business), (iv) disclose, or allow to be disclosed any confidential intellectual property, other than subject to commercially reasonable procedures to protect the confidentiality of such intellectual property, or (v) fail to take all commercially reasonably actions that are required to maintain, or that we reasonably believe are required to protect, our interest in each item of intellectual property we own or license;

other than in the ordinary course of business consistent with past practice, or on terms not materially adverse to us, taken as a whole, modify, amend or terminate any material contract or waive, release or assign any material rights or claims thereunder;

fail to make in a timely manner any filings with the SEC required to be filed by us under securities laws, subject to certain limited exceptions;

enter into any contract or agreement with any of our directors or executive officers or their respective affiliates;

draw down on lines or credit or incur expenditures on research and development, other than in ordinary course of business and consistent with past practice;

announce an intention or enter into any contract, agreement, commitment or arrangement to do any of the foregoing; or

fail to file tax returns or pay taxes when due.

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No Solicitation of Transactions

We have agreed that we, our subsidiaries and our respective directors, officers and employees will not, and we are required to direct our accountants, counsel, investment bankers and other representatives not to, directly or indirectly:

solicit, initiate or encourage, or take any other action for the purpose of facilitating, any inquiries or the making of any acquisition proposal or offer; or

engage in discussions or negotiations with, or furnish any information or data to, any person or entity for the purpose of facilitating such inquiries or to obtain a proposal or offer for an acquisition proposal.

An acquisition proposal is:

any proposal to acquire beneficial ownership of 20% or more of Corillian s common stock pursuant to a merger, consolidation, or other business combination, sale of shares of capital stock, tender offer or exchange offer or other similar transaction involving us; or

any proposal to acquire 20% or more of the assets of Corillian and its subsidiaries.

Despite the foregoing restrictions, we are permitted to furnish information to, and enter into discussions with, a person who has made an unsolicited, written, bona fide proposal or offer regarding an acquisition proposal, so long as our board of directors has:

determined, in its good faith judgment (after consulting with our financial advisor), that such proposal or offer would be reasonably expected to lead to a superior proposal; or

determined, in its good faith judgment after consulting with our legal counsel, that, in light of such proposal or offer, the failure to furnish such information or participate in such discussions or negotiations may be inconsistent with its fiduciary duties to our shareholders under applicable law.

In either case, we must first have obtained from such person an executed confidentiality agreement on terms no less favorable to us than those contained in the confidentiality agreement executed in connection with the merger described in this proxy statement, and we must provide prompt notice to CheckFree of our intent to furnish information or enter into discussions with such person.

For purposes of the merger agreement, a superior proposal means an acquisition proposal that our board of directors determines, after consulting with its financial advisor to be more favorable from a financial point of view to our shareholders than the merger described in this proxy statement.

Additionally, under the merger agreement, we may not withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to CheckFree or Merger Sub, the approval or recommendation by our board of directors of the merger agreement or the merger (or approve or recommend, or propose publicly to approve or recommend any acquisition proposal). Despite the foregoing restrictions, if our board of directors determines, in its good faith judgment at any time prior to the approval of the merger by our shareholders after consulting with counsel that the failure to make a change in our board of directors recommendation to our shareholders of the merger may be inconsistent with its fiduciary duties, our board of directors may make a change in recommendation and/or recommend a superior proposal, provided that:

we notify CheckFree that our board of directors intends to make a change of recommendation (which must set forth the material terms and conditions of the superior proposal and identify the person making such superior proposal);

CheckFree shall not have proposed, within three business days after CheckFree s receipt of the notice of superior proposal, to amend the merger agreement to provide for terms that our board of directors determines in its good faith judgment (after consulting with its financial advisor) to be at least as favorable to our shareholders as such superior proposal; and

in the event we terminate the merger agreement to accept a superior proposal, we promptly pay to CheckFree a fee of $5.5 million (as further described below under Fees and Expenses).

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We also have agreed:

- to terminate immediately any discussions or negotiations regarding acquisition proposals that were being conducted before the merger agreement was signed;
- to not release any third party from, or waive any provision of, any confidentiality or standstill agreement to which it is a party; and
- to notify CheckFree promptly of our receipt of an acquisition proposal, including the material terms and conditions of the acquisition proposal and the identity of the third party making the proposal.

Access to Information

We have agreed to:

- provide to CheckFree and CheckFree s representatives access, during normal business hours and upon reasonable notice by CheckFree, to our officers, employees, agents, properties, offices and other facilities and those of our subsidiaries and to our and their respective books and records; and
- furnish promptly to CheckFree such information concerning our and our subsidiaries business, properties, contracts, assets, liabilities, personnel and other aspects as CheckFree or its representatives may reasonably request.

Each party to the merger agreement has agreed to (and to cause its affiliates and representatives to): (a) comply with the confidentiality agreement between us and CheckFree as if a party to that agreement and (b) hold in strict confidence all nonpublic documents and information furnished or made available by one party to the other(s) and their respective affiliates and representatives.

Special Meeting

Under the merger agreement, we have agreed:

- to duly call, give notice of, convene and hold a meeting of our shareholders as promptly as practicable following the date hereof for the purpose of considering and taking action on the merger agreement; and
- to include in this proxy statement, the recommendation of our board of directors that our shareholders approve the merger agreement.

Employee Matters

CheckFree has agreed that on and after the effective time of the merger, CheckFree will, and will cause the surviving corporation to, honor in accordance with their terms certain specified change of control and severance agreements and certain severance guidelines of Corillian for employees terminated within one year following the effective time. Also, following the closing of the merger, CheckFree has agreed to cause the surviving corporation to provide our employees and those of our subsidiaries who remain employed by CheckFree with employee benefits no less favorable than those maintained by CheckFree for similarly situated employees of CheckFree or its subsidiaries.

With respect to our employees and those of our subsidiaries who remain employed by CheckFree, the surviving corporation or their subsidiaries after the effective time of the merger, CheckFree will, and will cause the surviving corporation to, treat, and cause the applicable benefit plans to treat, those employees period of service to us and our subsidiaries before the effective time of the merger as service rendered to CheckFree or the surviving corporation for purposes of eligibility to participate, vesting and for other appropriate benefits. Each of these employees will be required to submit to a drug test and background check in accordance with CheckFree s policies.

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Conditions to the Merger

Conditions to Each Party s Obligations to Effect the Merger

The obligations of the parties to complete the merger are subject to the satisfaction or waiver of the following mutual conditions:

- our shareholders must have approved the merger;
- the waiting periods applicable to consummation of the merger under the HSR Act must have expired or been terminated; and
- there must not be any governmental orders or actions that seek to make the merger illegal or otherwise restrict, prevent or prohibit the consummation of the merger.

Conditions to Obligations of CheckFree and Merger Sub

The obligations of CheckFree and Merger Sub to effect the merger are subject to the satisfaction or waiver of the following additional conditions:

- the accuracy of our representations and warranties set forth in the merger agreement except as would not have a material adverse effect and except for the representation and warranty regarding our capitalization which must be accurate except for inaccuracies that are *de minimis* in the aggregate;
- the performance, in all material respects, by us of our obligations under the merger agreement;
- our delivery to CheckFree of our audited financial statements as of and for the year ended December 31, 2006;
- the absence of a material adverse effect; and
- the delivery by us of certain certificates executed by our officers.

Conditions to Obligations of the Company

Our obligation to effect the merger is subject to the satisfaction or waiver of the following additional conditions:

- the accuracy of the representations and warranties of CheckFree and Merger Sub set forth in the merger agreement, except as would not have a material adverse effect;
- the performance, in all material respects, by each of CheckFree and Merger Sub of its obligations under the merger agreement; and
- the delivery by CheckFree of certain certificates executed by its officers.

The completion of the merger is not subject to CheckFree securing financing to fund the payment of cash to our shareholders. Other than the conditions pertaining to our shareholder approval, the expiration or termination of the waiting period under the HSR Act and the absence of governmental orders, either we, on the one hand, or CheckFree

and Merger Sub, on the other hand, may elect to waive conditions to their respective performance and complete the merger. None of Corillian, CheckFree or Merger Sub, however, has expressed to the other parties any intention to waive any condition as of the date of this proxy statement.

Termination

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger:

by mutual written consent of us and CheckFree and Merger Sub;

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by either us or CheckFree if:

- the merger has not been consummated by June 15, 2007, provided that this right to terminate is not available to any party whose failure to fulfill any obligation under the merger agreement has been the cause of the failure of the merger to occur on or before such date; and provided further that we may extend this date to October 15, 2007 if all conditions to closing have been met or waived other than the expiration or termination of the waiting period under the HSR Act and the absence of governmental orders;

- any governmental entity has taken action permanently restraining, enjoining or otherwise prohibiting the merger, which has become final and non-appealable;

- the required vote of our shareholders to adopt the merger agreement is not obtained at the meeting of our shareholders where such vote was taken; or

- if our board of directors effects, under certain circumstances related to a superior proposal, a change in its recommendation to our shareholders to vote in favor of the merger agreement.

by CheckFree if:

- we breach or fail to perform, in any material respect, any representation, warranty, covenant or agreement that would result in the failure of a condition to the obligations of CheckFree or Merger Sub to effect the merger being satisfied (unless such breach or failure can be cured and we exercise commercially reasonable efforts to cure the breach or failure); or

- our board of directors approves or recommends to our shareholders a competing transaction or withdraws or modifies in a manner adverse to CheckFree or Merger Sub its recommendation to our shareholders to vote in favor of the merger agreement, other than, in certain circumstances, a change of recommendation related to a superior proposal.

by us:

- in order to accept a superior proposal, and we pay the termination fee as specified in the merger agreement; or

- if either CheckFree or Merger Sub breaches or fails to perform, in any material respect, any representation, warranty, covenant or agreement that would result in the failure of a condition to our obligation to effect the merger being satisfied (unless such breach or failure can be cured and CheckFree or Merger Sub, as the case may be, exercises commercially reasonable efforts to cure the breach or failure).

Fees and Expenses

We have agreed to pay CheckFree a fee of $5.5 million in cash if:

- the merger agreement is terminated by CheckFree because our board of directors approves or recommends a competing transaction or withdraws or modifies in a manner adverse to CheckFree or Merger Sub its recommendation to our shareholders to vote in favor of the merger agreement other than, in certain circumstances, a change of recommendation related to a superior proposal;

the merger agreement is terminated by us in order to accept a superior proposal;

the merger agreement is terminated by either CheckFree or us if our board of directors effects, under certain circumstances related to a superior proposal, a change in its recommendation to our shareholders to vote in favor of the merger agreement; or

the merger agreement is terminated by us after June 15, 2007 without a vote of our shareholders being taken or by either CheckFree or us if the meeting has occurred and our shareholders did not approve the merger agreement, and in either case a competing proposal has been publicly disclosed and, within one year, we enter into an agreement related to such acquisition proposal for the acquisition of Corillian.

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Amendment and Waiver

The merger agreement may be amended by the parties thereto at any time before or after approval of the merger agreement by our shareholders, but, after any such approval, no amendment will be made that would reduce the amount or change the type of consideration into which each share shall be converted upon consummation of the merger.

Until the effective time of the merger, the parties may, to the extent legally allowed:

extend the time for the performance of any of the obligations or other acts of the other parties in the merger agreement;

waive any inaccuracies in the representations and warranties contained in the merger agreement; and

waive compliance with any of the agreements or conditions contained in the merger agreement.

MARKET PRICE OF THE COMPANY S STOCK

Our common stock is quoted on Nasdaq under the symbol CORI. The following table sets forth the high and low sales prices per share of our common stock on Nasdaq for the periods indicated.

Fiscal Year Ended December 31, 2006	**High**	**Low**
Quarter ended December 31, 2006	$ 3.82	$ 2.58
Quarter ended September 30, 2006	$ 2.99	$ 2.44
Quarter ended June 30, 2006	$ 4.12	$ 2.68
Quarter ended March 31, 2006	$ 3.93	$ 2.69

Fiscal Year Ended December 31, 2005	**High**	**Low**
Quarter ended December 31, 2005	$ 3.27	$ 2.43
Quarter ended September 30, 2005	$ 3.46	$ 3.02
Quarter ended June 30, 2005	$ 3.67	$ 3.01
Quarter ended March 31, 2005	$ 4.95	$ 2.82

Fiscal Year Ended December 31, 2004	**High**	**Low**
Quarter ended December 31, 2004	$ 6.05	$ 4.38
Quarter ended September 30, 2004	$ 6.25	$ 4.04
Quarter ended June 30, 2004	$ 5.70	$ 3.72
Quarter ended March 31, 2004	$ 8.15	$ 4.30

The closing sale price of our common stock on Nasdaq on February 13, 2007, which was the last trading day before we announced the merger, was $3.45 per share, compared to which the merger consideration represents a premium of 49%.

On March 16, 2007, the last trading day before the date of this proxy statement, the closing price for the Company s common stock on Nasdaq was $5.02 per share. You are encouraged to obtain current market quotations for the Company s common stock in connection with voting your shares.

As of March 12, 2007, there were 402 holders of record of Corillian common stock.

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DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We intend to retain any future earnings for use in our business and do not intend to pay cash dividends in the foreseeable future. The payment of future dividends, if any, will be at the discretion of our board of directors and will depend, among other things, upon future earnings, operations, capital requirements, restrictions in financing agreements, our general financial condition and general business conditions. In addition, the payment of dividends is prohibited by the terms of the merger agreement, except with CheckFree s prior written consent.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND MANAGEMENT

The following table and the notes thereto set forth certain information regarding the beneficial ownership of Corillian s common stock as of March 12, 2007, by:

- each current director;
- the principal executive officer;
- the principal financial officer;
- the other executive officers;
- all executive officers and directors as a group; and
- each other person known to us to own beneficially more than five percent of our outstanding common stock.

We have determined beneficial ownership in accordance with the rules of the SEC. The number of shares beneficially owned by a person includes shares of common stock of the Company that are subject to stock options that are either currently exercisable or exercisable within 60 days following March 12, 2007 (including all shares subject to stock options that will be exercisable at the effective time of the merger). These shares are also deemed outstanding for the purpose of computing the percentage of outstanding shares owned by the person. However, these shares are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, to our knowledge, each shareholder has sole voting and dispositive power with respect to the securities beneficially owned by that shareholder, and no such securities have been pledged to a third party. Unless a footnote indicates otherwise, the address of each person listed below is c/o Corillian Corporation, 3400 NW John Olsen Place, Hillsboro, Oregon, 97124. As of March 12, 2007, there were 45,311,070 shares of Corillian common stock outstanding.

Name and Address	Beneficially Owned	Outstanding
Raj Rajaratnam and affiliates(1) 590 Madison Avenue New York, New York 10022	4,144,813	9.15%
Royce & Associates, LLC(2) 1414 Avenue of the Americas New York, New York 10019	3,076,991	6.79
Dreman Value Management, LLC(3) Harborside Financial Center, Plaza 10, Suite 800 Jersey City, New Jersey 07311	2,562,700	5.66
Alex Hart(4)	1,615,837	3.44
Jay N. Whipple, III(5)	763,198	1.68
Paul K. Wilde(6)	600,000	1.31
Chris Brooks(7)	447,138	*
Erich J. Litch(8)	440,646	*

Brian Kissel(9)	332,489	*
Tyree B. Miller(10)	145,000	*
Andre Bouchard(11)	100,000	*
Eric Dunn(12)	46,000	*
James R. Stojak(13)	20,000	*
All directors and executive officers as a group (10 persons)(14)	4,510,308	9.22%

* Represents beneficial ownership of less than 1%.

(1) The information is as reported on Schedule 13G as filed February 13, 2007. Of these shares, 687,850 are owned by Galleon Advisors, L.L.C., and the remaining shares are owned by various entities affiliated with Mr. Rajaratnam as follows: (i) 613,100 shares are held by Galleon Captain s Partners, L.P., (ii) 2,306,900 shares

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are held by Galleon Captain s Offshore, Ltd., (iii) 248,800 shares are held by Galleon Buccaneer s Offshore, Ltd., (iv) 74,750 shares are held by Galleon Communications Partners, L.P., (v) 168,213 shares are held by Galleon Communications Offshore, Ltd., and (vi) 45,200 shares are held by SG AM AI EC IV. Pursuant to the partnership agreement of Galleon Captain s Partners, L.P. and Galleon Communications Partners, L.P., Galleon Management, L.P. and Galleon Advisors, L.L.C. share all investment and voting power with respect to the securities held by Galleon Captain s Partners, L.P. and Galleon Communications Partners, L.P. Pursuant to an investment management agreement, Galleon Management, L.P. has all investment and voting power with respect to the securities held by Galleon Captains Offshore, Ltd., Galleon Communications Offshore, Ltd., Galleon Buccaneer s Offshore, Ltd. and SG AM AI EC IV. Raj Rajaratnam, as the managing member of Galleon Management, L.L.C., controls Galleon Management, L.L.C., which, as the general partner of Galleon Management, L.P., controls Galleon Management, L.P. Raj Rajaratnam, as the managing member of Galleon Advisors, L.L.C., also controls Galleon Advisors, L.L.C. The shares reported herein by Raj Rajaratnam, Galleon Management, L.P., Galleon Management, L.L.C., and Galleon Advisors, L.L.C. may be deemed beneficially owned as a result of the purchase of such shares by Galleon Captain s Partners, L.P., Galleon Captain s Offshore, Ltd., Galleon Buccaneer s Offshore, Ltd., Galleon Communications Partners, L.P., Galleon Communications Offshore, Ltd. and SG AM AI EC IV, as the case may be. Each of Raj Rajaratnam, Galleon Management, L.P., Galleon Management, L.L.C., and Galleon Advisors, L.L.C. disclaims any beneficial ownership of the shares reported herein, except to the extent of any pecuniary interest therein.

(2) This information is based on a Schedule 13G filed on January 17, 2006. Royce & Associates LLC has sole power to vote and dispose of all 3,076,991 shares.

(3) This information is based on a Schedule 13G filed on February 14, 2007. Dreman Value Management LLC has sole power to vote and dispose of all 2,562,700 shares.

(4) Includes 1,611,667 shares subject to options exercisable within 60 days of March 12, 2007, 1,371,667 of which have an exercise price of less than $5.15.

(5) Includes 10,000 shares subject to options exercisable within 60 days of March 12, 2007, all of which have an exercise price of less than $5.15.

(6) Consists of 600,000 shares subject to options exercisable within 60 days of March 12, 2007, 200,000 of which have an exercise price of less than $5.15.

(7) Includes 443,571 shares subject to options exercisable within 60 days of March 12, 2007, 410,071 of which have an exercise price of less than $5.15.

(8) Includes 435,937 shares subject to options exercisable within 60 days of March 12, 2007, 400,937 of which have an exercise price of less than $5.15.

(9) Includes 325,000 shares subject to options exercisable within 60 days of March 12, 2007, all of which have an exercise price of less than $5.15.

(10) Includes 20,000 shares subject to options exercisable within 60 days of March 12, 2007, all of which have an exercise price of less than $5.15.

(11) Consists of 100,000 shares subject to options exercisable within 60 days of March 12, 2007, all of which have an exercise price of less than $5.15.

(12) Includes 25,000 shares subject to options exercisable within 60 days of March 12, 2007, all of which have an exercise price of less than $5.15.

(13) Consists of 20,000 shares subject to options exercisable within 60 days of March 12, 2007, all of which have an exercise price of less than $5.15.

(14) Includes 3,591,175 shares subject to options exercisable within 60 days of March 12, 2007, 2,882,675 of which have an exercise price of less than $5.15.

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DISSENTERS RIGHTS

Under Oregon law, a shareholder of a class or series of shares that are registered on a national securities exchange or quoted on the National Association of Securities Dealers, Inc. Automated Quotation System as a National Market System on the record date of the meeting of shareholders at which the transaction is to be approved or on the date that a copy or summary of the plan of merger is mailed to the shareholders under Oregon law, do not have dissenters rights unless the company s articles of incorporation otherwise provide for dissenters rights. Corillian s common stock is traded on the Nasdaq Global Market and its Articles of Incorporation do not provide for dissenters rights. Therefore, holders of Corillian common stock will not be entitled to dissenters rights under Oregon law. For additional information on dissenters rights under Oregon law, please refer to ORS 60.554 and the other applicable provisions of the Oregon law attached as Annex C. You are encouraged to read these provisions in their entirety.

ADJOURNMENT OF THE SPECIAL MEETING (PROPOSAL NO. 2)

Corillian may ask its shareholders to vote on a proposal to adjourn the special meeting, if necessary or appropriate, in order to allow for the solicitation of additional proxies if there are insufficient votes at the time of the meeting to approve the merger agreement or if the conditions to closing of the merger are unlikely to be completed within a reasonable time following the special meeting. **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ADJOURNMENT PROPOSAL.**

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Corillian files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, proxy statements or other information that we file with the SEC at the following location of the SEC:

Public Reference Room
100 F Street, N.E.
Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our public filings are also available to the public from document retrieval services and the Internet website maintained by the SEC at www.sec.gov.

Any person, including any beneficial owner, to whom this proxy statement is delivered may request copies of reports, proxy statements or other information concerning us, including any information incorporated into this proxy statement by reference, without charge, by written or telephonic request directed to us at Corillian Corporation, 3400 NW John Olsen Place, Hillsboro, Oregon, 97214, (503) 6289-3300, Attention: Corporate Secretary. If you would like to request documents, please do so promptly in order to receive them before the special meeting.

No persons have been authorized to give any information or to make any representations other than those contained in this proxy statement and, if given or made, such information or representations must not be relied upon as having been authorized by us or any other person. This proxy statement is dated March 19, 2007. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date, and the mailing of this proxy statement to shareholders shall not create any implication to the contrary.

SUBMISSION OF SHAREHOLDER PROPOSALS

If the merger is not completed, you will continue to be entitled to attend and participate in our shareholder meetings and we will hold a 2007 annual meeting of shareholders, in which case shareholder proposals will be eligible for consideration for inclusion in the proxy statement and form of proxy for our 2007 annual meeting of shareholders in accordance with Rule 14a-8 under the Exchange Act. To be eligible for inclusion in the proxy statement and form of proxy for the 2007 annual meeting pursuant to Rule 14a-8, proposals of shareholders must have been received by us no later than December 16, 2006 and must have complied with Rule 14a-8.

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According to our bylaws, for business to be properly brought before the 2007 annual meeting of shareholders by a shareholder, the shareholder must have given timely notice thereof in writing to the Corporate Secretary. To be timely, a shareholder s notice must be delivered to or mailed and received at our principal executive offices not less than 60 days nor more than 90 days prior to the date of the 2007 annual meeting of shareholders; provided, that in the event that less than 70 days notice of the date of the 2007 annual meeting of shareholders is given to the shareholders, notice by the shareholder, to be timely, must be so received not later than the close of business on the seventh day following the day on which such notice of the date of the meeting was mailed.

If we receive proper notice of a shareholder proposal pursuant to our bylaws, and such notice is not received a reasonable time prior to mailing by us of our proxy materials for our 2007 annual meeting of shareholders, we believe that our proxy holders would be allowed to use the discretionary authority granted by the proxy card to vote against the proposal at the meeting without including any disclosure of the proposal in the proxy statement relating to such meeting.

OTHER MATTERS

The SEC has adopted rules that permit companies and intermediaries, such as brokers, to satisfy delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, known as householding, potentially means extra convenience for shareholders and cost savings for companies. In connection with this proxy solicitation, a number of brokers with customers who are our shareholders will be householding our proxy materials unless contrary instructions have been received from the customers. We will promptly deliver, upon oral or written request, a separate copy of the proxy statement to any shareholder sharing an address to which only one copy was mailed. Requests for additional copies should be directed to Corillian Corporation, 3400 NW John Olsen Place, Hillsboro, Oregon, 97214, (503) 6289-3300, Attention: Corporate Secretary.

Once a shareholder has received notice from his or her broker that the broker will be householding communications to the shareholder s address, householding will continue until the shareholder is notified otherwise or until the shareholder revokes his or her consent. If, at any time, a shareholder no longer wishes to participate in householding and would prefer to receive separate copies of the proxy statement, the shareholder should so notify his or her broker. Any shareholder who currently receives multiple copies of the proxy statement at his or her address and would like to request householding of communications should contact his or her broker or, if shares are registered in the shareholder s name, our Corporate Secretary at the address or telephone number provided above.

By Order of the Board of Directors,

Erich J. Litch
Corporate Secretary
March 19, 2007

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ANNEX A

EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER

by and among

CHECKFREE CORPORATION,

CF OREGON, INC.,

and

CORILLIAN CORPORATION

February 13, 2007

The merger agreement has been included to provide you with information regarding its terms. It is not intended to provide any other factual information about CheckFree or Corillian. Such information can be found elsewhere in this proxy statement and in the public filings each of CheckFree and Corillian makes with the Securities and Exchange Commission, which are available without charge at www.sec.gov.

The merger agreement contains representations and warranties CheckFree and Corillian made to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules delivered by Corillian to CheckFree in connection with signing the merger agreement. While neither CheckFree nor Corillian believe that the disclosure schedules contain information that the securities laws require to be publicly disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified by the underlying disclosure schedules. These disclosure schedules contain information that has been included in Corillian s prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in Corillian s public disclosures.

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EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of February 13, 2007 (this "Agreement"), by and among Corillian Corporation, an Oregon corporation (the "Company"), CheckFree Corporation, a Delaware corporation ("Parent"), and CF Oregon, Inc., an Oregon corporation and wholly-owned subsidiary of Parent ("Sub").

WHEREAS, the respective boards of directors of Parent, Sub and the Company have approved, and have determined that it is in the best interests of their respective shareholders to consummate, the acquisition of the Company pursuant to the merger of Sub into Company with Company as the Surviving Corporation, upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

DEFINITIONS AND TERMS

Section 1.1 *Definitions.* As used in this Agreement, the following terms have the meanings set forth below:

"Acquisition Proposal" means any proposal made by any Person or Persons other than Parent, Sub or any Affiliate thereof to acquire, other than in the transactions contemplated by this Agreement, (i) beneficial ownership (as defined under Section 13(d) of the Exchange Act) of twenty percent (20%) or more of the Common Stock pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, tender offer or exchange offer or similar transaction involving the Company or (ii) twenty percent (20%) or more of the assets of the Company and its Subsidiaries, taken as a whole.

"Affiliate" has the meaning set forth in Rule l2b-2 of the Exchange Act.

"Agreement" has the meaning set forth in the Preamble.

"Articles of Merger" has the meaning set forth in Section 2.2.

"Benefit Agreements" has the meaning set forth in Section 4.9(a).

"Benefit Plans" has the meaning set forth in Section 4.9(a).

"Book-Entry Shares" has the meaning set forth in Section 3.1(d).

"Business Day" means a day other than a Saturday, a Sunday or another day on which commercial banking institutions in New York, New York are authorized or required by Law to be closed.

"Capitalization Date" has the meaning set forth in Section 4.2(a).

"Certificates" has the meaning set forth in Section 3.1(d).

Change of Recommendation has the meaning set forth in Section 6.3(e).

Cleanup means all actions required, under applicable Environmental Laws, to clean up, remove, treat or remediate Hazardous Materials.

Closing has the meaning set forth in Section 2.3.

Closing Date has the meaning set forth in Section 2.3.

Code means the Internal Revenue Code of 1986, as amended.

Common Stock has the meaning set forth in Section 3.1(a).

Company has the meaning set forth in the Preamble.

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Company Disclosure Schedule means the disclosure schedule delivered by the Company to Parent immediately prior to execution of this Agreement.

Company Material Adverse Effect means any material adverse change in, or material adverse effect on, the business, financial condition or continuing operations of the Company and its Subsidiaries, taken as a whole; *provided*, *however*, that the effects of changes that are generally applicable to (i) the industries and markets in which the Company and its Subsidiaries operate (so long as the Company and its Subsidiaries are not disproportionately affected thereby), (ii) the United States economy (so long as the Company and its Subsidiaries are not disproportionately affected thereby) or (iii) the United States securities markets shall be excluded from the determination of Company Material Adverse Effect; and *provided further* that any adverse effect on the Company and its Subsidiaries resulting from (A) the execution of this Agreement, the announcement of this Agreement or the pendency or consummation of the transactions contemplated hereby, (B) changes in GAAP or the accounting rules and regulations of the SEC, or (C) any action provided for by this Agreement or taken at the request of Parent or Sub, shall also be excluded from the determination of Company Material Adverse Effect.

Company Option Plans means the Company s Amended and Restated 1997 Stock Option Plan, Hatcher Associates, Inc. Amended and Restated 1998 Stock Incentive Plan, Amended and Restated 2000 Stock Incentive Compensation Plan, the ESPP, and 2003 Nonqualified Stock Incentive Compensation Plan.

Company Permits has the meaning set forth in Section 4.11(b).

Company Products has the meaning set forth in Section 4.12(f).

Company Recommendation has the meaning set forth in Section 6.7.

Company SEC Reports has the meaning set forth in Section 4.5.

Company Special Meeting has the meaning set forth in Section 6.7.

Confidentiality Agreement has the meaning set forth in Section 6.2.

Consideration Fund has the meaning set forth in Section 3.2(a).

Contract means any note, bond, mortgage, indenture, lease, license, contract, agreement or other consensual obligation.

Dissenting Shares has the meaning set forth in Section 3.3(a).

Effective Time has the meaning set forth in Section 2.2.

Employees has the meaning set forth in Section 6.4(a).

Environmental Claim means any claim, notice, directive, action, cause of action, investigation, suit, demand, abatement order or other order by a Governmental Entity alleging liability arising out of, based on, or resulting from (a) the Release of any Hazardous Materials at any location or (b) circumstances forming the basis of any violation of any Environmental Law.

"Environmental Laws" means all applicable and legally enforceable Laws relating to pollution or protection of the environment, including Laws relating to Releases of Hazardous Materials and the manufacture, processing, distribution, use, treatment, storage, Release, transport or handling of Hazardous Materials, and including the Federal Water Pollution Control Act (33 U.S.C. § 1251 *et seq.*), the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. § 6901 *et seq.*), the Safe Drinking Water Act (42 U.S.C. § 300f *et seq.*), the Toxic Substances Control Act (15 U.S.C. § 2601 *et seq.*), the Clean Air Act (42 U.S.C. § 7401 *et seq.*), the Oil Pollution Act of 1990 (33 U.S.C. § 2701 *et seq.*), Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. § 9601 *et seq.*), the Emergency Planning and Community Right to Know Act (42 U.S.C. §§11001 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. §§ 5101 et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. §§ 136 et seq.),the Endangered Species Act of 1973 (16 U.S.C. § 1531 *et seq.*), and other similar state and local Laws, in effect as of the date hereof.

"ERISA" has the meaning set forth in Section 4.9(a).

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ERISA Affiliate has the meaning set forth in Section 4.9(a).

ESPP means the Company s 2000 Employee Stock Purchase Plan, as amended and restated on May 8, 2001.

Exchange Act means the Securities Exchange Act of 1934, as amended.

FTP has the meaning set forth in Section 4.18.

GAAP has the meaning set forth in Section 4.5.

Governmental Entity has the meaning set forth in Section 4.4.

Hazardous Materials means all substances defined as Hazardous Substances, Oils, Pollutants or Contaminants in the National Oil and Hazardous Substances Pollution Contingency Plan, 40 C.F.R. § 300.5, or defined as such by, or regulated as such under, any Environmental Law.

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Indemnified Parties has the meaning set forth in Section 6.6(a).

Intellectual Property means all rights in patents, patent applications, trademarks (whether registered or not), trademark applications, service mark registrations and service mark applications, trade names, trade dress, logos, slogans, tag lines, uniform resource locators, Internet domain names, Internet domain name applications, corporate names, copyright applications, registered copyrighted works and commercially significant unregistered copyrightable works (including proprietary software, books, written materials, prerecorded video or audio tapes, and other copyrightable works), technology, software, trade secrets, know-how, technical documentation, specifications, data, designs and other intellectual property and proprietary rights, other than off-the-shelf computer programs

Insured Parties has the meaning set forth in Section 6.6(b).

IRS means the U.S. Internal Revenue Service.

knowledge means such facts and other information that as of the date of determination, after reasonable inquiry, are actually known to the chief executive officer, president, chief financial officer, general counsel or other senior executive officers of the referenced party.

Law means any federal, state, local or foreign law, statute, ordinance, regulation, judgment, order, decree, injunction, arbitration award, franchise, license, agency requirement or permit of any Governmental Entity.

License-In Agreements has the meaning set forth in Section 4.12(b).

Material Contract has the meaning set forth in Section 4.8(a).

Merger has the meaning set forth in Section 2.1.

Merger Consideration has the meaning set forth in Section 3.1(a).

OBCA means the Oregon business corporation act, as amended.

Option Consideration means the aggregate amount required to make the payments set forth in Section 3.4(a).

Parent has the meaning set forth in the Preamble.

Parent Plans has the meaning set forth in Section 6.4(c).

Paying Agent has the meaning set forth in Section 3.2(a).

Person means any natural person or any corporation, partnership, limited liability company, association, trust or other entity or organization, including, without limitation, any Governmental Entity.

Proxy Statement has the meaning set forth in Section 6.7.

Qualifying Transaction means any acquisition of (i) fifty percent (50%) or more of the Common Stock pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, tender offer or

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exchange offer or similar transaction involving the Company or (ii) fifty percent (50%) or more of the assets of the Company and its Subsidiaries, taken as a whole.

Release means any release, spill, emission, discharge, leaking, pumping, injection, deposit, disposal, dispersal, leaching or migration of Hazardous Materials, including the movement of Hazardous Materials through or in the air, soil, surface water, groundwater or real property.

Representatives has the meaning set forth in Section 6.2.

SEC means the United States Securities and Exchange Commission.

Securities Act means the Securities Act of 1933, as amended.

Stock Options has the meaning set forth in Section 3.4(a).

Sub has the meaning set forth in the Preamble.

Subsidiary means, as to any Person, any corporation, partnership, limited liability company, association or other business entity (i) of which such Person directly or indirectly owns securities or other equity interests representing more than fifty percent (50%) of the aggregate voting power, (ii) of which such Person possesses more than fifty percent (50%) of the right to elect directors or Persons holding similar positions, or (iii) that such Person controls directly or indirectly through one or more intermediaries.

Superior Proposal means any Acquisition Proposal that the Company s board of directors determines, after consultation with its financial advisor, to be more favorable from a financial point of view to the Company and its shareholders than the transactions contemplated hereby.

Surviving Corporation has the meaning set forth in Section 2.1.

Tax Return means any report, return, document, declaration, claim for refund, information statement or other information or filing required to be supplied to any taxing authority or jurisdiction (foreign or domestic) with respect to Taxes, including information returns or reports with respect to backup withholding and other payments to third parties.

Taxes means any and all taxes, charges, fees, levies or other assessments, including income, gross receipts, excise, real or personal property, sales, withholding, social security, occupation, use, service, service use, value added, license, net worth, payroll, withholding, workman s compensation, unemployment insurance, franchise, transfer and recording taxes, fees and charges, imposed by the United States Internal Revenue Service or any taxing authority (whether domestic or foreign including any state, local or foreign government or any subdivision or taxing agency thereof (including a United States possession)), whether computed on a separate, consolidated, unitary, combined or any other basis; and such term shall include any interest, penalties or additional amounts attributable to, or imposed upon, or with respect to, any such taxes, charges, fees, levies or other assessments.

Termination Date has the meaning set forth in Section 8.1(b)(i).

United States means the United States of America.

Section 1.2 *Other Definitional Provisions; Interpretation.*

(a) The words hereof, herein and herewith and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and references to articles, sections, paragraphs, exhibits and schedules are to the articles, sections and paragraphs of, and exhibits and schedules to, this Agreement, unless otherwise specified.

(b) Whenever include, includes or including is used in this Agreement, such word shall be deemed to be followed by the phrase without limitation.

(c) Words describing the singular number shall be deemed to include the plural and vice versa, words denoting any gender shall be deemed to include all genders and words denoting natural persons shall be deemed to include business entities and vice versa.

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(d) When used in reference to information or documents, the phrase made available means that the information or documents referred to have been made available if requested by the party to which such information or documents are to be made available.

(e) Terms defined in the text of this Agreement as having a particular meaning have such meaning throughout this Agreement, except as otherwise indicated in this Agreement.

ARTICLE II

THE MERGER

Section 2.1 *The Merger.* Subject to the terms and conditions of this Agreement and in accordance with the OBCA, at the Effective Time, the Company and Sub shall consummate a merger (the Merger) pursuant to which (i) Sub shall merge with and into the Company and the separate corporate existence of Sub shall thereupon cease, (ii) the Company shall be the surviving corporation (the Surviving Corporation) in the Merger and (iii) the separate corporate existence of the Company with all its rights, privileges, immunities, powers and franchises shall continue unaffected by the Merger. The Merger shall have the effects set forth in the OBCA.

Section 2.2 *Effective Time.* Parent, Sub and the Company shall cause articles of merger (the Articles of Merger) to be delivered on the Closing Date (or on such other date as Parent and the Company may agree in writing) to the Secretary of State of the State of Oregon for filing as provided in the OBCA, and shall make all other deliveries, filings or recordings required by the OBCA in connection with the Merger. The Merger shall become effective on the date on which the Articles of Merger are filed by the Secretary of State of the State of Oregon, or on such other later date as is agreed upon by the parties and specified in the Articles of Merger, and at the time specified in the Articles of Merger or, if not specified therein, by the OBCA, and such time on such date of effectiveness is hereinafter referred to as the Effective Time.

Section 2.3 *Closing.* The closing of the Merger (the Closing) will take place at 10:00 A.M., Pacific Time, on a date to be specified by the parties, which shall be no later than two (2) Business Days after satisfaction or waiver of all of the conditions set forth in Article VII hereof (other than conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at the Closing), at the offices of Perkins Coie LLP, 1120 NW Couch Street, 10th Floor, Portland, Oregon, unless another time, date or place is agreed to in writing by the parties hereto (such date on which the Closing is to take place being the Closing Date).

Section 2.4 *Articles of Incorporation and Bylaws of the Surviving Corporation.* The articles of incorporation of the Sub, as in effect immediately prior to the Effective Time, shall at the Effective Time be the articles of incorporation of Surviving Corporation, until thereafter amended as provided by Law and such articles of incorporation. The bylaws of Sub, as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation, except as to the name of the Surviving Corporation, which shall be Corillian Corporation, until thereafter amended as provided by Law, the articles of incorporation of the Surviving Corporation and such bylaws.

Section 2.5 *Directors and Officers of the Surviving Corporation.* The directors of Sub at the Effective Time shall, from and after the Effective Time, be the initial directors of the Surviving Corporation until their successors shall have been duly elected or appointed or qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation s articles of incorporation and bylaws. The officers of Sub at the Effective Time shall, from and after the Effective Time, be the initial officers of the Surviving Corporation until their successors shall have been duly elected or appointed or qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation s articles of incorporation and bylaws.

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ARTICLE III

CONVERSION OF SHARES

Section 3.1 *Conversion of Shares.*

(a) At the Effective Time, each share of the Company s common stock, no par value (the Common Stock), issued and outstanding immediately prior to the Effective Time (other than shares of Common Stock to be cancelled pursuant to Section 3.1(c) and Dissenting Shares) shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive $5.15 in cash (the Merger Consideration) without any interest thereon.

(b) Each share of common stock, no par value, of Sub issued and outstanding immediately prior to the Effective Time shall, at the Effective Time, by virtue of the Merger and without any action on the part of Parent, be converted into one fully paid and nonassessable share of the common stock, no par value, of the Surviving Corporation.

(c) All shares of Common Stock that are owned by the Company as treasury stock and any shares of Common Stock owned by Parent, Sub or any other direct or indirect wholly-owned Subsidiary of Parent or the Company shall, at the Effective Time, be cancelled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(d) At the Effective Time, each share of Common Stock converted into the right to receive the Merger Consideration without any interest thereon pursuant to Section 3.1(a) shall be automatically cancelled and shall cease to exist, and the holders immediately prior to the Effective Time of shares of outstanding Common Stock not represented by certificates (Book-Entry Shares) and the holders of certificates that, immediately prior to the Effective Time, represented shares of outstanding Common Stock (the Certificates) shall cease to have any rights with respect to such shares of Common Stock other than the right to receive, upon surrender of such Book-Entry Shares or Certificates in accordance with Section 3.2, the Merger Consideration, without any interest thereon, for each such share of Common Stock held by them.

(e) If at any time between the date of this Agreement and the Effective Time any change in the number of outstanding shares of Common Stock shall occur as a result of a reclassification, recapitalization, stock split (including a reverse stock split), or combination, exchange or readjustment of shares, or any stock dividend or stock distribution with a record date during such period, the amount of the Merger Consideration as provided in Section 3.1(a) shall be equitably adjusted to reflect such change.

Section 3.2 *Exchange of Certificates and Book-Entry Shares.*

(a) At or prior to the Closing, Parent shall deliver, in trust, to a paying agent mutually agreed upon by Parent and the Company (the Paying Agent), for the benefit of the holders of shares of Common Stock and the holders of Stock Options at the Effective Time, sufficient funds for timely payment of (i) the aggregate Merger Consideration to be paid pursuant to this Section 3.2 in respect of Certificates and Book-Entry Shares, assuming no Dissenting Shares plus (ii) the aggregate Option Consideration to be paid pursuant to Section 3.4 in respect of the Stock Options (such cash being hereinafter referred to as the Consideration Fund). In the event the Consideration Fund shall be insufficient to pay the aggregate Merger Consideration contemplated by Section 3.1 and the Option Consideration contemplated by Section 3.4, Parent shall promptly deliver, or cause to be delivered, additional funds to the Paying Agent in an amount that is equal to the deficiency required to make such payments.

(b) Promptly after the Effective Time, Parent shall cause the Paying Agent to mail to each holder of record of Certificates or Book-Entry Shares whose shares were converted into the right to receive Merger Consideration pursuant to Section 3.1 (i) a letter of transmittal that shall specify that delivery of such Certificates or Book-Entry Shares shall be deemed to have occurred, and risk of loss and title to the Certificates or Book-Entry Shares, as applicable, shall pass, only upon proper delivery of the Certificates (or affidavits of loss in lieu thereof) or Book-Entry Shares to the Paying Agent and (ii) instructions for use in effecting the surrender of the Certificates or Book-Entry Shares in exchange for payment of the Merger Consideration, the form and substance of which letter of transmittal and instructions shall be substantially as reasonably agreed to by the Company and Parent and prepared prior to the Closing. Upon surrender of a Book-Entry Share or a Certificate for cancellation to the Paying Agent

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together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and with such other documents as may be required pursuant to such instructions, the holder of such Book-Entry Share or Certificate shall be entitled to receive in exchange therefor, subject to any required withholding of Taxes, the Merger Consideration pursuant to the provisions of this Article III, and the Book-Entry Share or Certificate so surrendered shall forthwith be cancelled. No interest will be paid or accrued on the Merger Consideration payable to holders of Book-Entry Shares or Certificates. If any Merger Consideration is to be paid to a Person other than a Person in whose name the Book-Entry Share or Certificate surrendered in exchange therefor is registered, it shall be a condition of such exchange that the Person requesting such exchange shall pay to the Paying Agent any transfer or other Taxes required by reason of payment of the Merger Consideration to a Person other than the registered holder of the Book-Entry Share or Certificate surrendered, or shall establish to the reasonable satisfaction of the Paying Agent that such Tax has been paid or is not applicable.

(c) The Consideration Fund shall be invested by the Paying Agent as directed by Parent or the Surviving Corporation. Earnings on the Consideration Fund shall be the sole and exclusive property of Parent and the Surviving Corporation and shall be paid to Parent or the Surviving Corporation, as Parent directs. No investment of the Consideration Fund shall relieve Parent, the Surviving Corporation or the Paying Agent from promptly making the payments required by this Article III, and following any losses from any such investment, Parent shall promptly provide additional funds to the Paying Agent for the benefit of the holders of shares of Common Stock at the Effective Time in the amount of such losses, which additional funds will be deemed to be part of the Consideration Fund.

(d) At and after the Effective Time, there shall be no transfers on the stock transfer books of the Company of the shares of Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates or Book-Entry Shares are presented to the Surviving Corporation or the Paying Agent for any reason, they shall be cancelled and exchanged for the Merger Consideration pursuant to this Article III, except as otherwise provided by Law.

(e) Any portion of the Consideration Fund (including the proceeds of any investments thereof) that remains unclaimed by the former shareholders or holders of Stock Options of the Company one (1) year after the Effective Time shall be delivered to the Surviving Corporation. Any holders of Certificates or Book-Entry Shares who have not theretofore complied with this Article III with respect to such Certificates or Book-Entry Shares and any holders of Stock Options shall thereafter look only to the Surviving Corporation for payment of their claim for Merger Consideration in respect thereof.

(f) Notwithstanding the foregoing, neither the Paying Agent nor any party hereto shall be liable to any Person in respect of cash from the Consideration Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law. If any Certificate or Book-Entry Share shall not have been surrendered prior to the date on which any Merger Consideration in respect thereof would otherwise escheat to or become the property of any Governmental Entity, any such Merger Consideration in respect of such Certificate or Book-Entry Share shall, to the extent permitted by applicable Law, become the property of the Surviving Corporation, and any holder of such Certificate or Book-Entry Share who has not theretofore complied with this Article III with respect thereto shall thereafter look only to the Surviving Corporation for payment of their claim for Merger Consideration in respect thereof.

(g) If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact (such affidavit shall be in a form reasonably satisfactory to Parent and the Paying Agent) by the Person claiming such certificate to be lost, stolen or destroyed, the Paying Agent shall issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration to which such Person is entitled in respect of such Certificate pursuant to this Article III.

Section 3.3 *Shares of Dissenting Shareholders.*

(a) Notwithstanding anything in this Agreement other than Section 3.3(b) to the contrary, any shares of Common Stock that are issued and outstanding immediately prior to the Effective Time and held by a shareholder who is entitled to dissent from the Merger under Sections 60.551 to 60.594 of the OBCA and who has exercised, when and in the manner required by Sections 60.551 to 60.594 of the OBCA to the extent so required prior to the

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Effective Time, such right to dissent and to obtain payment of the fair value of such shares under Sections 60.551 to 60.594 of the OBCA in connection with the Merger (Dissenting Shares) shall not be converted into the right to receive the Merger Consideration unless and until such shareholder shall have effectively withdrawn or lost (through failure to perfect or otherwise) such shareholder s right to obtain payment of the fair value of such shareholder s Dissenting Shares under Sections 60.551 to 60.594 of the OBCA, but shall instead be entitled only to such rights with respect to such Dissenting Shares as may be granted to such shareholder under Sections 60.551 to 60.594 of the OBCA. From and after the Effective Time, Dissenting Shares shall not be entitled to vote for any purpose or be entitled to the payment of dividends or other distributions (except dividends or other distributions payable to shareholders of record prior to the Effective Time). The Company shall promptly provide any notices of dissent to Parent.

(b) If any shareholder who holds Dissenting Shares effectively withdraws or loses (through failure to perfect or otherwise) such shareholder s right to obtain payment of the fair value of such shareholder s Dissenting Shares under Sections 60.551 to 60.594 of the OBCA, then, as of the later of the Effective Time and the occurrence of such effective withdrawal or loss, such shareholder s shares of Common Stock shall no longer be Dissenting Shares and, if the occurrence of such effective withdrawal or loss is later than the Effective Time, shall be treated as if they had as of the Effective Time been converted into the right to receive Merger Consideration, without any interest thereon, as set forth in subsection (a) of Section 3.1 or converted or cancelled in accordance with subsections (b) or (c) of Section 3.1, as applicable.

Section 3.4 *Treatment of Stock Options.*

(a) As soon as practicable following the date of this Agreement and to the extent necessary, the board of directors of the Company (or, if appropriate, any committee administering the Company Option Plans) shall adopt such resolutions and take such other actions as are required to adjust the terms of options to purchase shares of Common Stock issued pursuant to the Company Option Plans (excluding any purchase rights issuable pursuant to the ESPP) that are outstanding at the Effective Time (Stock Options), to provide that each Stock Option, whether or not vested or exercisable prior to the Effective Time or as a result of the Merger, shall (i) at the Effective Time immediately be converted into the right to receive cash in an amount equal to (A) the number of shares subject to the Stock Option multiplied by (B) the Merger Consideration, less the applicable Stock Option exercise price per share of Common Stock subject to such Stock Option, provided that this amount is greater than zero, and less any applicable tax withholding obligations, and (ii) otherwise terminate at the Effective Time. Immediately following the Effective Time, Parent shall promptly pay or cause to be paid to the holders of Stock Options the consideration as provided in this Section 3.4.

(b) From and after the Effective Time, no holder of a Stock Option shall have any right to acquire equity of the Company, the Surviving Corporation, the Parent or any of their respective affiliates.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as disclosed in the Company Disclosure Schedule, the Company represents and warrants to Parent and Sub as follows:

Section 4.1 *Organization.*

(a) Each of the Company and its Subsidiaries is a corporation or other entity duly organized and validly existing under the laws of the jurisdiction of its incorporation or organization and has the requisite entity power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. Each of the Company and its

Subsidiaries is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, have a Company Material Adverse Effect. The Company has made available to Parent a copy of the articles of incorporation and bylaws, as currently in effect, of the Company and each of its Subsidiaries. Neither the Company nor any of the Subsidiaries is in violation of any provision of its articles of incorporation or bylaws.

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(b) A true and complete list of all the Subsidiaries, together with the jurisdiction of formation of each Subsidiary, the other jurisdictions in which it is qualified to do business and the percentage of the outstanding equity interest of each Subsidiary owned by the Company, any other Subsidiary and any other holder of equity in such Subsidiary, is set forth in Section 4.1(b) of the Company Disclosure Schedule.

Section 4.2 *Capitalization.*

(a) The authorized capital stock of the Company consists of (i) 150,000,000 shares of Common Stock, 45,226,806 of which were issued and outstanding on February 8, 2007 (the Capitalization Date) (none of which are held in treasury of the Company) and (ii) 40,000,000 shares of preferred stock, no ascribed or par value per share, none of which was issued or outstanding on the date of this Agreement. All of the outstanding shares of the Company s capital stock are duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights. As of the Capitalization Date, 6,423,522 shares of Common Stock were reserved for future issuance pursuant to outstanding Stock Options, restricted stock awards and purchase rights granted pursuant to the Company Option Plans, of which 6,418,085 were subject to outstanding Stock Options, 5,437 were subject to purchase rights in respect of the current offering period under the ESPP, and no shares were subject to outstanding restricted stock awards. At the Closing, the aggregate number of shares of capital stock of the Company issued and outstanding and issuable upon exercise of outstanding Stock Options, restricted stock awards or purchase rights shall be equal to or less than the aggregate number of issued or issuable shares of capital stock of the Company set forth in this Section 4.2(a) or as permitted by Parent pursuant to Section 6.1 hereof. As of the date hereof, other than pursuant to the Company Option Plans, there are no existing (i) options, warrants, calls, subscriptions or other rights, convertible securities, agreements or commitments of any character obligating the Company or any of its Subsidiaries to issue, transfer or sell any shares of capital stock or other equity interest in, the Company or any of its Subsidiaries or securities convertible into or exchangeable for such shares or equity interests, (ii) contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any capital stock of the Company or any of its Subsidiaries or (iii) voting trusts or similar agreements to which the Company is a party with respect to the voting of the capital stock of the Company. Section 4.2(a) of the Company Disclosure Schedule sets forth the following information with respect to each Stock Option outstanding as of the Capitalization Date: (i) the name of the Stock Option recipient; (ii) the number of shares of Common Stock subject to such Stock Option; (iii) the exercise or purchase price of such Stock Option; (iv) the date on which such Stock Option was granted; (v) the extent to which such Stock Option is vested and/or exercisable and whether the exercisability of or right to repurchase of such Stock Option will be accelerated in any way by the Merger and the extent of acceleration; and (vi) whether such Stock Option is a non-qualified stock option or an incentive stock option. All outstanding shares of Common Stock, all Stock Options and all outstanding shares of capital stock of each Subsidiary have been issued and granted in compliance in all respects with applicable Laws.

(b) All of the outstanding shares of capital stock or equivalent equity interests of each of the Company s Subsidiaries are owned of record and beneficially, directly or indirectly, by the Company free and clear of all liens, pledges, security interests or other encumbrances.

(c) Neither the Company nor any of its Subsidiaries directly or indirectly owns any interest or investment (whether equity or debt) in any corporation, partnership, joint venture, trust or other entity, other than a Subsidiary of the Company.

Section 4.3 *Authorization; Validity of Agreement; Company Action.* The Company has the requisite corporate power and authority to execute and deliver this Agreement, perform its obligations hereunder, and, subject to obtaining the approval of its shareholders, to consummate the transactions contemplated hereby. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by its board of directors, and no other corporate action on the part of

the Company is necessary to authorize the execution and delivery by the Company of this Agreement and, except for shareholder approval, the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company and is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws, now or hereafter in effect, affecting creditors rights and remedies generally and (ii) the remedy of specific performance and injunctive

and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. On or prior to the date of this Agreement, the Company s board of directors, at a meeting duly called and held, (i) approved, adopted and declared advisable this Agreement and the Merger (such approval and adoption having been made in accordance with the OBCA), (ii) approved the execution, delivery and performance of this Agreement and the consummation by the Company of the transactions contemplated hereby, including the Merger, (iii) determined that this Agreement and the transactions contemplated hereby are in the best interests of the Company and its shareholders, and (iv) resolved to recommend that the Company s shareholders approve and adopt this Agreement and Merger.

Section 4.4 *Consents and Approvals; No Violations.* The execution and delivery of this Agreement by the Company do not, and the performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby will not, (i) violate any provision of the articles of incorporation or bylaws (or equivalent organizational documents) of the Company or any of its Subsidiaries, (ii) result in a material violation or breach of, or constitute (with or without due notice or lapse of time or both) a material default (or give rise to any right of termination, cancellation or acceleration) under any Material Contract to which the Company or any of its Subsidiaries is a party or by which any of them or any of their properties or assets is bound that would have a material impact on the Company and its Subsidiaries, (iii) violate any Law applicable to the Company, any of its Subsidiaries or any of their properties or assets that would have a material impact on the Company and its Subsidiaries or (iv) other than in connection with or compliance with (A) the OBCA, (B) the HSR Act, (C) Nasdaq rules and listing standards and (D) the Exchange Act, require the Company to make any material filing or registration with or notification to, or require the Company to obtain any material authorization, consent or approval of, any court, legislative, executive or regulatory authority or agency (a Governmental Entity) except, in the case of clause (iv), for such filings, registrations, notifications, authorizations, consents or approvals the failure to which to make or obtain would not be material to the continued operation of the Company and its Subsidiaries in the ordinary course or result in the payment of a material fine or penalty; except, in the case of clauses (ii), (iii) and (iv), for such violations, breaches or defaults that, or filings, registrations, notifications, authorizations, consents or approvals the failure of which to make or obtain would occur or be required as a result of the business or activities in which Parent or Sub is or proposes to be engaged or as a result of any acts or omissions by, or the status of any facts pertaining to, Parent or Sub.

Section 4.5 *SEC Reports.*

(a) The Company has filed all reports and other documents with the SEC required to be filed or furnished by the Company since December 31, 2003 (such documents, together with any reports filed during such period by the Company with the SEC on a voluntary basis on Form 8-K, the Company SEC Reports). As of their respective filing dates, the Company SEC Reports (i) complied in all material respects with, to the extent in effect at the time of filing, the applicable requirements of the Securities Act and the Exchange Act and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes) of the Company included in the Company SEC Reports complied at the time it was filed as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto in effect at the time of such filing, was prepared in accordance with generally accepted accounting principles in the United States (GAAP) (except, in the case of unaudited statements, as permitted by the rules and regulations of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended (subject, in the case of unaudited statements, to normal year-end adjustments). As the date of this Agreement, there are no outstanding comment letters or requests for information from the SEC with respect to any Company SEC Report. No Subsidiary is required to file any form, report or other document with the SEC.

(b) The Company has timely filed or furnished all certifications and statements required by (i) Rule 13a-14 or Rule 15d-14 under the Exchange Act or (ii) 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) with respect to any Company SEC Report. The Company maintains disclosure controls and procedures required by Rule 13a-15 or Rule 15d-15 under the Exchange Act; such controls and procedures are designed to

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ensure and are effective to provide reasonable assurance that all material information concerning the Company and its Subsidiaries is made known on a timely basis to the individuals responsible for the preparation of the Company s SEC filings and other public disclosure documents.

(c) The Company has disclosed, based on prior evaluations of such disclosure controls and procedures prior to the date hereof, to the Company s auditors and the audit committee of the Company s board of directors (i) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that could adversely affect in any material respect the Company s ability to record, process, summarize and report financial information, and (ii) any fraud, whether or not material, known to the Company that involves management or other employees who have a significant role in the Company s internal controls over financial reporting. As of the date hereof, the Company s management has not notified the Company s auditors and audit committee since the latest Report on Form 10-K of any significant deficiency, material weakness or fraud.

(d) The Company has accounted for its stock options in accordance with GAAP for the fiscal years ended December 31, 2004, 2005 and 2006. The Company does not have any program or practice in place to (i) time stock option grants to employees or directors with the release of material non-public information in a manner intended to improperly favor employees or directors or (ii) set the exercise prices in coordination with such release in a manner intended to improperly favor employees or directors.

Section 4.6 *No Undisclosed Liabilities.* Except for (a) liabilities and obligations incurred in the ordinary course of business consistent with past practice since September 30, 2006, (b) liabilities and obligations disclosed in the financial statements and notes thereto included in the Company SEC Reports since January 1, 2006, (c) liabilities and obligations incurred in connection with the Merger or otherwise as contemplated by this Agreement, (d) liabilities and obligations that would not, individually or in the aggregate, have a Company Material Adverse Effect and (e) other liabilities and obligations that are otherwise the subject of any other representation or warranty contained in this Article IV, since September 30, 2006, neither the Company nor any of its Subsidiaries has incurred any liabilities or obligations that would be required to be reflected or reserved against in a consolidated balance sheet of the Company and its consolidated Subsidiaries prepared in accordance with GAAP as applied in preparing the consolidated balance sheet of the Company and its consolidated Subsidiaries included in the Company SEC Reports.

Section 4.7 *Absence of Certain Changes.* Except as contemplated by this Agreement, since September 30, 2006 neither the Company nor any of its Subsidiaries (i) has suffered a Company Material Adverse Effect, (ii) has taken any action that would be prohibited by Section 6.1(a) through Section 6.1(t) if taken after the date hereof; or (iii) conducted their businesses other than in the ordinary course of business consistent with past practice.

Section 4.8 *Material Contracts.*

(a) As of the date hereof and other than as set forth on Section 4.8 of the Company Disclosure Schedule, the Company is not a party to or bound by any Contract:

(i) that would be required to be filed by the Company as a material contract pursuant to Item 601(b)(10) of Regulation S-K of the SEC;

(ii) that would, after giving effect to the Merger, limit or restrict the Surviving Corporation or any successor thereto from engaging in any line of business (including the sale of any product) or in any geographic area or that contains an express non-competition covenant on the part of the Company;

(iii) that creates a partnership or joint venture or similar arrangement with respect to any material business of the Company;

(iv) would or would reasonably be expected to, individually or in the aggregate, prevent, materially delay or materially impede the Company s ability to consummate the transactions contemplated by this Agreement;

(v) that is an indenture, credit agreement, loan agreement, security agreement, guarantee, note, mortgage or other agreement providing for indebtedness in excess of $100,000;

(vi) that is a written contract (other than this Agreement) for the sale of any of its assets after the date hereof in excess of $100,000 (other than in the ordinary course of business);

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(vii) that is a collective bargaining agreement or any other agreement with a union;

(viii) that is an employment, consulting, severance, termination or indemnification contract obligating the Company or any of its Subsidiaries after the Closing to pay to any current or former employee, officer or director of the Company;

(ix) that is with an officer or director of the Company under which the Company or any of its Subsidiaries would have obligations after the Closing;

(x) that creates an obligation on the part of the Company or a Subsidiary to pay another Person an amount in excess of $100,000 in any 12 month period beginning on or after January 1, 2007;

(xi) that creates an obligation on the part of another Person to pay the Company or a Subsidiary an amount in excess of $100,000 in any 12 month period beginning on or after January 1, 2007 (other than pursuant to customer Contracts in the ordinary course of business, unless such obligation is in an amount in excess of $500,000 during such 12 month period);

(xii) that relates to the lease or sublease of real property; or

(xiii) is entered into outside the ordinary course of business and creates a material obligation of payment to or from the Company or any of its Subsidiaries.

Each such contract described in clauses (i)-(xii) is referred to herein as a Material Contract.

(b) Each Material Contract is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms and, to the Company s knowledge, each other party thereto, and is in full force and effect, and the Company has performed in all material respects all obligations required to be performed by it to the date hereof under each Material Contract and, to the Company s knowledge, each other party to each Material Contract has performed in all material respects all obligations required to be performed by it under such Material Contract. The Company has not received notice, nor does it have knowledge, of any material violation of or default of any material obligation under (or any condition which with the passage of time or the giving of notice would cause such a violation of or default under) any Material Contract to which it is a party or by which it or any of its properties or assets is bound.

Section 4.9 *Employee Benefit Plans; ERISA.*

(a) Section 4.9(a) of the Company Disclosure Schedule sets forth a list of all material employee benefit plans, programs and arrangements providing retirement, pension, health, medical, life insurance, disability, deferred compensation, bonus, incentive compensation, options, equity-based compensation, retention, severance or other similar benefits, whether or not in writing, including plans described in section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), maintained for the benefit of any current or former employee, officer or director of the Company or any of its Subsidiaries by the Company or by any trade or business, whether or not incorporated, which together with the Company is treated as a single employer under section 414(b), (c), (m) or (o) of the Code (ERISA Affiliate) or pursuant to which the Company or any of its Subsidiaries has an obligation or a liability (such plans, Benefit Plans) and all material employment and severance agreements with employees of the Company or any of its Subsidiaries (such agreements, Benefit Agreements).

(b) With respect to each Benefit Plan and, where applicable, Benefit Agreement that is not a multiemployer plan within the meaning of section 3(37) or 4001(a)(3) of ERISA: (i) if intended to be qualified under section 401(a) of the

Code, such Benefit Plan (A) is the subject of an unrevoked favorable determination letter from the IRS, (B) has remaining a period of time under the Code or applicable Treasury regulations or IRS pronouncements in which to request, and make any amendments necessary to obtain, such a letter from the IRS, or (C) is a prototype or volume submitter plan entitled, under applicable IRS guidance, to rely on the favorable opinion or advisory letter issued by the IRS to the sponsor of such prototype or volume submitter plan, and, to the knowledge of the Company, nothing has occurred since the date of the most recent such determination, opinion or advisory letter that would adversely affect such qualification, (ii) to the knowledge of the Company, such Benefit Plan has been administered in all material respects in accordance with its terms and applicable Law, (iii) no disputes are pending, or, to the knowledge of the Company, threatened that, if decided adversely to such Benefit Plan or the

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Company would have a Company Material Adverse Effect, and (iv) except as would not have a Company Material Adverse Effect, the consummation of the transactions contemplated by this Agreement will not result in, or accelerate the time of payment of or increase the vested benefit of, compensation due any current employee or officer of the Company.

(c) Neither the Company nor any ERISA Affiliate has now or at any time during the last six years contributed to, sponsored, or maintained a pension plan (within the meaning of Section 3(2) of ERISA) subject to Section 412 of the Code or Title IV or ERISA, including any multiemployer plan as defined in Section 4001(a)(3) of ERISA.

(d) The transactions contemplated by this Agreement will not result in payments subject to loss of deduction pursuant to Section 280G of the Code.

(e) None of the Benefit Plans provides for or promises medical, group health or retiree life insurance benefits for a period following retirement or other termination of employment to any current or former employee, officer or director of the Company or any of its Subsidiaries, except as required by Section 4980B of the Code, Part 6 of Subtitle B of Title I of ERISA or any other applicable law.

(f) None of the Company or its Subsidiaries has any knowledge of any nonexempt prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) with respect to any Plan that would have a Company Material Adverse Effect.

Section 4.10 *Litigation.* As of the date hereof, there is no action, claim, suit, proceeding or governmental investigation pending for which the Company has been notified or, to the knowledge of the Company, overtly threatened in writing that is material to the Company and its Subsidiaries.

Section 4.11 *Compliance with Law.*

(a) Neither the Company nor any of its Subsidiaries is in material violation of, or in material default under, any Law, in each case, applicable to the Company or any of its Subsidiaries or any of their respective assets and properties that is material to the Company and its Subsidiaries.

(b) Each of the Company and the Subsidiaries is in possession of all material franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders of any Governmental Entity, in each case that are necessary for each of the Company or the Subsidiaries to own, lease and operate its properties or carry on its business as it is now being conducted (the Company Permits). No suspension or cancellation of any of the Company Permits is pending or, to the knowledge of the Company, overtly threatened in writing, in each case as would be material to the Company and its Subsidiaries.

(c) Notwithstanding the foregoing, this Section 4.11 shall not apply to employee benefit plans, Taxes, Environmental Laws or labor matters, which are the subject exclusively of the representations and warranties in Section 4.9, Section 4.12(a), Section 4.15 and Section 4.16, respectively.

Section 4.12 *Intellectual Property.*

(a) Section 4.12(a) of the Company Disclosure Schedule sets forth all (i) issued patents and pending patent applications, (ii) trademark and service mark registrations and applications for registration thereof, (iii) copyright work registrations and applications for registration thereof, and (iv) internet domain name registrations and applications and reservations therefor, in each case that are owned by or on behalf of the Company or any of its Subsidiaries (collectively, the Owned Intellectual Property). With respect to each item of Intellectual Property

required to be identified in this Section 4.12: (i) the Company or its Subsidiary is the sole owner and possesses all right, title, and interest in and to such systems or item, free and clear of any material lien; (ii) such systems or item is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge of which the Company has received notice; (iii) no action, suit, proceedings, hearing, investigation, charge, complaint, claim, or demand of which the Company has received notice is pending before a Governmental Entity or, to the knowledge of the Company, is overtly threatened in writing that challenges the legality, validity, enforceability, registrations, use, or ownership of such systems or item; and (iv) neither the Company nor any of its Subsidiaries has agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other conduct with respect to such systems or item (other than in the ordinary course of business).

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(b) Section 4.12(b) of the Company Disclosure Schedule sets forth a list of all material agreements under which the Company or any of its Subsidiaries licenses from a third party material Intellectual Property that is used by the Company or such Subsidiary in the conduct of its business, except for off-the-shelf software programs that the Company and any of its Subsidiaries use in the ordinary course of business (such agreements being referred to as "License-In Agreements" and the Intellectual Property subject to such License-In Agreements being referred to as the "Licensed Intellectual Property"). To the knowledge of the Company, (i) each License-In Agreement is valid, binding, and in full force and effect; (ii) each License-In Agreement will continue to be valid, binding, and in full force and effect on identical terms following the consummation of the transactions contemplated hereby; (iii) neither the Company nor any of its Subsidiaries has received notice, or has knowledge, of any material violation of or default of any material obligation under (or any condition which with the passage of time or the giving of notice would cause such a violation of or default under) such License-In Agreement; (iv) no licensor party to any License-In Agreement is in default of such License-In Agreement; (v) neither the Company nor any of its Subsidiaries has repudiated any provision of any License-In Agreement; and (vi) neither the Company nor any of its Subsidiaries has granted any material sublicense or similar right with respect to any License-In Agreement.

(c) The Company and its Subsidiaries own or have the right to use, without payments to any other Person except pursuant to a License-In Agreement that is specified in Section 4.12(b) of the Company Disclosure Schedule, all Intellectual Property actually used in the operation of the business of the Company and its Subsidiaries as and where the business is presently conducted. Each item of Intellectual Property (except for off-the-shelf software programs that the Company and its Subsidiaries use in the ordinary course of business) owned or used by the Company and its Subsidiaries immediately prior to the Closing hereunder will be owned or available for use by the Company and its Subsidiaries on identical terms and conditions immediately subsequent to the Closing hereunder, excluding any item of such Intellectual Property, the absence of which would not reasonably be expect to be material to the continued operation of the Company and its Subsidiaries in the ordinary course or result in the payment of a material fine, penalty, royalty or other amount. The Company and its Subsidiaries are taking or have taken all commercially reasonable actions that are required to maintain, and all commercially reasonable actions that they reasonably believe are required to protect, each item of Intellectual Property that they own or use.

(d) None of (i) the Company or any of its Subsidiaries, (ii) the Intellectual Property owned by the Company or any of its Subsidiaries, and (iii) the operation of the business of the Company or any of its Subsidiaries has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of third parties, excluding any of the forgoing that would not reasonably be expected to have a Company Material Adverse Effect. To the knowledge of the Company, neither the Company nor any of its Subsidiaries has received any written charge, complaint, claim, demand, or notice during the past two (2) years, (or earlier, if not resolved) alleging any such interference, infringement, misappropriation, or violation (including any claim that the Company or any of its Subsidiaries must license or refrain from using any Intellectual Property rights of any third party). To the knowledge of the Company, no third party has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of the Company or any of its Subsidiaries during the past two (2) years (or earlier if not resolved), excluding any such interference, infringement or misappropriation that would not reasonably be expected to have a Company Material Adverse Effect.

(e) As of the Effective Time, no former or current shareholder, employee, director or officer of the Company or any of its Subsidiaries will have, directly or indirectly, any interest in any Intellectual Property used in or pertaining to the business of the Company and its Subsidiaries, nor will any such Person have any rights to past or future royalty payments or license fees from the Company or any of its Subsidiaries, deriving from licenses, technology agreements or other agreements, whether written or oral, between any such Person and the Company and/or any of its Subsidiaries.

(f) Schedule 4.12(f) of the Company Disclosure Schedule contains a list of material software that the Company sells, licenses, distributes or grants an interest in to third parties (Company Products) and identifies all material Intellectual Property owned by any third party that is embedded in the Company Products and lists each contract between the Company and the owner of such Intellectual Property. To the Company s knowledge, all Company Products were developed by either (i) employees of the Company within the scope of their employment and who have executed valid and enforceable assignments of all intellectual property rights associated therewith to Company, or (ii) independent contractors who have no rights in the Company Products or have assigned all of their

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rights to Company pursuant to written and enforceable contracts. The Company Products do not contain any open-source, shareware or other publicly available code. Each of the Company Products complies in all material respects with its respective published specifications. Schedule 4.12(f) of the Company Disclosure Schedule lists each agreement pursuant to which a third party (i) has been granted a right or license to sublicense, distribute, resell or provide any Company Products to unaffiliated parties, (ii) has been granted a right or license to act as a service bureau or outsource services provided for unaffiliated third parties using any the Company Products; (iii) has been granted any exclusive license rights in any of the Company Products; or (iv) has been granted pricing concessions that require that its pricing be as favorable as pricing granted to other similarly situated customers (other than customer Contracts entered into in the ordinary course of business). There are no time bombs, expiry dates, dongle or other code in the Company Products that will materially disrupt or terminate the operation or have a material adverse impact on the operation of copies of the Company Products licensed to customers.

(g) The Company and its Subsidiaries have used commercially reasonable efforts to maintain the confidentiality of the trade secrets and other confidential Intellectual Property used or held for use by the Company or its Subsidiaries.

Section 4.13 *Taxes.*

(a) Each of the Company and its Subsidiaries has (i) timely filed all material Tax Returns required to be filed by any of them (taking into account applicable extensions) and all such Tax Returns were true, correct and complete in all material respects when filed and (ii) paid all Taxes shown to be due on such Tax Returns other than such Taxes as are being contested in good faith by the Company or its Subsidiaries. The accruals and reserves for Taxes reflected in each Company SEC Report is adequate to satisfy all Taxes accruable through the relevant date of such Company SEC Report (including any interest and penalties, if any, thereon) in accordance with GAAP.

(b) There are no material ongoing federal, state, local or foreign audits or examinations of any Tax Return of the Company or its Subsidiaries. No taxing authority has asserted in writing against the Company or any Subsidiary any deficiency or claim for any Taxes.

(c) There are no outstanding written requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment of any Taxes or material deficiencies against the Company or any of its Subsidiaries.

(d) There are no material liens for Taxes upon the assets of the Company or any of its Subsidiaries, except liens for Taxes not yet due and payable and liens for Taxes that are being contested in good faith.

(e) Neither the Company nor any Subsidiary is a party to any indemnification, allocation or sharing agreement with respect to Taxes.

(f) Neither the Company nor any Subsidiary has been the member of any federal consolidated group in which Company was not the common parent. Neither the Company nor any Subsidiary (i) has any liability for Taxes or any other person under Section 1502-6 of the Treasury Regulations (or any comparable provision of state, local, foreign or other law) or as a transferee or successor by contract or (ii) has ever been a partner in an entity treated as a partnership for federal income tax purposes.

(g) Neither the Company nor any Subsidiary will be required to recognize taxable income in a taxable period after the Effective Time that is attributable to any transaction occurring in, or a change in tax accounting method made for, any taxable period ending on or before the date of the Effective Time that has or will result in a deferred reporting from such transaction or from such change in accounting method.

(h) Neither the Company nor any Subsidiary has made during the Company s current tax year through the date hereof or during the Company s three preceding tax years or is obligated to make any payment that would not be deductible pursuant to Sections 162(m) or 280G of the Code.

(i) No claim has been made in writing by a taxing authority in a jurisdiction where the Company or any Subsidiary does not file Tax Returns that the Company or any Subsidiary is subject to taxation by that jurisdiction. The Company and each Subsidiary have delivered or made available or will make available to Parent true and complete copies of all Federal, state, foreign and other material Tax Returns filed by the Company and the

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Subsidiaries and written audit reports and written statements of deficiencies received by the Company or any Subsidiary with respect to the audit of any of their Tax Returns.

(j) Neither the Company nor any Subsidiary has participated in a listed transaction within the meaning of Treasury Regulation section 1.6011-4(c)(3)(i)(A). Neither the Company nor any Subsidiary has been a distributing corporation or controlled corporation (within the meaning of Code section 355(c)(2)) with respect to a transaction described in Code section 355 within the five-year period ending as of the date of this Agreement.

(k) Except as would not have a Company Material Adverse Effect, each Benefit Plan that is a nonqualified deferred compensation plan, within the meaning of section 409A of the Code, has been operated and administered since January 1, 2005 in good faith compliance with section 409A of the Code , to the extent such Code section is applicable to such Benefit Plan. Except as would not have a Company Material Adverse Effect, no such Benefit Plan has been materially modified (within the meaning of IRS Notice 2005-1 or Proposed Treasury Regulation section 1.409A- 6(a)(4)) at any time after October 3, 2004.

Section 4.14 *Tangible Assets.* Except as would not, individually or in the aggregate, have a Company Material Adverse Effect, the Company and/or one or more of its Subsidiaries have valid title to, or valid leasehold or sublease interests or other comparable contract rights in or relating to, all of the real properties and other tangible assets necessary for the conduct of the business of the Company and its Subsidiaries, as currently conducted, free and clear of all liens or encumbrances.

Section 4.15 *Environmental.*

(a) To the knowledge of the Company, each of the Company and its Subsidiaries and any predecessors thereof has been and is in compliance with all Environmental Laws, except for noncompliance that would not, individually or in the aggregate, have a Company Material Adverse Effect, which compliance includes the possession by the Company and its Subsidiaries of material permits and other governmental authorizations required for their operations under applicable Environmental Laws, and compliance with the terms and conditions thereof.

(b) Neither the Company nor any of its Subsidiaries has received written notice of any Environmental Claims against the Company or any Subsidiary or written notice that the Company or any of its Subsidiaries or any predecessor of any of the foregoing may be potentially liable under or received any written requests for information or other written correspondence or written notice that it is considered potentially liable for any contamination by Hazardous Substances or noncompliance with Environmental Laws.

(c) To the knowledge of the Company, none of the properties currently or formerly owned, leased or operated by the Company, any Subsidiary or any predecessor of any of the foregoing (including, without limitation, soils and surface and ground waters) have been contaminated by the dumping, discharge, spillage, disposal or other Release of Hazardous Substances. To the knowledge of the Company, with respect to the real property currently owned, leased or operated by the Company or any of its Subsidiaries, there have been no Releases of Hazardous Materials that require a Cleanup or is part of an Environmental Claim.

(d) All waste containing any Hazardous Materials generated, used, handled, stored, treated or disposed of (directly or indirectly) by the Company has been released or disposed of in material compliance with all applicable Environmental Laws and reporting requirements.

(e) To the Company s knowledge, no building or other improvement located on the properties currently owned, leased or operated by the Company or any of its Subsidiaries (to the extent such building or property is occupied by the Company or any of its Subsidiaries) contains any friable asbestos or friable asbestos-containing materials.

Section 4.16 *Labor Matters.*

(a) Section 4.16(a) of the Company Disclosure Schedule lists each employee of the Company and each of the Subsidiaries as of February 9, 2007 and each such employee s current compensation and designates each such employee by job title and business division for which the employee primarily performs services, whether such employee is on leave of absence or layoff status, each employee s vacation accrual, and each employee s service crediting date for purposes of vesting and eligibility in its Employee Benefit Plans.

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(b) As of the date hereof, there are no pending or, to the knowledge of the Company, threatened strikes, lockouts, work stoppages or slowdowns involving the employees of the Company or any of its Subsidiaries.

(c) As of the date hereof, neither the Company nor any of its Subsidiaries is a party to, or bound by, any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor to the knowledge of Company, are there any activities or proceedings of any labor union to organize any employees of the Company or any of its Subsidiaries.

(d) There is no unfair labor practice or labor arbitration proceeding pending for which the Company has received notice or, to the knowledge of the Company, overtly threatened in writing against the Company or its Subsidiaries.

(e) The Company and its Subsidiaries are in compliance in all material respects with all applicable Laws relating to the employment of labor, including those related to wages, hours, immigration and naturalization, collective bargaining and the payment and withholding of taxes and other sums as required by the appropriate Government Entity and have withheld and paid to the appropriate Governmental Entity or are holding for payment not yet due to such Government Entity all amounts required to be withheld from employees of the Company or any Subsidiary, except such noncompliance as would not be material to the Company and its Subsidiaries. Neither the Company nor any Subsidiary is a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Entity relating to employees or employment practices. There is no action or proceeding with respect to a violation of any occupational safety or health standards pending with respect to the Company. There is no claim of discrimination in employment or reemployment practices, for any reason, including, without limitation, age, gender, race, religion, or other legally protected category, which remains unresolved or pending before the United States Equal Employment Opportunity Commission, or any other Governmental Entity in any jurisdiction in which the Company or any Subsidiary has employed or employ any person.

Section 4.17 *Proxy Statement.* The Proxy Statement will not, at the date the Proxy Statement is first mailed to shareholders of the Company or at the time of the Company Special Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except that no representation or warranty is made by the Company with respect to statements made or incorporated by reference therein based on information supplied by or on behalf of Parent or Sub for inclusion or incorporation by reference therein. The Proxy Statement, insofar as it relates to the Company or its Subsidiaries or other information supplied by the Company for inclusion or incorporation by reference therein, will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder and other applicable Laws.

Section 4.18 *Opinion of Financial Advisors.* The Company has received the written opinion of FTP Securities LLC (FTP), dated on or prior to the date of this Agreement, to the effect that, as of such date and subject to the assumptions, qualifications and limitations set forth therein, the Merger Consideration to be received by the holders of Common Stock, other than Parent, Sub, any Affiliate of Parent or Sub, or holders of Dissenting Shares, is fair, from a financial point of view, to such holders.

Section 4.19 *Brokers or Finders.* No investment banker, broker, finder, consultant or intermediary other than FTP, the fees and expenses of which will be paid by the Company, is entitled to any investment banking, brokerage, finders or similar fee or commission in connection with this Agreement or the transactions contemplated hereby based upon arrangements made by or on behalf of the Company or any of its Subsidiaries.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT AND SUB

Parent and Sub jointly and severally represent and warrant to the Company as follows:

Section 5.1 *Organization.* Each of Parent and Sub is a corporation, partnership or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the requisite power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. Each of Parent and Sub is duly qualified or licensed to do business and in

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good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, have a Parent Material Adverse Effect. Parent has made available to the Company a copy of the articles of incorporation and bylaws or other equivalent organizational documents of Parent and Sub, as currently in effect, and neither Parent nor Sub is in violation of any provision of its articles of incorporation or bylaws or other equivalent organizational documents.

Section 5.2 *Authorization; Validity of Agreement; Necessary Action.* Each of Parent and Sub has the requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Parent and Sub of this Agreement, approval and adoption of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary action of Parent and Sub, and no other action on the part of Parent or Sub is necessary to authorize the execution and delivery by Parent and Sub of this Agreement and the consummation by them of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent and Sub and, assuming due and valid authorization, execution and delivery hereof by the Company, is a valid and binding obligation of each of Parent and Sub, enforceable against each of them in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws, now or hereafter in effect, affecting creditors rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 5.3 *Consents and Approvals; No Violations.* The execution and delivery of this Agreement by Parent and Sub do not, and the performance by Parent and Sub of this Agreement and the consummation by Parent and Sub of the transactions contemplated hereby will not, (i) violate any provision of the articles of incorporation or bylaws (or equivalent organizational documents) of Parent or Sub, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or any of its Subsidiaries is a party or by which any of them or any of their properties or assets may be bound, (iii) violate any Law applicable to Parent, any of its Subsidiaries or any of their properties or assets or (iv) other than in connection with or compliance with (A) the OBCA, (B) requirements under other state corporation Laws, (C) the HSR Act and (D) the Exchange Act, require on the part of Parent or Sub any filing or registration with, notification to, or authorization, consent or approval of, any Governmental Entity.

Section 5.4 *Compliance with Law.* Except as would not, individually or in the aggregate, be likely to cause the Parent and Sub to be unable to perform their obligations hereunder, neither Parent nor any of its Subsidiaries is in violation of, or in default under, any Law, in each case, applicable to Parent or any of its Subsidiaries or any of their respective assets and properties.

Section 5.5 *Sub s Operations.* Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has not owned any assets, engaged in any business activities or conducted any operations other than in connection with the transactions contemplated hereby.

Section 5.6 *Proxy Statement.* None of the information supplied by Parent or Sub for inclusion in the Proxy Statement will, at the date the Proxy Statement is first mailed to shareholders of the Company or at the time of the Company Special Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

Section 5.7 *Brokers or Finders.* No investment banker, broker, finder, consultant or intermediary is entitled to any investment banking, brokerage, finder s or similar fee or commission in connection with this Agreement or the transactions contemplated hereby based upon arrangements made by or on behalf of Parent or any of its Subsidiaries.

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Section 5.8 *Sufficient Funds.* Parent has, and as of the Closing will have, sufficient immediately available funds (through existing credit arrangements or otherwise) to pay when due the aggregate Merger Consideration and to pay when due all of its fees and expenses related to the transactions contemplated by this Agreement.

Section 5.9 *Share Ownership.* None of Parent, Sub or any of their respective Affiliates beneficially owns any Common Stock.

Section 5.10 *Acquiring Person.* None of Parent, Sub or their respective Affiliates is or ever has been an interested shareholder (as defined in Section 60.825 of the OBCA) with respect to the Company.

Section 5.11 *Investigation by Parent and Sub.* Each of Parent and Sub has conducted its own independent review and analysis of the businesses, assets, condition, operations and prospects of the Company and its Subsidiaries and acknowledges that each of Parent and Sub has been provided access to the properties, premises and records of the Company and its Subsidiaries for this purpose. Each of Parent and Sub acknowledges that none of the Company or its Subsidiaries nor any of their respective Representatives makes any representation or warranty, either express or implied, except for the representations and warranties of the Company expressly set forth in Article IV.

ARTICLE VI

COVENANTS

Section 6.1 *Interim Operations of the Company.* During the period from the date of this Agreement to the Effective Time or the date, if any, on which this Agreement is earlier terminated pursuant to Section 8.1 (except (w) as may be required by Law, (x) with the prior written consent of Parent, which consent shall not be unreasonably withheld, delayed or conditioned, (y) as contemplated or permitted by this Agreement or (z) as set forth in the Company Disclosure Schedule), the business of the Company and its Subsidiaries shall be conducted only in the ordinary and usual course of business in all material respects consistent with past practice, and, to the extent consistent therewith, the Company and its Subsidiaries shall use commercially reasonable efforts to (i) preserve intact their current business organization; and (ii) preserve their relationships with customers, suppliers and others having business dealings with them; *provided*, *however*, that no action by the Company or any of its Subsidiaries with respect to matters addressed specifically by any provision of this Section 6.1 shall be deemed a breach of this sentence unless such action would constitute a breach of such specific provision. Without limiting the generality of the foregoing, except (w) as may be required by Law, (x) with the prior written consent of Parent, which consent shall not be unreasonably withheld, delayed or conditioned, (y) as contemplated or permitted by this Agreement or (z) as set forth in the Company Disclosure Schedule, prior to the Effective Time, neither the Company nor any of its Subsidiaries will:

(a) amend its Articles of Incorporation or Bylaws;

(b) except pursuant to the exercise of Stock Options outstanding on the date hereof, issue, deliver, sell, dispose of, pledge or otherwise encumber, or authorize or propose the issuance, sale, disposition or pledge or other encumbrance of (i) any shares of capital stock of any class or any other ownership interest of the Company or any of its Subsidiaries, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries, or any rights, warrants, options, calls, commitments or any other agreements of any character to purchase or acquire any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries, or (ii) any other securities of the Company or any of its Subsidiaries in respect of, in lieu of, or in substitution for, Common Stock outstanding on the date hereof;

(c) redeem, purchase or otherwise acquire, or propose to redeem, purchase or otherwise acquire, any outstanding Common Stock;

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(d) split, combine, subdivide or reclassify any Common Stock or declare, set aside for payment or pay any dividend or other distribution in respect of any Common Stock or otherwise make any payments to shareholders in their capacity as such;

(e) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its Subsidiaries, other than the Merger;

(f) other than in the ordinary course of business consistent with past practice, acquire, sell, lease, dispose of, pledge or encumber any assets that, in the aggregate, are material to the Company and its Subsidiaries;

(g) other than in the ordinary course of business consistent with past practice, incur any material indebtedness for borrowed money in addition to that incurred as of the date of this Agreement or guarantee any such indebtedness or make any loans, advances or capital contributions to, or investments in, any other Person, other than to the Company or any wholly-owned Subsidiary of the Company;

(h) other than as set forth in Section 6.1(h) of the Company Disclosure Schedule, grant any increases in the compensation of any of its directors or officers, or enter into any new or amend any existing employment or severance agreements with any director, officer or key employee, or materially increase the compensation of any key employee other than in the ordinary course consistent with past practice;

(i) except as may be contemplated by, or resulting from the transaction contemplated by, this Agreement or in the ordinary course of business consistent with past practices, terminate, materially amend or create any Benefit Plans or pay or accelerate any benefit thereunder, other than as may be required by the terms of any Benefit Plan in effect on the date hereof;

(j) change any of the accounting methods used by the Company unless required by GAAP or applicable Law;

(k) acquire (including, without limitation, by merger, consolidation, or acquisition of stock or assets or any other business combination) any corporation, partnership, other business organization or any division thereof or any significant amount of assets;

(l) pay, discharge or satisfy any material claim, liability or obligation other than in the ordinary course of business and consistent with past practice and other than to the extent reserved against in the most recent consolidated financial statements included in the SEC Reports filed prior to the date hereof;

(m) authorize or make any commitment with respect to, any capital expenditure not in the Company s current capital budget included in Section 6.1(m) of the Company Disclosure Schedule, in excess of $100,000 individually, or $500,000 in the aggregate;

(n) make, revoke or change any material Tax election or material method of Tax accounting (within the meaning of Section 446(a) of the Code or similar provisions of state or local income Tax law), file any amended Tax Return (unless required by Law), enter into any closing agreement relating to a material amount of Taxes, settle or compromise any material liability with respect to Taxes or consent to any material claim or assessment relating to Taxes;

(o) (i) abandon, sell, assign, or grant any security interest in or to any item of Owned Intellectual Property or Licensed Intellectual Property that is material to or necessary to operate the Company s business in the ordinary course, (ii) grant to any third party any license, sublicense or covenant not to sue with respect to any Owned Intellectual Property or

Licensed Intellectual Property, other than in the ordinary course of business consistent with past practice; (iii) develop, create or invent any Intellectual Property jointly with any third party (other than consultants in the ordinary course of business), (iv) disclose, or allow to be disclosed any confidential Owned Intellectual Property, other than subject to commercially reasonably procedures to protect the confidentiality of such Owned Intellectual Property, (v) fail to take all commercially reasonably actions that are required to maintain, or that the Company reasonably believes are required to protect, its interest in each item of the Owned Intellectual Property and the Licensed Intellectual Property;

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(p) other than in the ordinary course of business consistent with past practice, or on terms not materially adverse to the Company and its Subsidiaries, taken as a whole, modify, amend or terminate any Material Contract or waive, release or assign any material rights or claims thereunder;

(q) fail to make in a timely manner any filings with the SEC required to be filed by the Company under the Securities Act or the Exchange Act or the rules and regulations promulgated thereunder, except as would not affect the Company s eligibility for the use Form S-3 under General Instruction I.A. to Form S-3; *provided*, *however*, that the filing of the information required by Part III of Form 10-K by amendment to the Company s Form 10-K not later than 120 days after the end of the Company s fiscal year end shall not be deemed a violation of this Section 6.1(q);

(r) enter into any contract or agreement with any director or executive officer of the Company or any Subsidiary or any of their respective affiliates (including any immediate family member of such person) or any other affiliate of the Company or any Subsidiary (other than a contract or agreement excluded from Section 6.1(h));

(s) draw down on lines or credit or incur expenditures on research and development, other than in ordinary course of business and consistent with past practice;

(t) announce an intention or enter into any contract, agreement, commitment or arrangement to do any of the foregoing; or

(u) fail to file Tax Returns or pay Taxes when due.

Section 6.2 *Access to Information.* The Company shall (and shall cause each of its Subsidiaries to) afford to officers, employees, counsel, investment bankers, accountants and other authorized representatives (Representatives) of Parent reasonable access, in a manner not disruptive to the operations of the business of the Company and its Subsidiaries, during normal business hours and upon reasonable notice throughout the period prior to the Effective Time, to the properties, books, records and officers of the Company and its Subsidiaries and, during such period, shall (and shall cause each of its Subsidiaries to) furnish promptly to such Representatives all information concerning the business, properties and personnel of the Company and its Subsidiaries in each case as may reasonably be requested and necessary to consummate the transactions contemplated by this Agreement; *provided*, *however*, that nothing herein shall require the Company or any of its Subsidiaries to disclose any information to Parent or Sub if such disclosure would, in the reasonable judgment of the Company, (i) violate applicable Law or the provisions of any agreement to which the Company or any of its Subsidiaries is a party or (ii) jeopardize any attorney-client or other legal privilege; *provided further*, *however*, that nothing herein shall authorize Parent or its Representatives to undertake any further investigation of the Company, including environmental investigations or sampling at any of the properties owned, operated or leased by the Company or its Subsidiaries. The Confidentiality Agreement, dated December 8, 2006 (the Confidentiality Agreement), between the Company and Parent shall apply with respect to information furnished by the Company, its Subsidiaries and the Company s officers, employees, and other Representatives hereunder.

Section 6.3 *Acquisition Proposals.*

(a) The Company and its Subsidiaries will not, and will use their reasonable best efforts to cause their respective officers, directors, employees and other Representatives not to, directly or indirectly (i) initiate, solicit or encourage, or take any action for the purpose of facilitation, any inquiries or the making of any Acquisition Proposal or (ii) except as permitted below, engage in negotiations or discussions with, or furnish any information or data to, any Person for the purpose of facilitating such inquiries or to obtain a proposal or offer for an Acquisition Proposal. The Company immediately shall cease and cause to be terminated all existing discussions or negotiations with any parties conducted heretofore with respect to an Acquisition Proposal. The Company shall not release any third party from, or waive any

provision of, any confidentiality or standstill agreement to which it is a party.

(b) Notwithstanding anything to the contrary contained in this Agreement, in the event that the Company receives an unsolicited Acquisition Proposal, the Company and its board of directors may participate in discussions or negotiations (including, as a part thereof, making any counterproposal) with, or furnish any information to, any Person or Persons making such Acquisition Proposal and their respective Representatives and potential sources of

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financing if either (i) the Company s board of directors determines in good faith, after consultation with its financial advisors, that such Person or Persons are reasonably likely to submit to the Company an Acquisition Proposal that is a Superior Proposal or (ii) the Company s board of directors determines in good faith, after consultation with its counsel, that the failure to participate in such discussions or negotiations or to furnish such information may be inconsistent with the directors fiduciary duties under applicable Law; provided that the Company shall have obtained from such person an executed confidentiality agreement on terms no less favorable to the Company than those contained in the confidentiality signed with the Parent. In addition, nothing herein shall restrict the Company from complying with its disclosure obligations with regard to any Acquisition Proposal under applicable Law.

(c) The Company will promptly notify Parent of the receipt by the Company of any oral or written proposal or offer or any inquiry or contact with any person regarding a potential proposal or offer regarding an Acquisition Proposal, the identity of the Person or Persons making such Acquisition Proposal and the material terms of the Acquisition Proposal. The Company will keep Parent reasonably informed of the status and details of any such Acquisition Proposal and of any material amendments or proposed material amendments thereto and will promptly notify Parent of any determination by the Company s board of directors that such Acquisition Proposal constitutes a Superior Proposal.

(d) Subject to Section 6.3(e), unless and until this Agreement has been terminated in accordance with Section 8.1, the Company shall not withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to the Parent or Sub, the approval or recommendation of the Merger as set forth in Section 6.7; or approve or recommend, or propose publicly to approve or recommend, any Acquisition Proposal.

(e) Notwithstanding the foregoing, in the event that, prior to the Company Special Meeting, the Company s board of directors receives a Superior Proposal that has not been withdrawn, the Company s board of directors may, if the Company s board of directors determines in good faith, after consultation with its counsel, that the failure to take such action may be inconsistent with the directors fiduciary duties under applicable Law, withdraw, withhold or modify the approval or recommendation of the Merger (a Change of Recommendation), approve or recommend such Superior Proposal or terminate this Agreement as permitted pursuant to the terms of Section 8.1(b)(iv) or Section 8.1(c)(ii); *provided* that:

(i) the Company notifies the Parent that it intends to take such action, which notice must identify the party making such proposal and set forth the material terms and conditions of such proposal; and

(ii) Parent shall not have proposed, within three (3) Business Days after receipt of such notice from the Company, to amend this Agreement to provide for terms the board of directors of the Company determines in good faith, after consultation with its financial advisor, to be as favorable as or superior to those of the Superior Proposal.

(f) Nothing contained in this Section 6.3 shall prohibit the Company or its board of directors from taking and disclosing to the Company s shareholders a position with respect to a tender offer by a third party pursuant to Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act or from taking any action or making any disclosure required by applicable Law; *provided* that the content of the disclosure complies with this Section 6.3.

Section 6.4 *Employee Benefits.*

(a) Following the Effective Time, Parent shall cause the Surviving Corporation to provide the employees of the Company and the Subsidiaries who remain employed by Parent, the Surviving Corporation or their subsidiaries after the Effective Time (the Employees) with employee benefits that are in the aggregate no less favorable to each Employee than those maintained from time to time by Parent or its Subsidiaries (including without limitation the Surviving Corporation) for similarly-situated employees of Parent or its Subsidiaries.

(b) As of the Effective Time, Parent shall honor or cause to be honored, in accordance with their terms, all written employment, employment termination, severance and other compensation agreements, including agreements providing for change-in-control, severance or retention benefits, scheduled on Section 6.4(b)(i) of the Company Disclosure Schedule, in each case in the form existing immediately prior to the execution of this Agreement. Section 6.4(b)(ii) of the Company Disclosure Schedule sets forth the Company s informal severance guidelines for its employees not otherwise benefiting from a severance provision in an agreement set forth in

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Section 6.4(b)(i) of the Company Disclosure Schedule. Parent shall cause each Employee terminated within one (1) year after the Effective Time to receive severance in accordance with such guidelines. Parent hereby guarantees the payment and performance by the Surviving Corporation of such obligations assumed by Surviving Corporation pursuant to this Section 6.4(b).

(c) With respect to each benefit plan, program, practice, policy or arrangement maintained by Parent or its Subsidiaries (including the Surviving Corporation) following the Effective Time and in which any of the Employees participate (the Parent Plans), for purposes of determining eligibility to participate, vesting, accrual of and entitlement to benefits and all other purposes (other than for purposes of accrual of pension benefits or, if applicable, for applying deductibles, co-payments and out of pocket maximums), service with the Company and its Subsidiaries (or predecessor employers to the extent the Company provides past service credit) shall be treated as service with Parent and its Subsidiaries; *provided*, *however*, that such service need not be recognized to the extent that such recognition would result in a duplication of benefits. Each Parent Plan shall waive eligibility waiting periods, evidence of insurability requirements and pre-existing condition limitations to the extent waived or not applicable under the applicable Benefit Plan. The Employees shall be given credit under the applicable Parent Plan for amounts paid prior to the Effective Time during the calendar year in which the Effective Time occurs under a corresponding Benefit Plan for purposes of applying deductibles, co-payments and out-of-pocket maximums as though such amounts had been paid in accordance with the terms and conditions of the Parent Plan.

(d) The ESPP has been or will be suspended at or prior to February 14, 2007. The ESPP shall be terminated for all purposes immediately prior to the Effective Time.

Section 6.5 *Publicity.* The initial press release by each of Parent and the Company with respect to the execution of this Agreement shall be acceptable to Parent and the Company. Neither the Company nor Parent (nor any of their respective Affiliates) shall issue any other press release or make any other public announcement with respect to this Agreement or the transactions contemplated hereby without the prior agreement of the other party, except as may be required by Law or by any listing agreement with a national securities exchange, in which case the party proposing to issue such press release or make such public announcement shall use its reasonable best efforts to consult in good faith with the other party before making any such public announcements; *provided* that the Company will no longer be required to obtain the prior agreement of or consult with Parent in connection with any such press release or public announcement if the Company s board of directors has effected a Change of Recommendation.

Section 6.6 *Directors and Officers Insurance and Indemnification.*

(a) From and after the Effective Time, Parent shall, and shall cause the Surviving Corporation to, indemnify and hold harmless the individuals who at any time prior to the Effective Time were directors or officers of the Company or any of its present or former Subsidiaries or corporate parents (the Indemnified Parties) against any costs or expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages or liabilities in connection with actions or omissions occurring at or prior to the Effective Time (including the transactions contemplated by this Agreement) to the fullest extent permitted by Law, and Parent shall, and shall cause the Surviving Corporation to, promptly advance expenses as incurred to the fullest extent permitted by Law. The articles of incorporation and bylaws of the Surviving Corporation shall contain the provisions with respect to indemnification and advancement of expenses set forth in the articles of incorporation and bylaws of the Company on the date of this Agreement, which provisions shall not be amended, repealed or otherwise modified in any manner that would adversely affect the rights thereunder of the Indemnified Parties, unless such modification is required by Law.

(b) Parent shall cause to be maintained in effect for not less than six (6) years from the Effective Time the current policies of directors and officers liability insurance and fiduciary liability insurance maintained by the Company and the Company s Subsidiaries for the Indemnified Parties and any other employees, agents or other individuals otherwise

covered by such insurance policies prior to the Effective Time (collectively, the Insured Parties) with respect to matters occurring at or prior to the Effective Time (including the transactions contemplated by this Agreement); *provided* that in lieu of the purchase of such insurance by Parent or the Surviving Corporation, the Company may at its option prior to the Effective Time purchase a six-year run-off (Extended Reporting Period) program for directors and officers liability insurance and fiduciary liability insurance.

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(c) This Section 6.6 is intended to benefit the Insured Parties and the Indemnified Parties, and shall be binding on all successors and assigns of Parent, Sub, the Company and the Surviving Corporation. Parent hereby guarantees the payment and performance by the Surviving Corporation of the indemnification and other obligations pursuant to this Section 6.6 and the articles of incorporation and bylaws of the Surviving Corporation.

(d) In the event that Parent, the Surviving Corporation or any of their successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving Person of such consolidation or merger or (ii) transfers or conveys a majority of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors, assigns and transferees of Parent or the Surviving Corporation or their respective successors or assigns, as the case may be, assume the obligations set forth in this Section 6.6.

Section 6.7 *Proxy Statement.* The Company shall take all action necessary in accordance with applicable Law and its articles of incorporation and bylaws and Nasdaq rules to call, give notice of, convene and hold a special meeting of the Company s shareholders (including any adjournment or postponement thereof, the Company Special Meeting) as soon as practicable following the date hereof for the purpose of approving this Agreement and, in connection with the Company Special Meeting, as soon as practicable after the date hereof the Company shall prepare and file with the SEC a proxy statement (together with all amendments and supplements thereto, the Proxy Statement) relating to the Merger and this Agreement and furnish the information required to be provided to the shareholders of the Company pursuant to the OBCA and the Exchange Act, which Proxy Statement shall be reasonably satisfactory to Parent. Promptly after its preparation and prior to its filing with the SEC, the Company shall provide a copy of the Proxy Statement, and any amendment to the Proxy Statement, to Parent, and will consider inclusion into the Proxy Statement comments timely received from Parent or its counsel. The Company shall give Parent notice of any comments on the Proxy Statement received by the SEC, and shall promptly respond to SEC comments, if any. Unless this Agreement is previously terminated in accordance with Section 8.1, the Proxy Statement shall include the recommendation of the Company s board of directors that the Company s shareholders approve this Agreement (the Company Recommendation). Notwithstanding the foregoing, if the Company s board of directors determines in good faith, after consultation with its counsel, that calling, giving notice of, convening or holding the Company Special Meeting, or preparing and distributing the Proxy Statement, or including a Company Recommendation in the Proxy Statement may be inconsistent with the directors fiduciary duties under applicable Law following an indication of an Acquisition Proposal, the Company may delay any such action until the Company s board of directors determines in good faith, after consultation with its counsel, that it may take such action.

Section 6.8 *Commercially Reasonable Efforts.*

(a) Upon the terms and subject to the conditions set forth in this Agreement, the Company and Parent shall each use their commercially reasonable efforts to promptly, unless prohibited by Law (i) take, or to cause to be taken, all actions, and to do, or to cause to be done, and to assist and cooperate with the other parties in doing all things necessary, proper or advisable under applicable Law or otherwise to consummate and make effective the transactions contemplated by this Agreement; (ii) obtain from any Governmental Entities any actions, non-actions, clearances, waivers, consents, approvals, permits or orders required to be obtained by the Company, Parent or any of their respective Subsidiaries in connection with the authorization, execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; (iii) promptly make all necessary registrations and filings, and thereafter make any other required submissions, with respect to this Agreement and the Merger required under (A) any applicable federal or state securities Laws, (B) the HSR Act and any applicable competition, antitrust or investment Laws of jurisdictions other than the United States, and (C) any other applicable Law; *provided*, *however*, that the Company and Parent will cooperate with each other in connection with the making of all such filings, including providing copies of all such filings and attachments to outside counsel for the non-filing party; (iv) furnish all information required for any application or other filing to be made pursuant to any applicable Law in connection

with the transactions contemplated by this Agreement; (v) keep the other party informed in all material respects of any material communication received by such party from, or given by such party to, any Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case relating to the transactions contemplated by this Agreement; (vi) permit the other parties to review any material communication delivered to, and consulting with the other party in advance of any meeting or conference with, any Governmental Entity relating to the transactions contemplated by this Agreement or in

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connection with any proceeding by a private party relating thereto, and giving the other party the opportunity to attend and participate in such meetings and conferences (to the extent permitted by such Governmental Entity or private party); (vii) avoid the entry of, or have vacated or terminated, any decree, order, or judgment that would restrain, prevent or delay the Closing, including, without limitation, defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby; and (viii) execute and deliver any additional instruments necessary to consummate the transactions contemplated by this Agreement. No parties to this Agreement shall consent to any voluntary delay of the Closing at the behest of any Governmental Entity without the consent of the other parties to this Agreement, which consent shall not be unreasonably withheld. Notwithstanding anything set forth in this Section 6.8(a), Parent shall not be required to take any action, including entering into any consent and decree, hold separate orders or other arrangements that (i) requires the divestiture of any assets of any of Sub, Parent or the Company or any of their respective Subsidiaries, or (ii) limits Parent s freedom of action with respect to its ability to retain the Company and its Subsidiaries or any portion thereof or any of Parent s or its Affiliates other assets or business. Notwithstanding the foregoing, none of the Company, Parent or Sub shall be obligated to use its commercially reasonable efforts or take any action pursuant to this Section 6.8(a) if in the opinion of its board of directors after consultation with its outside counsel such actions would be inconsistent with the directors fiduciary duties to their respective shareholders under, or otherwise violate, applicable Law.

(b) Each of the Company, Parent and Sub shall give prompt notice to the other parties of (i) any written notice or other communication from any Governmental Entity in connection with the Merger and (ii) any change or development that is reasonably likely to result in a material breach of a representation, warranty or covenant under this Agreement.

Section 6.9 *Ongoing Employment Recruitment Activities.* Parent agrees that the Company and its Subsidiaries shall (i) continue, through at least March 31, 2007, to recruit and assess applicants for applicable employment positions with the Company and its Subsidiaries pursuant to Department of Labor recruiting requirements with respect to green card applicants and (ii) deliver any required reports related thereto to the Department of Labor. If the Closing shall have occurred prior to March 31, 2007, Parent and Sub shall continue such recruiting and assessment activities from the Effective Time through at least March 31, 2007, without interruption, and deliver any required reports. Notwithstanding anything in this Agreement to the contrary, any such activities shall not be deemed a violation of this Agreement, including without limitation Section 6.1.

ARTICLE VII

CONDITIONS

Section 7.1 *Conditions to Each Party s Obligation to Effect the Merger.* The obligations of the Company, on the one hand, and Parent and Sub, on the other hand, to consummate the Merger are subject to the satisfaction (or waiver by the Company, Parent and Sub, if permissible under applicable Law) of the following conditions:

(a) this Agreement shall have been approved by the shareholders of the Company in accordance with the OBCA;

(b) no Governmental Entity having jurisdiction over the Company, Parent or Sub shall have issued an order, decree or ruling or taken any other action enjoining or otherwise prohibiting consummation of the Merger substantially on the terms contemplated by this Agreement; and

(c) any applicable waiting period under the HSR Act shall have expired or been terminated.

Section 7.2 *Conditions to the Obligations of Parent and Sub.* The obligations of Parent and Sub to consummate the Merger are subject to the satisfaction (or waiver by Parent and Sub) of the following further conditions:

(a) each of the representations and warranties of the Company contained in Section 4.2 (Capitalization) shall be true and accurate as of the Closing as if made at and as of such time (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time,

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which representations and warranties need only be true and accurate as of such date or with respect to such period), except for such inaccuracies as are *de minimis* in the aggregate;

(b) each of the other representations and warranties of the Company shall be true and accurate as of the date made and as of the Closing as if made at and as of such time (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only be true and accurate as of such date or with respect to such period), except where the failure of such representations and warranties to be so true and accurate (without giving effect to any limitation as to materiality or material adverse effect set forth therein), would not, individually or in the aggregate, have a Company Material Adverse Effect;

(c) the Company shall have performed in all material respects its obligations hereunder required to be performed by it at or prior to the Closing;

(d) Parent shall have received a certificate signed by the chief financial officer of the Company, dated as of the Closing Date, to the effect that, to the knowledge of such officer, the conditions set forth in Section 7.2(a), Section 7.2(b), and Section 7.2(c) have been satisfied;

(e) Company shall have delivered to Parent audited financial statements as of and for the year ended December 31, 2006;

(f) Since the date of this Agreement, there shall not have occurred any event, circumstance, development, change or effect that has had, or would reasonably be expected to have, a Company Material Adverse Effect; and

(g) Parent shall have received from the Company a certificate dated as of the Closing Date in the form attached as Exhibit A.

Section 7.3 *Conditions to the Obligations of the Company.* The obligations of the Company to consummate the Merger are subject to the satisfaction (or waiver by the Company) of the following further conditions:

(a) each of the representations and warranties of Parent and Sub shall be true and accurate as of the Closing as if made at and as of such time (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only be true and accurate as of such date or with respect to such period), except where the failure of such representations and warranties to be so true and accurate (without giving effect to any limitation as to materiality or material adverse effect set forth therein) would not, individually or in the aggregate, have a Parent Material Adverse Effect;

(b) each of Parent and Sub shall have performed in all material respects all of the respective obligations hereunder required to be performed by Parent or Sub, as the case may be, at or prior to the Closing;

(c) the Company shall have received a certificate signed by the chief financial officer of Parent, dated as of the Closing Date, to the effect that, to the knowledge of such officer, the conditions set forth in Section 7.3(a) and Section 7.3(a) have been satisfied; and

(d) Parent shall have delivered to the Company a certificate, in form and substance reasonably satisfactory to the Company, to the effect that, at the Effective Time, after giving effect to the Merger and the other transactions contemplated hereby, none of the Surviving Corporation or any of its Subsidiaries will (i) be insolvent (either because the financial condition is such that the sum of its debts is greater than the fair value of its assets or because the present fair saleable value of its assets will be less than the amount required to pay its probable liability on its debts as they

become absolute and matured), (ii) have unreasonably small capital with which to engage in its business or (iii) have incurred or plan to incur debts beyond its ability to pay as they become absolute and matured.

Section 7.4 *Frustration of Closing Conditions.* None of the Company, Parent or Sub may rely on the failure of any condition set forth in Section 7.1, Section 7.2 or Section 7.3, as the case may be, to be satisfied if such failure was caused by such party s failure to act in good faith or use its commercially reasonable efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to Section 6.8(a).

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ARTICLE VIII

TERMINATION

Section 8.1 *Termination.* Anything herein or elsewhere to the contrary notwithstanding, this Agreement may be terminated and the Merger contemplated herein may be abandoned at any time prior to the Effective Time, whether before or after shareholder approval of this Agreement:

(a) by the mutual consent of the Company and Parent;

(b) by either the Company or Parent:

(i) if the Merger shall not have occurred on or prior to June 15, 2007 (the Termination Date); *provided*, *however*, that the right to terminate this Agreement under this Section 8.1(b)(i) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Merger to occur on or prior to such date; *provided further, however*, that if, as of such date, all conditions to this Agreement shall have been satisfied or waived (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions, other than the conditions set forth in Section 7.1(b) and Section 7.1(c), at the Closing), then the Company may extend the Termination Date to October 15, 2007;

(ii) if any Governmental Entity having jurisdiction over the Company, Parent or Sub shall have issued an order, decree or ruling or taken any other action, in each case permanently enjoining or otherwise prohibiting the consummation of the Merger substantially as contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and non-appealable, unless the party seeking to terminate this Agreement pursuant to this Section 8.1(b)(ii) shall not have complied with its obligations under Section 6.8(a);

(iii) if the Company Special Meeting shall have concluded without the approval of this Agreement by the Company s shareholders having been obtained in accordance with the OBCA; or

(iv) if the Company s board of directors shall have effected a Change of Recommendation;

(c) by the Company:

(i) upon a breach of any covenant or agreement on the part of Parent or Sub, or if any representation or warranty of Parent or Sub shall be or become untrue, in any case such that the conditions set forth in Section 7.3(a) or Section 7.3(a) would not be satisfied (assuming that the date of such determination is the Closing Date); *provided* that if such breach is curable by Parent and Sub through the exercise of their commercially reasonable efforts and Parent and Sub continue to exercise such commercially reasonable efforts, the Company may not terminate this Agreement under this Section 8.1(c)(i); *provided further* that the right to terminate this Agreement under this Section 8.1(c)(i) shall not be available to the Company if it has failed to perform in any material respect any of its obligations under or in connection with this Agreement; or

(ii) in order to accept a Superior Proposal; or

(d) By Parent:

(i) upon a breach of any covenant or agreement on the part of the Company, or if any representation or warranty of the Company shall be or become untrue, in any case such that the conditions set forth in Section 7.2(a) or Section 7.2(c)

would not be satisfied (assuming that the date of such determination is the Closing Date); *provided* that if such breach is curable by the Company through the exercise of its commercially reasonable efforts and the Company continues to exercise such commercially reasonable efforts, Parent may not terminate this Agreement under this Section 8.1(d)(i); *provided further* that the right to terminate this Agreement under this Section 8.1(d)(i) shall not be available to Parent if it has failed to perform in any material respect any of its obligations under or in connection with this Agreement; or

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(ii) other than in the case of a Change of Recommendation, if the board of directors of the Company shall have withdrawn or modified, in a manner adverse to Parent or Sub, the Company Recommendation, or approved or recommended another Acquisition Proposal.

Section 8.2 *Effect of Termination.*

(a) In the event of the termination of this Agreement in accordance with Section 8.1, written notice thereof shall forthwith be given to the other party or parties specifying the provision hereof pursuant to which such termination is made, and this Agreement shall forthwith become null and void, and there shall be no liability on the part of Parent, Sub or the Company or their respective directors, officers, employees, shareholders, Representatives, agents or advisors other than, with respect to Parent, Sub and the Company, the obligations pursuant to this Section 8.2, Article IX and the last sentence of Section 6.2. Nothing contained in this Section 8.2 shall relieve Parent, Sub or the Company from liability for fraud or intentional breach of this Agreement or the Confidentiality Agreement.

(b) If

(i) this Agreement is terminated by the Company pursuant to Section 8.1(c)(ii) or by Parent pursuant to Section 8.1(d)(ii),

(ii) this Agreement is terminated by either Parent or the Company pursuant to Section 8.1(b)(iv) or

(iii) (A) this Agreement is terminated by (I) the Company pursuant to Section 8.1(b)(i) (but only if at such time Parent would not be prohibited from terminating this Agreement by the first proviso in Section 8.1(b)(i)) without a vote of the Company s shareholders being taken or (II) by either Parent or the Company pursuant to Section 8.1(b)(iii), (B) there has been publicly disclosed for the first time after the date of this Agreement and prior to the termination of this Agreement in the case of clause (A) (I) and the time of Company Special Meeting in the case of clause (A) (II), an Acquisition Proposal and (C) within one year after such termination, either (1) the Company enters into a definitive agreement with respect to a Qualifying Transaction pursuant to such Acquisition Proposal, which Qualifying Transaction is later consummated with the Person that made such Acquisition Proposal, or (2) such a Qualifying Transaction occurs with such Person,

then the Company shall pay to Parent a termination fee of $5,500,000 in cash,

(x) concurrently with any termination pursuant to Section 8.1(c)(ii),

(y) within five (5) Business Days after any termination pursuant to Section 8.1(b)(iv) or Section 8.1(d)(ii) and

(z) within five (5) Business Days after the consummation of the transaction contemplated by Section 8.2(b)(iii)(C) after a termination by the Company pursuant to Section 8.1(b)(i)or by the Company or Parent pursuant to Section 8.1(b)(iii) in the manner contemplated by Section 8.1(b)(iii);

it being understood that in no event shall the Company be required to pay the fee referred to in this Section 8.2(b) on more than one occasion. Upon payment of such fee, the Company shall have no further liability to Parent or Sub with respect to this Agreement or the transactions contemplated hereby, provided that nothing herein shall release any party from liability for intentional breach or fraud. All payments contemplated by this Section 8.2(b) shall be made by wire transfer of immediately available funds to an account designated by Parent and shall be reduced by any amounts required to be deducted or withheld therefrom under applicable Law in respect of Taxes.

ARTICLE IX

MISCELLANEOUS

Section 9.1 *Amendment and Modification.* Subject to applicable Law, this Agreement may be amended, modified and supplemented in any and all respects, whether before or after any vote of the shareholders of the Company contemplated hereby, by written agreement of the parties hereto, by action taken by their respective boards of directors (or individuals holding similar positions, in the case of a party that is not a corporation), at any

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time prior to the Closing Date with respect to any of the terms contained herein; *provided*, *however*, that after the approval of this Agreement by the shareholders of the Company, no such amendment, modification or supplement shall reduce or change the Merger Consideration or adversely affect the rights of the Company s shareholders hereunder without the approval of such shareholders.

Section 9.2 *Nonsurvival of Representations and Warranties.* None of the representations and warranties in this Agreement or in any schedule, instrument or other document delivered pursuant to this Agreement shall survive the Effective Time or the termination of this Agreement. This Section 9.2 shall not limit any covenant or agreement contained in this Agreement that by its terms is to be performed in whole or in part after the Effective Time.

Section 9.3 *Notices.* All notices, consents and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by hand delivery, by prepaid overnight courier (providing written proof of delivery), by confirmed facsimile transmission or by certified or registered mail (return receipt requested and first-class postage prepaid), addressed as follows:

(a) if to Parent or Sub, to:

CheckFree Corporation
4411 East Jones Bridge Road
Norcross, Georgia 30092
Facsimile: (678) 375-3010
Attention: Mark A. Johnson, Vice Chairman

with a copy to:

CheckFree Corporation
4411 East Jones Bridge Road
Norcross, Georgia 30092
Facsimile: (678) 375-1150
Attention: Laura Binion, General Counsel

(b) if to the Company, to:

Corillian Corporation
3400 NW John Olsen Place
Hillsboro, Oregon 97124
Facsimile: (503) 629-3803
Attention: Alex P. Hart

with a copy to:

Perkins Coie LLP
1120 NW Couch Street, 10th Floor
Portland, Oregon 97214
Facsimile: 503-727-2222
Attention: Roy W. Tucker

or to such other address or facsimile number for a party as shall be specified in a notice given in accordance with this section; *provided* that any notice received by facsimile transmission or otherwise at the addressee s location on any

Business Day after 5:00 P.M. (addressee s local time) shall be deemed to have been received at 9:00 A.M. (addressee s local time) on the next Business Day; *provided further* that notice of any change to the address or any of the other details specified in or pursuant to this section shall not be deemed to have been received until, and shall be deemed to have been received upon, the later of the date specified in such notice or the date that is five (5) Business Days after such notice would otherwise be deemed to have been received pursuant to this section. A party s rejection or other refusal to accept notice hereunder or the inability of another party to deliver notice to such party because of such party s changed address or facsimile number of which no notice was given by such party shall be deemed to be receipt of the notice by such party as of the date of such rejection, refusal or inability to deliver. Nothing in this

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section shall be deemed to constitute consent to the manner or address for service of process in connection with any legal proceeding, including litigation arising out of or in connection with this Agreement.

Section 9.4 *Interpretation.* The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement. Information provided in any section of the Company Disclosure Schedule shall be deemed to be adequate response and disclosure of such facts or circumstances with respect to any section of Article IV calling for disclosure of such information, whether or not such disclosure is specifically associated with or purports to respond to one or more or all of such representations or warranties; provided that such information has been disclosed in sufficient detail and in a manner to put a reasonable person on notice of the relevance of the facts or circumstances so disclosed to the applicable section of Article IV. The inclusion of any item in the Company Disclosure Schedule shall not be deemed to be an admission or evidence of materiality of such item, nor shall it establish any standard of materiality for any purpose whatsoever.

Section 9.5 *Counterparts.* This Agreement may be executed in multiple counterparts, each of which when executed and delivered shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

Section 9.6 *Entire Agreement; Third-Party Beneficiaries.* This Agreement (including the Company Disclosure Schedule and the exhibits and instruments referred to herein) and the Confidentiality Agreement (a) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and (b) except as provided in Article III on and after the Effective Time and Section 6.6, are not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 9.7 *Severability.* If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 9.8 *Governing Law.* This Agreement shall be governed and construed in accordance with the laws of the State of Delaware applicable to contracts to be made and performed entirely therein without giving effect to the principles of conflicts of law thereof or of any other jurisdiction.

Section 9.9 *Jurisdiction.* Each of the parties hereto hereby (a) expressly and irrevocably submits to the exclusive personal jurisdiction of any United States federal court located in the State of Oregon or any Oregon state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a United States federal or state court sitting in the State of Oregon; *provided* that each of the parties shall have the right to bring any action or proceeding for enforcement of a judgment entered by any United States federal court located in the State of Oregon or any Oregon state court in any other court or jurisdiction.

Section 9.10 *Service of Process.* Each party irrevocably consents to the service of process outside the territorial jurisdiction of the courts referred to in Section 9.9 in any such action or proceeding by mailing copies thereof by registered United States mail, postage prepaid, return receipt requested, to its address as specified in or pursuant to Section 9.3. However, the foregoing shall not limit the right of a party to effect service of process on the other party by any other legally available method.

Section 9.11 *Specific Performance.* Each of the parties hereto acknowledges and agrees that, in the event of any breach of this Agreement, each nonbreaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement in any action instituted in accordance with Section 9.9.

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Section 9.12 *Assignment.* Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective permitted successors and assigns.

Section 9.13 *Expenses.* All costs and expenses incurred in connection with the Merger, this Agreement and the consummation of the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Merger or any of the other transactions contemplated hereby is consummated.

Section 9.14 *Headings.* Headings of the articles and sections of this Agreement and the table of contents, schedules and exhibits are for convenience of the parties only and shall be given no substantive or interpretative effect whatsoever.

Section 9.15 *Waivers.* Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, covenant, agreement or condition herein may be waived by the party or parties entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

Section 9.16 *WAIVER OF JURY TRIAL.* EACH OF PARENT, SUB AND THE COMPANY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF PARENT, SUB OR THE COMPANY IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT THEREOF.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, the Company, Parent and Sub have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

CORILLIAN CORPORATION

By: /s/ Alex P. Hart
Name: Alex P. Hart
Title: President and Chief Executive Officer

CHECKFREE CORPORATION

By: /s/ Mark A. Johnson
Name: Mark A. Johnson
Title: Vice Chairman

CF OREGON, INC.

By: /s/ Mark A. Johnson
Name: Mark A. Johnson
Title: Executive Vice President

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ANNEX B

February 13, 2007

CONFIDENTIAL

The Board of Directors of Corillian Corporation
3400 NW John Olsen Place
Hillsboro, OR 97124

Dear Members of the Board:

We understand that Corillian Corporation (Corillian or the Company), CheckFree Corporation (Parent) and CF Oregon, Inc., a wholly owned subsidiary of Parent (Merger Sub), propose to enter into an Agreement and Plan of Merger (the Agreement) pursuant to which Merger Sub will merge with and into Corillian (the Merger). Pursuant to the Merger, each issued and outstanding share of Corillian common stock (other than Dissenting Shares (as defined in the Agreement) and shares owned by the Company as treasury stock and any shares owned by Parent, Merger Sub or any other direct or indirect wholly owned subsidiary of Parent or the Company) (Corillian Common Stock) will be converted into the right to receive $5.15 in cash (the Merger Consideration). The terms and conditions of the Merger are more fully detailed in the Agreement.

You have requested our opinion as to whether, as of the date hereof, the Merger Consideration is fair from a financial point of view to holders of Corillian Common Stock (other than Dissenting Shares (as defined in the Agreement) and shares owned by the Company as treasury stock and any shares owned by Parent, Merger Sub or any other direct or indirect wholly owned subsidiary of Parent or the Company).

FTP Securities LLC provides investment banking services, including merger and acquisition advisory services, to companies. In this capacity, we are continually engaged in valuing such businesses, and we maintain an extensive database of mergers and acquisitions for comparative purposes. We are currently acting as exclusive financial advisor to Corillian s Board of Directors and will receive fees from Corillian upon delivery of this opinion and upon the successful conclusion of the Merger. In addition, the Company has agreed to indemnify FTP Securities LLC and its affiliates in connection with its engagement and to reimburse certain of its expenses. In the ordinary course of our business, FTP Securities LLC and its affiliates may publish research reports regarding the securities of the Company or Parent or their respective affiliates, may trade or hold such securities for their own accounts and for the accounts of their customers and, accordingly, may at any time hold long or short positions in those securities.

In rendering our opinion, we have, among other things:

1.) reviewed the terms of the Agreement in the form of the draft furnished to us by the Company s legal counsel on February 12, 2007, which, for the purposes of this opinion, we have assumed, with your permission, to be identical in all material respects to the agreement to be executed;

2.) reviewed Corillian s annual report on Form 10-K for the fiscal years ended December 31, 2002, 2003, 2004 and 2005, including the audited financial statements included therein, and Corillian s quarterly reports on Form 10-Q for the fiscal quarters ended March 31, 2006, June 30, 2006 and September 30, 2006, including the unaudited financial statements included therein;

3.) reviewed certain internal financial and operating information for Corillian, including quarterly financial projections through December 31, 2007, prepared and furnished to us by Corillian management;

4.) participated in discussions with Corillian management concerning the operations, business strategy, current financial performance and prospects for the Company;

5.) reviewed the recent reported closing prices and trading activity for Corillian common stock;

6.) compared certain aspects of Corillian s financial performance with those of public companies we deemed comparable;

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7.) analyzed available information, both public and private, concerning other mergers and acquisitions we believe to be comparable in whole or in part to the Merger;

8.) reviewed recent equity research analyst reports covering Corillian, including projections through December 31, 2007, contained therein;

9.) assisted in negotiations and discussions related to the financial terms of the Merger among Corillian, Parent and their respective financial and legal advisors; and

10.) conducted other financial studies, analyses and investigations as we deemed appropriate for purposes of this opinion.

In rendering our opinion, we have relied, without independent verification, on the accuracy and completeness of all the financial and other information (including without limitation the representations and warranties contained in the Agreement) that was publicly available or furnished to us by Corillian or its advisors. With respect to the financial projections examined by us, we have assumed, with your permission, that they were reasonably prepared and reflected the best available estimates and good faith judgments of the management of the Company as to the future performance of the Company. We further relied on the assurances of management of the Company that they are unaware of any facts that would make the information or projections provided to us incomplete or misleading. We have also assumed, with your permission, that in the course of obtaining the regulatory and third party approvals, consents and releases necessary for the consummation of the Merger, no modification, delay, limitation, restriction or condition will be imposed that will have a material adverse effect on the Merger and that the Merger will be consummated in accordance with applicable laws and regulations and the terms of the Merger Agreement as set forth in the February 12, 2007, draft thereof, without waiver, amendment or modification of any material term, condition or agreement. Our opinion does not address the relative merits of the Merger as compared to other business strategies that might be available to the Company, nor does it address the underlying business decision of the Company to proceed with the Merger. We have not made or taken into account any independent appraisal or valuation of any of Corillian s assets or liabilities, contingent or otherwise, nor have we evaluated the solvency or fair value of Corillian under any state or federal laws relating to bankruptcy, insolvency or similar matters. We express no view as to the federal, state or local tax consequences of the Merger.

For purposes of this opinion, we have assumed that Corillian is not currently involved in any material transaction other than the Merger, other publicly announced transactions and those activities undertaken in the ordinary course of conducting its business. Our opinion is necessarily based upon market, economic, financial and other conditions as they exist and can be evaluated as of the date of this opinion. It should be understood that, although subsequent developments may affect this opinion, we have no obligation to update, revise or reaffirm the opinion.

Based upon and subject to the foregoing qualifications and limitations and those set forth below, we are of the opinion that, as of the date hereof, the Merger Consideration is fair, from a financial point of view, to holders of Corillian Common Stock (other than Dissenting Shares (as defined in the Agreement) and shares owned by the Company as treasury stock and any shares owned by Parent, Merger Sub or any other direct or indirect wholly owned subsidiary of Parent or the Company).

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This opinion speaks only as of the date hereof. It is understood that this opinion is for the use of the Board of Directors of Corillian in connection with its consideration of the Merger and does not constitute a recommendation to any holder of Corillian common stock, or any other person, as to how such person should vote on or act with respect to the Merger. In addition, you have not asked us to address, and this opinion does not address, the fairness of the Merger Consideration or the Merger to, or any other matter relating to, the holders of any class of securities, creditors or other constituencies of Corillian, other than the holders of Corillian Common Stock as described above. This opinion may not be used for any other purpose whatsoever or disclosed, referred to, or communicated (in whole or in part) to any third party for any purpose whatsoever except with our prior written approval; except that this opinion may be included in its entirety, if required, in any proxy statement filed by the Company in respect of the Merger with the Securities and Exchange Commission, provided that this opinion is reproduced in such filing in full and any description of or reference to us or summary of this opinion and the related analysis in such filing is in a form acceptable to us and our counsel in our sole discretion.

Sincerely,

/s/ FTP SECURITIES LLC

FTP Securities LLC

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ANNEX C

OREGON DISSENTERS RIGHTS

DISSENTERS RIGHTS

(Right to Dissent and Obtain Payment for Shares)

60.551 Definitions for ORS 60.551 to 60.594. As used in ORS 60.551 to 60.594:

(1) **Beneficial shareholder** means the person who is a beneficial owner of shares held in a voting trust or by a nominee as the record shareholder.

(2) **Corporation** means the issuer of the shares held by a dissenter before the corporate action, or the surviving or acquiring corporation by merger or share exchange of that issuer.

(3) **Dissenter** means a shareholder who is entitled to dissent from corporate action under ORS 60.554 and who exercises that right when and in the manner required by ORS 60.561 to 60.587.

(4) **Fair value**, with respect to a dissenter s shares, means the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable.

(5) **Interest** means interest from the effective date of the corporate action until the date of payment, at the average rate currently paid by the corporation on its principal bank loans or, if none, at a rate that is fair and equitable under all the circumstances.

(6) **Record shareholder** means the person in whose name shares are registered in the records of a corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with a corporation.

(7) **Shareholder** means the record shareholder or the beneficial shareholder. [1987 c.52 § 124; 1989 c.1040 § 30]

60.554 Right to dissent. (1) Subject to subsection (2) of this section, a shareholder is entitled to dissent from, and obtain payment of the fair value of the shareholder s shares in the event of, any of the following corporate acts:

(a) Consummation of a plan of merger to which the corporation is a party if shareholder approval is required for the merger by ORS 60.487 or the articles of incorporation and the shareholder is entitled to vote on the merger or if the corporation is a subsidiary that is merged with its parent under ORS 60.491;

(b) Consummation of a plan of share exchange to which the corporation is a party as the corporation whose shares will be acquired, if the shareholder is entitled to vote on the plan;

(c) Consummation of a sale or exchange of all or substantially all of the property of the corporation other than in the usual and regular course of business, if the shareholder is entitled to vote on the sale or exchange, including a sale in dissolution, but not including a sale pursuant to court order or a sale for cash pursuant to a plan by which all or substantially all of the net proceeds of the sale will be distributed to the shareholders within one year after the date of sale;

(d) An amendment of the articles of incorporation that materially and adversely affects rights in respect of a dissenter s shares because it:

(A) Alters or abolishes a preemptive right of the holder of the shares to acquire shares or other securities; or

(B) Reduces the number of shares owned by the shareholder to a fraction of a share if the fractional share so created is to be acquired for cash under ORS 60.141;

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(e) Any corporate action taken pursuant to a shareholder vote to the extent the articles of incorporation, bylaws or a resolution of the board of directors provides that voting or nonvoting shareholders are entitled to dissent and obtain payment for their shares; or

(f) Conversion to a noncorporate business entity pursuant to ORS 60.472.

(2) A shareholder entitled to dissent and obtain payment for the shareholder s shares under ORS 60.551 to 60.594 may not challenge the corporate action creating the shareholder s entitlement unless the action is unlawful or fraudulent with respect to the shareholder or the corporation.

(3) Dissenters rights shall not apply to the holders of shares of any class or series if the shares of the class or series were registered on a national securities exchange or quoted on the National Association of Securities Dealers, Inc. Automated Quotation System as a National Market System issue on the record date for the meeting of shareholders at which the corporate action described in subsection (1) of this section is to be approved or on the date a copy or summary of the plan of merger is mailed to shareholders under ORS 60.491, unless the articles of incorporation otherwise provide. [1987 c.52 § 125; 1989 c.1040 § 31; 1993 c.403 § 9; 1999 c.362 § 15]

60.557 Dissent by nominees and beneficial owners. (1) A record shareholder may assert dissenters rights as to fewer than all the shares registered in the shareholder s name only if the shareholder dissents with respect to all shares beneficially owned by any one person and notifies the corporation in writing of the name and address of each person on whose behalf the shareholder asserts dissenters rights. The rights of a partial dissenter under this subsection are determined as if the shares regarding which the shareholder dissents and the shareholder s other shares were registered in the names of different shareholders.

(2) A beneficial shareholder may assert dissenters rights as to shares held on the beneficial shareholder s behalf only if:

(a) The beneficial shareholder submits to the corporation the record shareholder s written consent to the dissent not later than the time the beneficial shareholder asserts dissenters rights; and

(b) The beneficial shareholder does so with respect to all shares of which such shareholder is the beneficial shareholder or over which such shareholder has power to direct the vote. [1987 c.52 § 126]

(Procedure for Exercise of Rights)

60.561 Notice of dissenters rights. (1) If proposed corporate action creating dissenters rights under ORS 60.554 is submitted to a vote at a shareholders meeting, the meeting notice must state that shareholders are or may be entitled to assert dissenters rights under ORS 60.551 to 60.594 and be accompanied by a copy of ORS 60.551 to 60.594.

(2) If corporate action creating dissenters rights under ORS 60.554 is taken without a vote of shareholders, the corporation shall notify in writing all shareholders entitled to assert dissenters rights that the action was taken and send the shareholders entitled to assert dissenters rights the dissenters notice described in ORS 60.567. [1987 c.52 § 127]

60.564 Notice of intent to demand payment. (1) If proposed corporate action creating dissenters rights under ORS 60.554 is submitted to a vote at a shareholders meeting, a shareholder who wishes to assert dissenters rights shall deliver to the corporation before the vote is taken written notice of the shareholder s intent to demand payment for the shareholder s shares if the proposed action is effectuated and shall not vote such shares in favor of the proposed action.

(2) A shareholder who does not satisfy the requirements of subsection (1) of this section is not entitled to payment for the shareholder s shares under this chapter. [1987 c.52 § 128]

60.567 Dissenters notice. (1) If proposed corporate action creating dissenters rights under ORS 60.554 is authorized at a shareholders meeting, the corporation shall deliver a written dissenters notice to all shareholders who satisfied the requirements of ORS 60.564.

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(2) The dissenters notice shall be sent no later than 10 days after the corporate action was taken, and shall:

(a) State where the payment demand shall be sent and where and when certificates for certificated shares shall be deposited;

(b) Inform holders of uncertificated shares to what extent transfer of the shares will be restricted after the payment demand is received;

(c) Supply a form for demanding payment that includes the date of the first announcement of the terms of the proposed corporate action to news media or to shareholders and requires that the person asserting dissenters rights certify whether or not the person acquired beneficial ownership of the shares before that date;

(d) Set a date by which the corporation must receive the payment demand. This date may not be fewer than 30 nor more than 60 days after the date the subsection (1) of this section notice is delivered; and

(e) Be accompanied by a copy of ORS 60.551 to 60.594. [1987 c.52 § 129]

60.571 Duty to demand payment. (1) A shareholder sent a dissenters notice described in ORS 60.567 must demand payment, certify whether the shareholder acquired beneficial ownership of the shares before the date required to be set forth in the dissenters notice pursuant to ORS 60.567 (2)(c), and deposit the shareholder s certificates in accordance with the terms of the notice.

(2) The shareholder who demands payment and deposits the shareholder s shares under subsection (1) of this section retains all other rights of a shareholder until these rights are canceled or modified by the taking of the proposed corporate action.

(3) A shareholder who does not demand payment or deposit the shareholder s share certificates where required, each by the date set in the dissenters notice, is not entitled to payment for the shareholder s shares under this chapter. [1987 c.52 § 130]

60.574 Share restrictions. (1) The corporation may restrict the transfer of uncertificated shares from the date the demand for their payment is received until the proposed corporate action is taken or the restrictions released under ORS 60.581.

(2) The person for whom dissenters rights are asserted as to uncertificated shares retains all other rights of a shareholder until these rights are canceled or modified by the taking of the proposed corporate action. [1987 c.52 § 131]

60.577 Payment. (1) Except as provided in ORS 60.584, as soon as the proposed corporate action is taken, or upon receipt of a payment demand, the corporation shall pay each dissenter who complied with ORS 60.571, the amount the corporation estimates to be the fair value of the shareholder s shares, plus accrued interest.

(2) The payment must be accompanied by:

(a) The corporation s balance sheet as of the end of a fiscal year ending not more than 16 months before the date of payment, an income statement for that year and the latest available interim financial statements, if any;

(b) A statement of the corporation s estimate of the fair value of the shares;

(c) An explanation of how the interest was calculated;

(d) A statement of the dissenter s right to demand payment under ORS 60.587; and

(e) A copy of ORS 60.551 to 60.594. [1987 c.52 § 132; 1987 c.579 § 4]

60.581 Failure to take action. (1) If the corporation does not take the proposed action within 60 days after the date set for demanding payment and depositing share certificates, the corporation shall return the deposited certificates and release the transfer restrictions imposed on uncertificated shares.

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(2) If after returning deposited certificates and releasing transfer restrictions, the corporation takes the proposed action, it must send a new dissenters notice under ORS 60.567 and repeat the payment demand procedure. [1987 c.52 § 133]

60.584 After-acquired shares. (1) A corporation may elect to withhold payment required by ORS 60.577 from a dissenter unless the dissenter was the beneficial owner of the shares before the date set forth in the dissenters notice as the date of the first announcement to news media or to shareholders of the terms of the proposed corporate action.

(2) To the extent the corporation elects to withhold payment under subsection (1) of this section, after taking the proposed corporate action, it shall estimate the fair value of the shares plus accrued interest and shall pay this amount to each dissenter who agrees to accept it in full satisfaction of such demand. The corporation shall send with its offer a statement of its estimate of the fair value of the shares an explanation of how the interest was calculated and a statement of the dissenter s right to demand payment under ORS 60.587. [1987 c.52 § 134]

60.587 Procedure if shareholder dissatisfied with payment or offer. (1) A dissenter may notify the corporation in writing of the dissenter s own estimate of the fair value of the dissenter s shares and amount of interest due, and demand payment of the dissenter s estimate, less any payment under ORS 60.577 or reject the corporation s offer under ORS 60.584 and demand payment of the dissenter s estimate of the fair value of the dissenter s shares and interest due, if:

(a) The dissenter believes that the amount paid under ORS 60.577 or offered under ORS 60.584 is less than the fair value of the dissenter s shares or that the interest due is incorrectly calculated;

(b) The corporation fails to make payment under ORS 60.577 within 60 days after the date set for demanding payment; or

(c) The corporation, having failed to take the proposed action, does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within 60 days after the date set for demanding payment.

(2) A dissenter waives the right to demand payment under this section unless the dissenter notifies the corporation of the dissenter s demand in writing under subsection (1) of this section within 30 days after the corporation made or offered payment for the dissenter s shares. [1987 c.52 § 135]

(Judicial Appraisal of Shares)

60.591 Court action. (1) If a demand for payment under ORS 60.587 remains unsettled, the corporation shall commence a proceeding within 60 days after receiving the payment demand under ORS 60.587 and petition the court under subsection (2) of this section to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the 60-day period, it shall pay each dissenter whose demand remains unsettled the amount demanded.

(2) The corporation shall commence the proceeding in the circuit court of the county where a corporation s principal office is located, or if the principal office is not in this state, where the corporation s registered office is located. If the corporation is a foreign corporation without a registered office in this state, it shall commence the proceeding in the county in this state where the registered office of the domestic corporation merged with or whose shares were acquired by the foreign corporation was located.

(3) The corporation shall make all dissenters, whether or not residents of this state, whose demands remain unsettled parties to the proceeding as in an action against their shares. All parties must be served with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication as provided by law.

(4) The jurisdiction of the circuit court in which the proceeding is commenced under subsection (2) of this section is plenary and exclusive. The court may appoint one or more persons as appraisers to receive evidence and recommend decision on the question of fair value. The appraisers have the powers described in the court order appointing them, or in any amendment to the order. The dissenters are entitled to the same discovery rights as parties in other civil proceedings.

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(5) Each dissenter made a party to the proceeding is entitled to judgment for:

(a) The amount, if any, by which the court finds the fair value of the dissenter s shares, plus interest, exceeds the amount paid by the corporation; or

(b) The fair value, plus accrued interest, of the dissenter s after-acquired shares for which the corporation elected to withhold payment under ORS 60.584. [1987 c.52 § 136]

60.594 Court costs and counsel fees. (1) The court in an appraisal proceeding commenced under ORS 60.591 shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess costs against all or some of the dissenters, in amounts the court finds equitable, to the extent the court finds the dissenters acted arbitrarily, vexatiously, or not in good faith in demanding payment under ORS 60.587.

(2) The court may also assess the fees and expenses of counsel and experts of the respective parties in amounts the court finds equitable:

(a) Against the corporation and in favor of any or all dissenters if the court finds the corporation did not substantially comply with the requirements of ORS 60.561 to 60.587; or

(b) Against either the corporation or a dissenter, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously or not in good faith with respect to the rights provided by this chapter.

(3) If the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to counsel reasonable fees to be paid out of the amount awarded the dissenters who were benefited. [1987 c.52 § 137]

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PROXY FOR THE SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 30, 2007
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby acknowledges receipt of the official Notice of Special Meeting of Shareholders, dated March 19, 2007, and hereby appoints Paul K. Wilde and Alex P. Hart, and each of them, as Proxies, with full power of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the Special Meeting of Shareholders of the Company, to be held on April 30, 2007, at 10:00 a.m., Pacific Time, at Corillian s headquarters, 3400 NW John Olsen Place, Hillsboro, Oregon 97124, and any adjournment(s) thereof, and to vote, as designated below, all the shares of common stock of Corillian Corporation held of record by the undersigned which the undersigned would be entitled to vote if then and there personally present.

SPECIAL MEETING OF SHAREHOLDERS OF
CORILLIAN CORPORATION
APRIL 30, 2007
PROXY VOTING
INSTRUCTIONS

MAIL Date, sign and mail your proxy card in the envelope provided as soon as possible.

- OR -

TELEPHONE Call toll-free **1-800-540-5760** from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

- OR -

INTERNET Access www.proxyvoting.com/cori and follow the on-screen instructions. Have your proxy card available when you access the web page.

You may enter your voting instructions at 1-800-540-5760 or www.proxyvoting.com/cori up until 11:59 PM Eastern Time the day before the cut-off or meeting date.

â Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet.**â**

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE MERGER AGREEMENT AND FOR PROPOSAL 2.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE

(continued and to be signed on reverse side)

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1. **Approval of Merger**.
To approve the Agreement and Plan of Merger, dated as of February 13, 2007 (as it may be amended from time to time, the merger agreement), among Corillian Corporation, CheckFree Corporation and a wholly owned subsidiary of CheckFree, pursuant to which, upon the merger becoming effective, each issued and outstanding share of Corillian common stock, no par value will be converted into the right to receive $5.15 in cash, without interest.

o **FOR** o **AGAINST** o **ABSTAIN**

2. **Adjournment of Special Meeting**
To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to approve the merger agreement or if the conditions to closing of the merger are unlikely to be completed within a reasonable time following the special meeting.

o **FOR** o **AGAINST** o **ABSTAIN**

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting. This proxy, when properly executed, will be voted in the manner directed herein by the undersigned. **IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEM 1 AND FOR ITEM 2.**

Please sign below exactly as your name appears on your stock certificate. When shares are held jointly, each person should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. An authorized person should sign on behalf of corporations, partnerships and associations and give his or her title.

Dated: ,2007

Signature

Signature if held jointly

YOUR VOTE IS IMPORTANT. PROMPT RETURN OF THIS PROXY CARD WILL HELP SAVE THE EXPENSE OF ADDITIONAL SOLICITATION EFFORTS.