

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE

REDBOX AUTOMATED RETAIL, LLC )

Plaintiff, )

vs. )

TWENTIETH CENTURY FOX HOME )  
ENTERTAINMENT, LLC )

Defendant. )

Civil Action No. 09-592-RBK

**DECLARATION OF DAVID HOROWITZ IN SUPPORT OF TWENTIETH CENTURY  
FOX HOME ENTERTAINMENT LLC'S MOTION TO DISMISS REDBOX'S  
COMPLAINT PURSUANT TO FEDERAL RULE OF CIVIL PROCEDURE 12(B)(6)**

I, David Horowitz, declare as follows:

1. I am an attorney at the law firm of Kirkland & Ellis LLP, counsel for Twentieth Century Fox Home Entertainment LLC ("Fox") in this matter. I submit this declaration in support of Fox's Motion to Dismiss. I have personal knowledge of the facts set forth herein and if called to testify, could testify competently thereto.

2. Attached hereto as **Exhibit A** is a true and correct copy of Coinstar Inc.'s 8-K dated July 21, 2009.

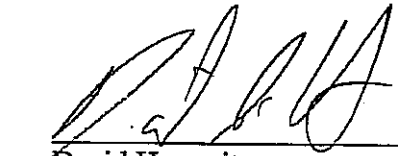
3. Attached hereto as **Exhibit B** is a true and correct copy of Coinstar Inc.'s 8-K dated August 11, 2009.

4. Attached hereto as **Exhibit C** is a true and correct copy of Coinstar Inc.'s 8-K dated August 25, 2009.

5. Attached hereto as **Exhibit D** are true and correct copies of selected pages from Coinstar Inc.'s 10-K dated February 26, 2009.

I declare under the penalty of perjury under the laws of the United States that the foregoing is true and correct.

Executed on this 1<sup>st</sup> day of October, 2009 in Los Angeles, California.



David Horowitz

# **EXHIBIT A**

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## Form 8-K

COINSTAR INC - CSTR

Filed: July 21, 2009 (period: July 17, 2009)

Report of unscheduled material events or corporate changes.

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

FORM 8-K

CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) July 17, 2009

COINSTAR, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation)

000-22555

(Commission File  
Number)

94-3156448

(I.R.S. Employer  
Identification No.)

1800 — 114<sup>th</sup> Avenue SE  
BELLEVUE, WA 98004

(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: **(425) 943-8000**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

### **Item 8.01 Other Events.**

On July 17, 2009, Redbox Automated Retail, LLC ("Redbox"), a wholly-owned subsidiary of Coinstar, Inc. ("Coinstar"), entered into a copy depth license agreement (the "Agreement") with SPHE Scan Based Trading Corporation ("Sony"), a subsidiary of Sony Pictures Home Entertainment Inc. Redbox estimates that it will pay Sony approximately \$460 million during the term of the Agreement, which is expected to last from July 1, 2009 until September 30, 2014. However, at Sony's discretion, the Agreement may expire earlier on September 30, 2011. Coinstar has guaranteed up to \$25 million of Redbox's liability under the Agreement.

Under the Agreement, Redbox agrees to license minimum quantities of theatrical and direct-to-video DVDs for rental in its more than 17,000 DVD-rental kiosks in the United States. The DVDs licensed and purchased from Sony are expected to represent approximately 19.9% percent of the total DVDs licensed and purchased by Redbox for 2009. Under the Agreement, Redbox should receive delivery of the DVDs by the "street date," the initial date on which the pictures are distributed on a rental basis to the general public for home entertainment viewing.

Certain statements in the foregoing paragraphs are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "estimate" and "expect," and variations of such words, and similar expressions identify forward-looking statements, but their absence does not mean that the statement is not forward-looking. The forward-looking statements in this release include statements regarding Redbox's relationship with Sony relating to among other things, a DVD licensing arrangement. Forward-looking statements are not guarantees of future performance and actual results may vary materially from the results expressed or implied in such statements. Differences may result from actions taken by Redbox or Sony, including those beyond our or Redbox's control. Such risks and uncertainties include, but are not limited to, the early termination or renegotiation on materially adverse terms of the Agreement and failure to abide by the terms and requirements of the Agreement. The foregoing list of risks and uncertainties is illustrative, but by no means exhaustive. For more information on factors that may affect future performance, including our relationship with Sony, please review "Risk Factors" described in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission. These forward-looking statements reflect Coinstar, Inc.'s expectations as of the date hereof. Coinstar, Inc. undertakes no obligation to update the information provided herein.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

COINSTAR, INC.

Date: July 20, 2009

By: /s/ Donald R. Rench

Donald R. Rench

General Counsel and Corporate Secretary

# **EXHIBIT B**



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## Form 8-K

COINSTAR INC - CSTR

Filed: August 11, 2009 (period: August 10, 2009)

Report of unscheduled material events or corporate changes.

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

FORM 8-K

CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 10, 2009

**COINSTAR, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation)

**000-22555**

(Commission File  
Number)

**94-3156448**

(I.R.S. Employer  
Identification No.)

1800 — 114<sup>th</sup> Avenue SE  
Bellevue, WA 98004

(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: **(425) 943-8000**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

### **Item 8.01 Other Events.**

On August 10, 2009, Redbox Automated Retail, LLC ("Redbox"), a wholly-owned subsidiary of Coinstar, Inc. ("Coinstar"), entered into a Home Video Lease Output Agreement (the "Letter Agreement") with Lions Gate Films, Inc. ("Lionsgate"). Redbox estimates that it will pay Lionsgate approximately \$158 million during the term of the Letter Agreement, which is expected to last from September 1, 2009 until August 31, 2014. However, at Lionsgate's discretion, the Letter Agreement may expire earlier on August 31, 2011.

Under the Letter Agreement, Redbox agrees to license minimum quantities of theatrical and direct-to-video DVDs for rental at each of the more than 15,000 locations that have a Redbox DVD-rental kiosk owned and/or operated by Redbox in the United States. The DVDs licensed from Lionsgate are expected to represent approximately 7.4% percent of the total DVDs licensed and purchased by Redbox for 2009. Under the Letter Agreement, Redbox should receive delivery of the DVDs by the "street date," the initial date on which Lionsgate first makes available a motion picture on a rental basis to the general public for the purpose of non-commercial home entertainment viewing.

Certain statements in the foregoing paragraphs are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "estimate" and "expect," and variations of such words, and similar expressions identify forward-looking statements, but their absence does not mean that the statement is not forward-looking. The forward-looking statements in this release include statements regarding Redbox's relationship with Lionsgate relating to among other things, a DVD licensing arrangement. Forward-looking statements are not guarantees of future performance and actual results may vary materially from the results expressed or implied in such statements. Differences may result from actions taken by Redbox or Lionsgate, including those beyond our or Redbox's control. Such risks and uncertainties include, but are not limited to, the early termination or renegotiation on materially adverse terms of the Letter Agreement and failure to abide by the terms and requirements of the Letter Agreement. The foregoing list of risks and uncertainties is illustrative, but by no means exhaustive. For more information on factors that may affect future performance, including our relationship with Lionsgate, please review "Risk Factors" described in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission. These forward-looking statements reflect Coinstar, Inc.'s expectations as of the date hereof. Coinstar, Inc. undertakes no obligation to update the information provided herein.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

COINSTAR, INC.

Date: August 10, 2009

By: /s/ Donald R. Rench

Donald R. Rench

General Counsel and Corporate Secretary

# **EXHIBIT C**

Morningstar® Document Research™

## Form 8-K

COINSTAR INC - CSTR

Filed: August 25, 2009 (period: August 25, 2009)

Report of unscheduled material events or corporate changes.

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

**FORM 8-K**

**CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported) August 25, 2009**

**COINSTAR, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation)

**000-22555**

(Commission File  
Number)

**94-3156448**

(I.R.S. Employer  
Identification No.)

1800 – 114<sup>th</sup> Avenue SE  
BELLEVUE, WA 98004

(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: **(425) 943-8000**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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### **Item 8.01 Other Events.**

On August 25, 2009, Redbox Automated Retail, LLC ("Redbox"), a wholly-owned subsidiary of Coinstar, Inc. ("Coinstar"), entered into a revenue sharing license agreement (the "Agreement") with Paramount Home Entertainment Inc. ("Paramount") that runs from August 25, 2009, through December 31, 2009 (the "Initial Term"). Prior to December 15, 2009, Paramount has the unilateral right to extend the term of the Agreement to December 31, 2014 (the "Extended Term"). However, if Paramount does agree to the Extended Term, at Paramount's discretion, the Agreement may be terminated earlier on December 31, 2011. Redbox estimates that it would pay Paramount approximately \$575 million during the Initial Term and the Extended Term. Coinstar has guaranteed up to \$25 million of Redbox's liability under the Agreement.

Under the Agreement, Redbox agrees to license minimum quantities of theatrical and direct-to-video DVDs for rental at each of the more than 15,000 locations that have a Redbox DVD-rental kiosk owned and/or operated by Redbox in the United States. The DVDs licensed and purchased from Paramount are expected to represent approximately 18.5% percent of the total DVDs licensed and purchased by Redbox for 2009. Under the Agreement, Redbox should receive delivery of the DVDs by the "street date," the first date on which the titles are available to the general public for home entertainment purposes, whether on a rental or sell-through basis.

Certain statements in the foregoing paragraphs are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "estimate" and "expect," and variations of such words, and similar expressions identify forward-looking statements, but their absence does not mean that the statement is not forward-looking. The forward-looking statements in this release include statements regarding Redbox's relationship with Paramount relating to among other things, a DVD revenue sharing licensing arrangement. Forward-looking statements are not guarantees of future performance and actual results may vary materially from the results expressed or implied in such statements. Differences may result from actions taken by Redbox or Paramount, including those beyond our or Redbox's control. Such risks and uncertainties include, but are not limited to, the failure to extend the term, the early termination or the renegotiation on materially adverse terms, of the Agreement, and failure to abide by the terms and requirements of the Agreement. The foregoing list of risks and uncertainties is illustrative, but by no means exhaustive. For more information on factors that may affect future performance, including our relationship with Paramount, please review "Risk Factors" described in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission, as well as other filings. These forward-looking statements reflect Coinstar, Inc.'s expectations as of the date hereof. Coinstar, Inc. undertakes no obligation to update the information provided herein.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

COINSTAR, INC.

By: /s/ Donald R. Rench

Donald R. Rench  
General Counsel and Corporate Secretary

Date: August 25, 2009

3

# **EXHIBIT D**

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## Form 10-K

COINSTAR INC - CSTR

Filed: February 26, 2009 (period: December 31, 2008)

Annual report which provides a comprehensive overview of the company for the past year

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES AND EXCHANGE ACT OF 1934

Commission File Number: 000-22555

**COINSTAR, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**1800 114th Avenue SE, Bellevue, Washington**

(Address of principal executive offices)

**94-3156448**

(IRS Employer  
Identification No.)

**98004**

(Zip Code)

**(425) 943-8000**

(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, \$0.001 par value**  
(Title of Each Class)

**The NASDAQ Stock Market LLC**  
(Name of Each Exchange on Which Registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.: Yes   
No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act.: Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities  
Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),  
and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant, based upon the closing price of our  
common stock on June 30, 2008 as reported on the NASDAQ Global Select Market, was approximately \$381.7 million. Shares of  
Common Stock held by each executive officer and director and by each person who beneficially held more than 5% of the outstanding  
Common Stock have been excluded as these persons may be deemed to be affiliates. This determination of affiliate status is not  
necessarily a conclusive determination for other purposes.

## **Table of Contents**

### **Money Transfer services**

Through our acquisitions of Coinstar Money Transfer (“CMT”) and GroupEx, we offer money transfer services primarily in the United Kingdom, other European countries, North America, and Central America. Our money transfer services provide an easy to use, reliable and cost effective way to send money around the world; it has become one of the leading independent providers of electronic money transfer services, with over 38,000 locations and operations in approximately 140 countries worldwide. Our services are specially suited for individuals away from home who need to send money to their family and friends or to manage their personal finances.

### **E-payment services**

We offer E-payment services, including activating and reloading value on prepaid wireless accounts, selling stored value cards, loading and reloading prepaid debit cards and prepaid phone cards, selling prepaid phones and providing payroll card services. We offer various E-payment services in the United States and the United Kingdom through 23,000 point-of-sale terminals, 400 stand-alone E-payment kiosks and 11,000 E-payment-enabled coin-counting machines in supermarkets, drugstores, universities, shopping malls and convenience stores.

### **Subsequent Events**

On February 12, 2009, we entered into an agreement with GetAMovie Inc. (“GAM”) to acquire GAM’s 44.4 percent voting interests in Redbox and GAM’s rights, title and interest in a \$10 million promissory note made by Redbox to GAM, in exchange for a combination of cash and Coinstar common stock. We will initially pay GAM \$10 million in cash and 1.5 million shares of Coinstar common stock on the closing date, which is expected to be on February 26, 2009. The total consideration to be paid to GAM is expected to be between approximately \$134 million and \$151 million. In addition, we expect to purchase the remaining outstanding interests of Redbox from minority interest and non-voting interest holders. Consideration will be paid on similar terms to those of the GAM purchase agreement. The total consideration to be paid in these transactions to purchase the remaining outstanding interests of Redbox is expected to be between \$21.5 million and \$24.9 million. We have also amended our credit agreement to facilitate these transactions. For additional information about these events, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview.”

### **Financial and Other Information About Segments, Geographic Areas and Our Business**

Other segment and geographic information, including financial, customer, intellectual property and competitive information provided herein is incorporated from Note 15 to our Consolidated Financial Statements and related notes and in Items 1A and 7 hereof. A discussion of seasonality is included in Item 8, along with other quarterly financial information.

### **Where You Can Get Information We File with the SEC**

We file with, and furnish to, the Securities and Exchange Commission (“SEC”), reports including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as amendments thereto. We maintain a website, [www.coinstar.com](http://www.coinstar.com), where we make these reports and related materials available free of charge as soon as reasonably practicable after we electronically deliver such material to the SEC. These materials can be found on our website under: About Us — Investor Relations — SEC Filings.

### **Item 1A. Risk Factors**

*You should carefully consider the following risk factors that may affect our business, including our financial condition and results of operations. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business. If any of the following risks actually occur, our business could be harmed, the trading price of our common stock could decline and you could lose all or part of your investment in us.*

## Table of Contents

***The termination, non-renewal or renegotiation on materially adverse terms of our contracts with one or more of our significant retailers could seriously harm our business, financial condition and results of operations.***

The success of our business depends in large part on our ability to maintain contractual relationships with our retailers in profitable locations. Our typical contract term ranges from one to three years and automatically renews until we or the retailer gives notice of termination. DVD contracts typically range from three to six years. Certain contract provisions with our retailers vary, including product and service offerings, the service fees we are committed to pay each retailer, frequency of service, and the ability to cancel the contract upon notice after a certain period of time. We strive to provide direct and indirect benefits to our retailers that are superior to or competitive with other providers or systems (including coin-counting systems which retailers could operate themselves or through a third party) or alternative uses of the floor space that our machines occupy. If we are unable to provide our retailers with adequate benefits, we may be unable to maintain or renew our contractual relationships on acceptable terms causing our business, financial condition and results of operations to suffer.

We do a substantial amount of our business with certain retailers. For example, we have significant relationships with Wal-Mart Stores, Inc. and McDonald's USA, LLC ("McDonald's USA"), which accounted for approximately 19% and 10% of our consolidated revenue, respectively, for the year ended December 31, 2008. Our relationship with Wal-Mart is governed by contracts that Wal-Mart generally may terminate with limited notice. In addition, McDonald's USA has the right to terminate its contract with us with respect to all of our kiosks in a particular geographic market, with or without cause, on 90 days' notice, in which event we have the option to repurchase our kiosks on specified terms. Cancellation, adverse renegotiation of or other changes to these relationships could seriously harm our business and reputation.

***Events outside of our control, including the current economic crisis, has and could continue to negatively affect customers' use of our products and services.***

Our customers' use of many of our products and services is dependent on discretionary spending, which is affected by, among other things, economic and political conditions, consumer confidence, interest and tax rates, and financial and housing markets. With increased economic pressures recently affecting more and more of our potential customers, we have been negatively impacted by more conservative purchasing tendencies over the last half year and expect that fewer non-essential products and services will be purchased during the coming periods if the economic downturn continues. For example, we have seen a significant decrease in revenues from our entertainment business during 2008 as people have spent less and had less to spend. Further, many of our customers have less discretionary income to transfer to relatives and other persons, often in foreign countries such as Mexico. In addition, because our business relies in part on customers initially visiting retailers to purchase products and services that are not necessarily our products and services, the fact that people are generally visiting retailers less frequently and being more careful with their money when they do, is also negatively impacting our business.

Further, our ability to obtain funding, if and as needed, through equity issuances or loans, or otherwise meet our current obligations to third parties could be adversely affected by the economic crisis. In addition, the ability of third parties to honor their obligations to us could be negatively impacted, as retailers, suppliers and other parties deal with the economic crisis as well. Finally, there may be consequences that will ultimately result from the current economic crisis are not yet known, and any one or more of these unknown consequences (as well as those currently being experienced) could potentially have a material adverse effect on our financial condition, operating results and liquidity as well as our business generally.

***There are many risks related to our DVD services business that may negatively impact our business.***

The home video industry is highly competitive with many factors affecting our ability to profitably manage our DVD services business. Some of the risks that could negatively impact our participation in this industry include:

- Competition from other providers, including those using other distribution channels, having more experience, greater or more appealing inventory, better financing, and better relationships with those in the movie industry, than we have, including:
  - traditional video retailers, like Blockbuster, and other local and regional video stores, and other DVD kiosk businesses,

## Table of Contents

- mail-delivery and online retailers like Netflix or Amazon,
- other retailers like Wal-Mart and other chain stores selling DVDs,
- pay-per-view/cable/satellite and similar movie content providers like Comcast or HBO,
- other forms of movie content providers like Internet sites including iTunes, Hulu or Google, and
- noncommercial sources like libraries;

as well as general competition from other forms of entertainment such as movie theaters, television, sporting events and video gaming.

- Changes in the sequential timing of when movie content is made available to the various movie content distribution channels. Businesses that rent movies in physical formats such as DVDs currently enjoy a competitive advantage over other movie distribution rental channels because of the early timing of the distribution window for physical formats by movie studios. After the initial theatrical release of a movie, the movie studios' current practice is generally to make their movies available on physical formats for a 30 to 45-day release window before release to other movie distribution rental channels. However, movie studios could change, including shortening or discontinuing altogether, movie distribution windows, including simultaneous video-on-demand/computer downloads and DVD releases. For example, there have been recent announcements that certain movie studios will make new release titles available on video-on-demand or for online purchase on the same date as the DVD release. Studios also could attempt to lengthen the time that certain video retailers must wait before renting movies following their release on physical format (e.g., waiting at least 45 days following DVD release before making certain movies available for rental as recently proposed by Universal Studios).
- Changes in consumer content delivery preferences, including DVDs with higher picture/sound quality (e.g., Blu-ray), disposable or download-to-burn DVDs, more use of personal video recorders (e.g., TiVo), pay-per-view/cable/satellite and similar technologies, computer downloads, portable devices, and other mediums, and less demand for a high volume of new movie content due to such things as larger home DVD and downloaded movie libraries.
- Increased availability of movie content inventory through personal video recorders, pay-per-view/cable/satellite and similar technologies, computer downloads, portable devices, and other mediums.
- Decreased quantity and quality of movie content availability for DVD distribution due to:
  - general-industry-related factors, including financial disruptions, labor conflicts (e.g., actor/writer strikes) or movie content failing to appeal to consumers' tastes, and
  - distribution-related factors, including restrictions relating to the number of DVD selections made available to DVD kiosks and the manner in which DVD kiosks may distribute movies, i.e., only through rental (as recently proposed by Universal Studios).
- Decreased costs related to purchasing or receipt of movie content, including less expensive DVDs, including more aggressive competitor pricing strategies and piracy, and cheaper use of pay-per-view/cable/satellite and similar technologies.

In addition, although our subsidiary Redbox is majority owned and we have the right to appoint and have appointed three of the five representatives to Redbox's board of managers, prior to the expected February 26, 2009 closing of the GAM transaction described above, under the Redbox formulation documents, GAM has the right in some circumstances to require the sale of Redbox, including Coinstar's sale of its equity. Accordingly, should the closing not occur and should GAM take specific actions, Coinstar could be required to sell all of its interests in Redbox. Adverse developments relating to any of these risks, as well as others relating to our participation in the home video industry, could significantly affect our business, financial condition and operating results.

## Table of Contents

### ***Our DVD services business has a limited operating history and a history of operating losses.***

Our DVD services business has a limited operating history and faces many of the risks inherent to a new business. Redbox, the largest part of our DVD services business, had incurred a net operating loss each year since it began operations in 2002 through 2007, and has only been profitable on a quarterly basis since the first quarter of 2008, although it may not be able to sustain profitable operations in the future. As a result of its limited operating history, it is difficult to accurately forecast our potential revenue and operating results from DVD services. If we are unable to attract customers to our DVD rental kiosks, our operations and financial condition will be adversely affected. While we believe that the total addressable market for DVD rental kiosks is large, we cannot be certain about its size or the most effective plan for locating kiosks. Because of our limited operating history and because the DVD rental kiosk market and our business model for DVD services is rapidly evolving, we have very limited data and track records for predicting kiosk and market performance in future periods. As a result, we may make errors in predicting and reacting to relevant business trends which could have a material adverse effect on our business, financial condition and results of operations. For example, we may, among other things, over-install kiosks in certain geographic areas leading to non-accretive installations.

***If we do not manage our DVD inventory effectively, our business, financial condition and results of operations could be materially and adversely affected.***

A critical element of our DVD services business model is to optimize our inventory of DVD titles and copy depth to achieve satisfactory availability rates to meet customer demand while also maintaining our desired margins. If we do not timely acquire sufficient DVD titles and copy depth, due to, for example, not correctly anticipating demand or by intentionally acquiring fewer copies than needed to fully satisfy demand, we may not appropriately satisfy customer demand, which could decrease customer satisfaction and we could lose customers to competitors. Conversely, if we attempt to mitigate this risk and acquire a larger number of copies to achieve higher availability rates for select titles, our inventory utilization would become less efficient and our margins for DVD services would be adversely affected. Our ability to accurately predict customer demand as well as market factors, such as our ability to obtain satisfactory distribution arrangements, may impact our ability to timely acquire appropriate quantities of certain DVD titles. In addition, if we are unable to obtain or maintain favorable terms from our suppliers with respect to such matters as timely movie access, copy depth and product returns, among others, or if the price of DVDs increases generally or for certain titles, our inventories may become unbalanced. Any of these adverse developments could have a material adverse effect on our business, financial condition and results of operations.

***If our sell-back prices to distributors continue to decrease or we are restricted from selling DVDs at all, or if there is an increase in customer demand for titles or formats that are more expensive for us to acquire, our margins in the DVD services business could be adversely affected.***

Margins in the DVD services business depend in part on our ability to negotiate favorable sell-back terms for DVDs at the end of their rental life. The price at which we can sell back DVDs has declined in recent periods. If this trend continues, or if we are otherwise restricted from selling our previously-viewed DVDs to our distributors or customers, our operating results will be adversely affected. It is uncertain whether we will be able to negotiate purchase and sell-back prices with our DVD distributors for new physical formats such as Blu-ray discs that will allow us to be profitable under our current business model. Increased market acceptance of Blu-ray discs could also put downward pressure on the distributors' sell-back price for standard-definition DVDs, as demand for the old format decreases. In addition, certain titles cost more for us to acquire, depending on the source from which they are acquired and the terms on which they are acquired. If customer demand for these titles increases, our content acquisition expenses could increase, and our margins could be adversely affected. Titles released on the new high-definition formats, such as Blu-ray discs, may be more expensive to acquire than titles released on standard-definition formats. The rate of customer acceptance and adoption of these new formats is uncertain. If customers select the new higher-cost, high-definition formats on a proportional basis more often than standard-definition formats, and if we are unable to negotiate attractive purchase and sell-back prices for both high- and standard-definition formats with our distributors, our actual content acquisition expenses could increase and our margins in the DVD services business could be adversely affected.



## **Table of Contents**

***Litigation, arbitration, mediation, regulatory actions, investigations or other legal proceedings could result in material rulings, decisions, settlements, fines, penalties or publicity that could adversely affect our business, financial condition and results of operations.***

Our business has in the past been, and may in the future continue to be, party to class actions, regulatory actions, investigations, arbitration, mediation and other legal proceedings. The outcome of such proceedings is often difficult to assess or quantify. Plaintiffs, regulatory bodies or other parties may seek very large or indeterminate amounts of money from us or substantial restrictions on our business activities, and the results, including the magnitude, of lawsuits, actions, settlements, decisions and investigations may remain unknown for substantial periods of time. The cost to defend, settle or otherwise finalize lawsuits, regulatory actions, investigations, arbitrations, mediations or other legal proceedings may be significant and such proceedings may divert management's time. For example, we have been in dispute with a former supplier, ScanCoin AB ("ScanCoin"), regarding certain contract rights and obligations as well as ownership of certain of our patents and patent applications related to our coin-counting business. In connection with an arbitration set for December 2009, ScanCoin is seeking a declaration of ownership of substantially all of our United States and international patents related to certain aspects of self-service coin-counting, including machine networking, fraud avoidance and voucher authentication, and monetary damages of approximately 56 million Swedish kronor, plus interest. Coinstar has filed a claim in United States District Court against ScanCoin North America alleging infringement on one of our patents relating to self-service coin machines. In addition, our majority owned subsidiary Redbox has filed an action in federal court against Universal Studios Home Entertainment, LLC relating to new distribution terms proposed by Universal Studios that would restrict certain rental and sales practices associated with Universal Studios' DVD releases. We have incurred and expect to incur significant costs relating to these disputes, and cannot be sure of when they will be resolved, and if resolved, the magnitude of the effects the ultimate resolutions will have on our business, which could be significant. In addition, there may be adverse publicity associated with such developments that could decrease customer acceptance of our products and services. As a result, litigation, arbitration, mediation, regulatory actions or investigations involving us or are affiliates may adversely affect our business, financial condition and results of operations.

***Our most extensive business relationship is with Wal-Mart, and changes to this relationship have had and are expected to continue to have material effects on our operations and results.***

A significant amount of our resources are committed to our relationship with Wal-Mart, including investments in machines and other equipment and management's time. In late 2007 and early 2008, we and Wal-Mart worked extensively to revise our business arrangements in connection with Wal-Mart's efforts to reset and optimize its store entrances. As part of these arrangements and in light of the successful completion of our coin and DVD tests in hundreds of Wal-Mart locations, we amended written agreements covering, among other things, the installation and service of coin-counting machines and DVD kiosks. At December 31, 2008, we had over 2,700 coin-counting units installed and over 3,200 DVD kiosks installed in Wal-Mart locations. We expect to complete the roll-out of approximately 500 additional coin-counting units and 600 additional DVD kiosks in the first half of 2009. As a result, we have made and are continuing to make significant investments, such as machine and kiosk manufacturing, in line with these expected installations. In addition, as part of this arrangement, we have removed or relocated a substantial number of our entertainment machines in Wal-Mart stores.

Although we have had and expect to continue to have a successful relationship with Wal-Mart, changes to this relationship will continue to occur both in the long and short-term, some of which could adversely affect our business. Further, because our formal arrangements with Wal-Mart are generally for relatively short periods and do not provide for minimum installation obligations by Wal-Mart, much of our benefit in this relationship will depend on the execution of Wal-Mart's plan and the continued installation of significant numbers of our coin-counting machines and DVD kiosks.

***We have substantial indebtedness.***

On November 20, 2007, we entered into a senior secured revolving credit facility, which replaced a prior credit facility. The new credit facility provides for a \$400.0 million revolving line of credit, which under specified conditions may increase to \$450.0 million. As of December 31, 2008, \$270.0 million was outstanding under this

## **Table of Contents**

credit facility. The credit facility bears interest at variable rates determined by prevailing interest rates and our leverage ratio. As a result, our costs of borrowing are exposed to risks of fluctuations in interest rates, as well as our financial condition and operating results, which affect our leverage ratio. Loans made pursuant to the credit facility are secured by a first priority security interest in substantially all of our assets and the assets of our domestic subsidiaries, as well as a pledge of a substantial portion of our subsidiaries' capital stock. The credit facility matures on November 20, 2012.

This credit facility may limit our ability to obtain future financings or may negatively impact our business, financial condition, results of operations and growth. Due to substantial financial leverage, we may not be able to generate sufficient cash flow to service the indebtedness, or to adequately fund our operations. Moreover, the credit facility contains negative covenants and restrictions relating to such things as certain stock repurchases, liens, investments, capital expenditures, other indebtedness, payments of dividends, and fundamental changes or dispositions of our assets that could impair our flexibility to pursue growth opportunities. In addition, the credit facility requires that we meet certain financial covenants, including a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio, all as defined in the credit facility. If the financial covenants are not met or any other event of default occurs under the credit facility, our lenders would be entitled to declare our indebtedness immediately due and payable and exercise other remedies.

***We may be unable to identify and define product and service trends or anticipate, gauge and react to changing consumer demands in a timely manner.***

To be competitive, we need to develop or otherwise provide new product and service offerings that are accepted by the market and establish third-party relationships necessary to develop and commercialize such product and service offerings. For example, our DVD kiosks must make available on a timely basis a variety of movie titles and our entertainment services machines must carry toy and other products, that appeal to a broad range of customers whose preferences cannot be predicted with certainty and are subject to change. If we misjudge the market for our products and services, or if a contract with a significant retailer is renegotiated, we may be faced with significant excess inventories for some products, such as DVDs and toys and other entertainment products, and missed opportunities for sales of other products and services. In addition, if we fail to timely establish or maintain relationships with significant suppliers, we may not be able to provide our customers with desirable products and services. Further, in order to develop and commercialize new non-entertainment products and services, including our money transfer business, we will need to enhance the capabilities of our coin-counting machines and E-payment machines and equipment, as well as our related networks and systems through appropriate technological solutions, and establish market acceptance of such products or services. We cannot assure you that new products or services that we provide will be successful.

***Competitive pressures could seriously harm our business, financial condition and results of operations.***

Our coin-counting services faces competition from supermarkets, banks and other companies that purchase and operate coin-counting equipment from companies such as ScanCoin, Cummins-Allison Corporation and others. Our retailers may choose to replace our coin-counting machines with competitor machines and operate such machines themselves or through a third party, or not carry coin-counting machines at all deciding that floor space could be used for other purposes. In addition, retailers, some of which have significantly more resources than we do, may decide to enter the coin-counting market. Some banks and other competitors already provide coin-counting free of charge or for an amount that yields very low margins or that may not generate a profit at all. An expansion of the coin-counting services provided or a reduction in related fees charged by any of these competitors or retailer decisions to use floor space for other than coin-counting, could materially and adversely affect our business and results of operations.

Our DVD business faces competition from many other providers of movie content, from traditional stores, such as Blockbuster and Hollywood Video, to other self-service kiosks, to online or postal providers, such as Netflix, many of whom may be more experienced in the business or have more resources than we do or otherwise compete with us in this segment of our business as described above.

## Table of Contents

Our entertainment services faces competition from a number of regional and local operators of entertainment services equipment. Many of these competitors are engaged in expansion programs, and we experience intense competition for locations. Our entertainment services equipment also competes with other vending machines, coin-operated entertainment devices, and seasonal and bulk merchandise for sites within retail locations. We may be unable to maintain current sites in retail locations or to obtain new sites in the future on attractive terms or at all. It is possible that a well-financed vending machine manufacturer or other vending machine operator with existing relationships with our retailers could compete with us in certain markets or capture additional market share at our expense. In addition, retailers have taken action in the past and could continue to take action to restructure or otherwise rethink the use of their locations or sites, which could limit the amount of entertainment services we provide. For example, over the past year, as part of Wal-Mart's efforts to reset and optimize its store entrances, it reduced the overall number of our entertainment machines and equipment used in its stores.

Our E-payment services, including our money transfer services, prepaid wireless and long distance accounts, stored value cards, debit cards and payroll services, face competition from a variety of types of providers, including, among others, national distributors of similar cards, other retailers who provide these services themselves, as well as money transfer companies. Many of these providers are more established in selling their E-payment services than we are and many invest more resources in providing such services to customers, such as InComm in the prepaid wireless and long distance markets, Blackhawk Network in the stored value cards and debit card markets and Western Union in the money transfer market. In addition, in order for us to provide many of our E-payment services, we depend on relationships with third parties, such as national wireless carriers, national supermarket chains and other retailers, money transfer agents and financial institutions. Accordingly, if we are unable to effectively market our E-payment services or maintain and establish successful relationships with appropriate third parties or our competitors provide better terms, our E-payment services will not be competitive.

In addition, the nature and extent of consolidations and bankruptcies, which often occur during or as a result of economic downturns such as the recent crisis, in markets where we install our machines and equipment, particularly the supermarket and other retailing industries, could adversely affect our operations, including our competitive position, as the number of installations and potential retail users of our machines and equipment could be significantly reduced.

### *We may be unable to adequately protect or enforce our patents and other proprietary rights.*

Our success depends, in part, on our ability to protect our intellectual property and maintain the proprietary nature of our technology through a combination of patents, licenses and other intellectual property arrangements, without infringing the proprietary rights of third parties. We have over 80 United States and international patents related to aspects of self-service coin-counting, including patents regarding machine networking, fraud avoidance and voucher authentication. We also have additional patent applications pending in the United States and several foreign jurisdictions directed to our coin-counting, DVD, entertainment and E-payment technologies. In addition, we may apply for or obtain (through development, acquisition or otherwise) additional patents regarding technologies used in our business.

Our patents may not be held valid if challenged, our patent applications may not be issued, and other parties may claim rights in or ownership of our patents and other proprietary rights. Since many patent applications in the United States are not publicly disclosed until the patent is issued, others may have filed applications, which, if issued as patents, could cover our products or technology. Patents issued to us may be circumvented or fail to provide adequate protection of our technologies. Our competitors might independently develop or patent technologies that are substantially equivalent or superior to our technologies. Further, since patent terms are limited, other parties may begin practicing our patented technologies when our related patents expire. For example, our United States patent rights based on our original patent application primarily relating to our coin-counting business will expire in September 2012 and the patent relating to Redbox's Rent and Return Anywhere feature will expire in June 2010.

In addition, certain parties may assert claims of patent infringement or misappropriation against us based on current or pending United States or foreign patents, copyrights or trade secrets, or contracts. If such claims were successful, our business could be harmed. Defending our company and our retailers against these types of claims,

## **Table of Contents**

regardless of their merits, could require us to incur substantial costs and divert the attention of key personnel. Parties making these types of claims may be able to obtain injunctive or other equitable relief, which could effectively block or impair our ability to provide our coin-counting, DVD, entertainment or E-payment services, in the United States or abroad. Such claims could also result in an award of substantial damages. If third parties have or obtain proprietary rights that our products infringe, we may be unable to obtain necessary licenses from others at a reasonable cost or at all. For example, we have been in dispute with a former supplier, ScanCoin, regarding certain contract rights and obligations as well as ownership of certain of our patents and patent applications related to our coin-counting business as described above. In addition, if we instigate litigation to enforce our patents or protect our other proprietary rights, or to determine the validity and scope of other parties' proprietary rights, such litigation could cause us to spend significant financial and management resources. For example, we filed a claim in the federal court against ScanCoin North America alleging that it is infringing on a patent we own related to self-service coin machines. We also rely on trademarks, copyrights, trade secrets and other intellectual property to develop and maintain our competitive position. Although we protect our intellectual property in part by confidentiality agreements with our employees, consultants, vendors and corporate partners, these parties may breach these agreements. We may have inadequate remedies for any such breach and our trade secrets may otherwise become known or be discovered independently by our competitors. The failure to protect our intellectual property rights effectively or to avoid infringing the intellectual property rights of others, as well as unfavorable rulings or settlements, could seriously harm our business, financial condition and results of operations.

### ***Our strategy to cross-sell our products and services to retailers may be unsuccessful.***

An important part of our 4th Wall strategy is based on cross-selling our selection of products and services to our retailers. We may be unsuccessful in expanding our relationships with retailers to include a variety of our products and services in their storefronts, due to, among other things, lack of multiple products and services that appeal to our retailers, failure to negotiate contracts for multiple products and services on acceptable terms, other parties providing similar products and services on more favorable terms, or reluctance by retailers to obtain historically separate product and service categories from a single provider. If we are unable to effectively execute our cross-selling strategy, our business could be negatively impacted.

### ***We may be unable to attract new retailers and penetrate new markets and distribution channels.***

In order to increase our coin-counting, DVD, entertainment money transfer and E-payment services machine and equipment installations, we need to attract new retailers and develop operational or unit production cost efficiencies that make it feasible for us to penetrate lower density markets or new distribution channels, such as coin-counting machines in banks and credit unions and DVD kiosks in convenience stores. We may be unable to attract new retailers or drive down costs relating to the manufacture, installation or servicing of coin-counting, DVD, entertainment, money transfer and E-payment services machines and equipment to levels that would enable us to operate profitably in lower density markets or penetrate new distribution channels. If we are unable to do so, our future operating results could be adversely affected.

### ***Payment of increased service fees to retailers could negatively affect our business results.***

We face ongoing pricing pressure from our retailers to increase the service fees we pay to them on coin-counting, DVD, entertainment, money transfer and E-payment products and services or to make other financial concessions to win or retain business. If we are unable to respond effectively to ongoing pricing-related pressures, we may fail to win or retain certain accounts. Our fee arrangements are based on our evaluation of unique factors with each retailer, such as total revenue, E-payment capabilities, long-term non-cancelable contracts, installation of our machines and equipment in high-traffic, urban or rural locations and new product and service commitments. Together with other factors, an increase in service fees paid or other financial concessions made to our retailers could significantly increase our direct operating expenses in future periods and harm our business.

## Table of Contents

***The entertainment services market has brought with it risks that have and could continue to adversely affect our business, operating results and financial condition.***

In July 2004, we entered the entertainment services business, which has represented a significant source of our revenue, although a decreasing percentage of our revenue over the last several years. This business is associated with various financial and operational risks affecting our business, including a number of risks recently realized due to the economic downturn such as reduced demand for crane, bulk head and kiddie ride services. For example, in February 2008, in connection with an agreement with Wal-Mart to significantly expand our coin-counting machines and our DVD kiosk locations, we began removing or relocating roughly 50% of Wal-Mart cranes, bulk heads and kiddie rides. This action, along with other contract terminations or decisions to scale-back the number of entertainment machines with other retailers as well as macro-economic trends, negatively affecting the entertainment service industry, resulted in excess equipment and inventory. As a result, we recorded a pre-tax charge for entertainment assets of \$65.2 million for the three month period ended December 31, 2007, and we may in the future record additional impairment charges. In addition, we may be unable to continue to leverage the comparatively lower margin entertainment services business with our other lines of business to produce the cross-selling opportunities we desire. For these and other reasons, the entertainment services business could materially and adversely affect our business, operating results and financial condition.

***Defects, failures or security breaches in and inadequate upgrade of our operating systems could harm our business.***

The operation of the coin-counting, DVD, money transfer and e-payment machines and equipment relating to our business, depends on sophisticated software, hardware, computer networking and communication services that may contain undetected errors or may be subject to failures. These errors or failures may arise particularly when new or enhanced products or services are added. In the past, there have been limited delays and disruptions resulting from upgrading or improving these operating systems. Future upgrades or improvements that may be necessary to expand and maintain our business could result in delays or disruptions or may not be timely or appropriately made, any of which could seriously harm our operations.

Certain aspects of the operating systems relating to our business are outsourced to third-party providers, including long-distance telecommunications. Accordingly, the effectiveness of these operating systems is to a certain degree dependent on the actions and decisions of third-party providers.

Further, while we have taken significant steps to protect the security of operating systems and have established certain back-up systems and disaster recovery procedures, service disruptions may result from intentional or unintentional acts of third parties, computer viruses, natural disasters, or other causes which are beyond our control. Any service disruptions, whether due to errors or delays in or failure to adequately upgrade software or computing systems, interruptions or breaches in the communications network, inadequate back-up or disaster recovery, or security breaches of the computer network systems, caused by us or third parties, could seriously harm our business, financial condition and results of operations.

***Failure to adequately comply with information security policies or to safeguard against breaches of such policies could adversely affect our operations and could damage our business, reputation, financial position and results of operations.***

As our business expands to provide new products and services, including additional money transfer, E-payment and DVD services, we are increasing the amount of consumer data that we collect, transfer and retain as part of our business. These activities are subject to laws and regulations, as well as industry standards, in the United States and other jurisdictions in which our products and services are available. These requirements, which often differ materially and sometimes conflict among the many jurisdictions in which we operate, are designed to protect the privacy of consumers' personal information and to prevent that information from being inappropriately used or disclosed. We maintain and review technical and operational safeguards designed to protect this information. However, despite those safeguards, it is possible that hackers, employees acting contrary to our policies, third-party agents or others could improperly access our systems or improperly obtain or disclose data about our customers, or that we may be determined not to be in compliance with applicable legal requirements and industry standards for

## Table of Contents

data-security, such as the Payment Card Industry guidelines. Any breach of our security policies that compromises consumer data or determination of non-compliance with applicable legal requirements or industry standards for data security could expose us to regulatory enforcement actions, card association or other monetary fines or sanctions, or contractual liabilities, limit our ability to provide our products and services, subject us to litigation and damage our reputation.

### ***Lack of consumer confidence, whether real or perceived, in our coin-counting machines could harm our business.***

The accuracy of the coin-counting functionality of our machines is important to consumers and our retailers. The failure to maintain consumer confidence in our technology and systems could harm our business. Our inability to collect the data from our coin-counting machines could lead to a delay in processing coins and crediting the accounts of our retailers for vouchers that have already been redeemed. Any inaccuracy, loss or delay in collecting or processing coin data could seriously harm our operations.

### ***Our future operating results may fluctuate.***

Our future operating results will depend significantly on our ability to continue to drive new and repeat use of our coin-counting, DVD, entertainment, money transfer and E-payment products and services, our ability to develop and commercialize new products and services and the costs incurred to do so, and our ability to successfully integrate newer lines of business into our operations, including, for example, DVD and money transfer services. Our operating results have a history of fluctuating and may continue to fluctuate based upon many factors, including:

- the transaction fees we charge consumers to use our services,
- the amount of service fees that we pay to our retailers,
- our ability to establish or maintain relationships with significant retailers on acceptable terms,
- the successful operation of our coin-counting, DVD, money transfer and E-payment network,
- the commercial success of our retailers, which could be affected by such factors as general economic conditions, severe weather or strikes,
- fluctuations in revenue generated by our coin-counting, DVD, entertainment, money transfer and E-payment products and services,
- fluctuations in operating expenses caused by various factors, including petroleum costs, labor costs and transportation costs,
- our ability to effectively manage the product mix of our entertainment services equipment to maximize consumer preferences,
- fluctuations in interest rates, which affects our debt service obligations,
- the timing of, and our ability to develop and successfully commercialize, new or enhanced products and services,
- the level of product and price competition,
- activities of and acquisitions or announcements by competitors,
- the impact from any impairment of inventory, goodwill, fixed assets or intangibles related to our acquisitions,
- fluctuations in consumer spending patterns, and
- relationships with manufacturers and suppliers.

In addition, we have historically experienced seasonality in our revenues, with higher revenues in the second half of the year than in the first half of the year. Our Coin product line generally experiences its highest revenues in the third calendar quarter, followed by the fourth calendar quarter, and relatively lower revenues in the first half of

## **Table of Contents**

the year. Our DVD product line generates lower revenues in the first half of the year. Our E-payment and Money Transfer product lines generally provide its highest revenue in the fourth quarter. We have not experienced significant seasonality in our entertainment services. We expect our results of operations will continue to fluctuate as a result of seasonal fluctuations and our revenue mix between relatively higher margin Coin and DVD product lines, and relatively lower margin E-payment and Money Transfer product lines.

### ***We depend upon third-party manufacturers, suppliers and service providers for key components and substantial support for our coin-counting, entertainment, E-payment and DVD services machines and equipment.***

We conduct limited manufacturing operations and depend on outside parties to manufacture key components of our coin-counting, DVD, entertainment, E-payment services machines and equipment. We intend to continue to expand our installed base of machines and equipment. Such expansion may be limited by the manufacturing capacity of our third-party manufacturers and suppliers. Third-party manufacturers may not be able to meet our manufacturing needs in a satisfactory and timely manner. If there is an unanticipated increase in demand for coin-counting or E-payment machine or entertainment services equipment installations, we may be unable to meet such demand due to manufacturing constraints.

Some key hardware components used in the coin-counting, DVD and E-payment machines and entertainment services equipment are obtained from a limited number of suppliers. We may be unable to continue to obtain an adequate supply of these components in a timely manner or, if necessary, from alternative sources. If we are unable to obtain sufficient quantities of components or to locate alternative sources of supply on a timely basis, we may experience delays in installing or maintaining coin-counting, DVD and E-payment machines or entertainment services equipment, any of which could seriously harm our business, financial condition and results of operations.

In addition, we rely on third-party service providers for substantial support and service efforts that we currently do not provide directly. In particular, we contract with third-party providers to arrange for pick-up, processing and deposit of coins as well as limited servicing of our machines. We generally contract with a single transportation provider and coin processor to service a particular region and either party generally can terminate the contracts with advance notice ranging from 30 to 90 days. We do not currently have, nor do we expect to have in the foreseeable future, the internal capability to provide back-up coin processing service in the event of a sudden disruption in service from a commercial coin processor. Any failure by us to maintain our existing coin processing relationships or to establish new relationships on a timely basis or on acceptable terms could harm our business, financial condition and results of operations.

### ***We are subject to substantial federal, state, local and foreign laws and government regulation specific to our business.***

Our business is subject to federal, state, local and foreign laws and government regulation relating to coins, toy safety, child protection, vehicle safety, access to machines in public places, charitable fundraising, the transfer of money or things of value, currency controls, weights and measures, payment cards and other payment instruments, gaming, sweepstakes, contests, consumer protection, consumer privacy, data protection and information security. The application of existing laws and regulations, changes in or enactment of new laws and regulations that apply or may in the future apply to our current or future products or services, changes in governmental authorities' interpretation of the application of various government regulations to our business, or the failure or inability to gain and retain required permits and approvals could materially and adversely affect our business. In addition, many jurisdictions require us to obtain certain licenses in connection with the operations of our coin-counting, entertainment and E-payment and money transfer services. For example, we have obtained licenses in those states and the District of Columbia which require licenses with regard to provision of some of our E-payment services, including stored value card and money transfer transactions. There can be no assurance that we will be granted all necessary licenses or permits in the future, that current licenses or permits will be renewed or that regulators will not revoke current licenses or permits. Given the unique nature of our business and new products and services we may develop or acquire in the future, the application of various laws and regulations to our business is uncertain. Further, as governmental and regulatory scrutiny and action with regard to many aspects of our business increase, we expect that our costs of complying with the applicable legal requirements will increase, perhaps substantially.

## **Table of Contents**

Failure to comply with these laws and regulations could result in, among other things, revocation of required licenses or permits, loss of approved status, termination of contracts, administrative enforcement actions and fines, class action lawsuits, cease and desist orders and civil and criminal liability. The occurrence of one or more of these events, as well as the increased cost of compliance, could materially adversely affect our business, financial condition and results of operations.

### ***There are risks associated with conducting our business and sourcing goods internationally.***

We currently have coin operations in Canada and the United Kingdom and Ireland, DVD operations in the United Kingdom and entertainment services operations in Mexico. We expect to continue increasing our deployment of machines and equipment internationally. In addition, as of December 31, 2008, our money transfer services are offered in approximately 140 countries. Accordingly, political uncertainties, economic changes, civil unrest, exchange rate fluctuations, restrictions on the repatriation of funds, adverse changes in legal requirements, including tax, tariff and trade regulations, difficulties with foreign distributors and other difficulties in managing an organization outside the United States, could seriously harm the development of our business and ability to operate profitably. Further, as we do more business in an increasing number of countries, our business becomes more exposed to the impact of the political and economic uncertainties, including government oversight, of foreign jurisdictions.

For example, substantially all of the plush toys and other products dispensed from our entertainment services machines are produced by foreign manufacturers, including a majority purchased directly from manufacturers in China. Further, we purchase other vending products from vendors that obtain a significant percentage of such products from foreign manufacturers. As a result, we are subject to changes in governmental policies, exchange rate fluctuations, various product quality standards, the imposition of tariffs, import and export controls, transportation delays and interruptions and political and economic disruptions which could disrupt the supply and timely delivery of products manufactured abroad. In addition, we could be affected by labor strikes in the sea shipping, trucking and railroad industries. A reduction or interruption in supplies or a significant increase in the price of one or more supplies could have a material adverse effect on our business.

### ***Our money transfer services business requires us to meet specific federal, state, local and foreign laws and government regulations, subjecting us to additional risk.***

The money transfer industry is heavily regulated, both in the United States and internationally. We operate our money transfer services business under the authority of the licenses and approvals that we have obtained where required from the various jurisdictions in which we operate. There is no assurance that we will be able to maintain these licenses and approvals in the future.

In operating the money transfer services business in the United States for example, we are responsible for compliance with a variety of state laws and regulations, including licensing requirements, applicable to the business. In addition, we are subject to United States federal anti-money laundering laws, including United States Department of the Treasury registration requirements and reporting requirements for suspicious and certain other transactions, and the requirements of the Office of Foreign Assets Control, which prohibit transmitting money to specified countries or to or on behalf of prohibited individuals or entities. If we were to transmit money to or on behalf of, or otherwise conduct business with, a prohibited individual or entity, we could be required to pay significant damages, including fines and penalties, and our ability to conduct business in the United States and other jurisdictions could be limited. The USA PATRIOT Act and the U.S. Bank Secrecy Act mandate several anti-money laundering requirements. Any violation of anti-money laundering laws could lead to significant penalties, and could limit our ability to conduct business in the United States and other jurisdictions.

In addition, the money transfer industry is subject to international regulation, which varies from country to country. In certain countries in which we operate, we are required to maintain licenses or other governmental approvals in order to operate this business. As described above, we are responsible for compliance with these laws and regulatory requirements in those countries in which we operate the money transfer services business. Although most countries in which we operate this business do not regulate this business to the same degree as the United States, this could change in the future.



## **Table of Contents**

Failure to comply, or as discussed below the failure of a money services business that we have acquired to comply before our acquisition, with the laws and government regulations in jurisdictions in which we operate, or in which the acquired company operated the money transfer services business could result in, among other things, revocation of required licenses or registrations, loss of approved status, termination of contracts with banks or retail representatives, administrative enforcement actions and fines, penalties or other damages, class action lawsuits, cease and desist orders, and/or other civil and criminal liability. The occurrence of one or more of these events could adversely affect our business, financial condition and results of operations. Furthermore, additions to or changes in the laws, regulations or other industry practices and standards in the United States or any of the foreign countries in which the money transfer services business operates could also increase our compliance and other costs of doing business, require significant systems redevelopment, reduce the market for or value of our products or services or render our products or services less profitable or obsolete, lead to a loss of agents, and have an adverse effect on our results of operations.

### ***Our money transfer service is and will remain reliant on an effective agent network.***

Substantially all of the money transfer services revenue is generated through an agent network spanning approximately 140 countries as of December 31, 2008. Agents include banks and other financial institutions, regional micro-finance companies, chain stores and local convenience stores. Transaction volumes at existing agent locations often increase over time and new agents provide us with additional revenue. If agents decide to leave our network, or if we are unable to sign new agents, our revenue and profit growth rates may be adversely affected. Agent attrition might occur for a number of reasons, including a competitor engaging an agent or an agent's dissatisfaction with its relationship with us or the revenue derived from that relationship. In addition, agents may generate fewer transactions or less revenue for various reasons, including changes in economic circumstances affecting customers and potential customers, the appearance of competitors close to our agent locations or increased competition. Because an agent is a third party that engages in a variety of activities in addition to providing our services, an agent may encounter business difficulties unrelated to its provision of our services, which could cause the agent to reduce its number of locations, hours of operation, or cease doing business altogether. Moreover, we could suffer financial loss and additional liability from the failure for any reason of our agents to provide good funds in a money transfer. The failure of the agent network to meet our expectations regarding revenue production and business efficiencies may negatively impact our business, financial condition and results of operations.

Further, failure, either intentional or unintentional, by our agents to comply with the laws and regulatory requirements of applicable jurisdictions, including anti-money laundering, consumer privacy and information security restrictions, in connection with our money transfer services business or otherwise, could result in, among other things, revocation of required licenses or registrations, loss of approved status, termination of contracts with third parties, administrative enforcement actions and fines, seizure or forfeiture of our funds, class action lawsuits, cease and desist orders and civil and criminal liability, as well as damage to our reputation. The occurrence of one or more of these events could materially adversely affect our business, financial condition and results of operations.

### ***Our business involves the movement of large sums of money, and, as a result, our business is particularly dependent on our ability to process and settle transactions accurately and efficiently.***

Our business involves the movement of large sums of money. For example, our money transfer services revenues consist primarily of transaction fees that are charged for the movement of money. These transaction fees represent only a small fraction of the total amount of money that is moved. Further, our coin-counting, DVD and entertainment services businesses require the effective transfer of large sums of money between many different locations as well. Because we are responsible for large sums of money that often are substantially greater than the revenues generated, the success of our business particularly depends upon the efficient and error-free handling of the money that is remitted and that is used to clear payment instruments or complete transfers. We rely on the ability of our agents and employees and our operating systems and network to process these transactions in an efficient, uninterrupted and error-free manner. In addition, we rely on third-party vendors in our business, including, among others, clearing banks which clear our money orders, official checks and money transfers, and certain of our telecommunication providers. In the event of a breakdown, catastrophic event, security breach, improper operation or any other event impacting our systems or network or our vendors' systems or processes, or improper or other

## **Table of Contents**

actions taken by our agents, employees, or third party vendors, we could suffer financial loss, loss of customers, regulatory sanctions and damage to our reputation.

### ***Volatile petroleum prices may adversely affect our operating results and reduce our profitability.***

We purchase a substantial amount of goods overseas, particularly plush toys and other products dispensed from our entertainment services machines, resulting in significant transportation-related costs. Petroleum-based resins are used in the manufacture of these products. In addition, we operate a large number of vehicles used by our field service personnel for the purpose of servicing and maintaining our coin-counting, DVD, entertainment and E-payment services machines and equipment. Furthermore, customer use of our products and services is affected by petroleum costs as customers may need to pay higher transportation costs, including for travel to locations that carry our machines and equipment. The volatility in petroleum prices during recent years, including significantly higher prices during various periods, have negatively impacted our results of operations. The cost of petroleum is generally influenced by factors beyond our control, including natural disasters, political and geopolitical issues. Continued volatility in petroleum prices may continue to have an adverse affect on our operating results.

### ***Our customers' ability to access our products and services can be adversely affected by severe weather, natural disasters and other events beyond our control, such as fires, power failures, telecommunication loss and terrorist attacks.***

Our operational and financial performance is a direct reflection of customer use of and the ability to operate and service the coin-counting, DVD, entertainment, money transfer and E-payment services machines and equipment used in our business. Severe weather, natural disasters and other events beyond our control can, for extended periods of time, significantly reduce customer use of our products and services as well as interrupt the ability of our employees and third-party providers to operate and service our equipment and machines. In some cases, severe weather, natural disasters and other events beyond our control may result in extensive damage to or destruction of our infrastructure and equipment, including loss of machines used to provide our products and services, which losses may not be fully covered by insurance. For example, hurricanes in the gulf coast region of the United States in 2005 caused damage and operational interruptions to some of the retail and other locations where our machines are installed.

### ***Acquisitions and investments involve risks that could harm our business and impair our ability to realize potential benefits from such acquisitions and investments.***

As part of our business strategy, we have in the past sought and may in the future seek to acquire or invest in businesses, products or technologies that we feel could complement or expand our business. For example, in October 2007, we purchased substantially all of the assets of DVDXpress and in January 2008 we completed the acquisition of a majority interest in Redbox, both providers of self-service DVD kiosks, and in January 2008 and May 2006, we purchased the money transfer services business GroupEx and CMT, respectively. However, we may be unable to adequately address the financial, legal and operational risks raised by these acquisitions or investments, which could harm our business and prevent us from realizing the projected benefits of the acquisitions and investments. Further, the evaluation and negotiation of potential acquisitions and investments, as well as the integration of acquired businesses, divert management time and other resources. In addition, we cannot assure you that any particular transaction, even if successfully completed, will ultimately benefit our business. Certain financial and operational risks related to acquisitions and investments that may have a material impact on our business are:

- the assumption of known and unknown liabilities of an acquired company, including employee and intellectual property claims and other violations of applicable law,
- managing relationships with other investors and the companies in which we have made investments,
- use of cash resources and incurrence of debt and contingent liabilities in funding acquisitions and investments,

## **Table of Contents**

- difficulties and expenses in assimilating the operations, products, technology, information systems or personnel of an acquired company,
- stockholder dilution if an acquisition is consummated through an issuance of our securities,
- amortization expenses related to acquired intangible assets and other adverse accounting consequences,
- costs incurred in identifying and performing due diligence on potential targets that may or may not be successful,
- impairment of relationships with employees, retailers and affiliates of our business and the acquired business,
- entrance into markets in which we have no direct prior experience, and
- impairment of goodwill arising from our acquisitions and investments.

### ***Recall of any of the products dispensed by our entertainment services machines or by the entertainment services industry generally could adversely affect our entertainment services business.***

Our entertainment services machines and the entertainment services industry generally, are subject to regulation by the Consumer Product Safety Commission and similar state and international regulatory authorities. The toys and other products dispensed from our entertainment services machines could be subject to involuntary recalls and other actions by regulatory authorities. Concerns about product safety may lead us to voluntarily recall or discontinue offering selected products. Potential or actual defects in any of our products distributed through our entertainment services machines could result in the rejection of our entertainment services products by consumers, damage to our reputation, lost sales, potential inventory valuation write-downs, excess inventory, diverted development resources and increased customer service and support costs, any of which could harm our business. Any such errors, potential or actual defects or recalls may not be covered by insurance or cause our insurance costs to increase in future periods.

### ***We may be subject to product liability claims if property or people are harmed by our products and services.***

Some of the products we sell, especially through our entertainment services machines, may expose us to product liability claims arising from personal injury, death or property damage. Any such product liability claim may result in adverse publicity regarding us, our entertainment service machines and the products we sell. Even if we successfully defend ourselves against or settle this type of claim, we could be forced to spend a substantial amount of money in litigation or settlement expenses and our management could be required to spend valuable time in dealing with these claims. Further, our vendors may not indemnify us against product liability. There is a risk that claim awards, settlement payments, related costs or associated liabilities may exceed, or fall outside the scope of, our insurance coverage and we cannot be certain that insurance will continue to be available to us on economically reasonable terms, or at all. Any imposition, or even possible imposition, of product liability could harm our business, financial condition and operating results.

### ***Our stock price has been and may continue to be volatile.***

Our stock price has fluctuated substantially since our initial public offering in July 1997. For example, during the twelve months ended February 16, 2009, the closing price of our common stock ranged from \$15.71 to \$38.90 per share. Our stock price may fluctuate significantly in response to a number of factors, including:

- the termination, non-renewal or re-negotiation of one or more retailer relationships,
- economic or other external factors, for example those relating to the current economic crisis,
- acquisition, merger, investment and disposition activities,
- operating results below market expectations and changes in, or our failure to meet, financial estimates of securities analysts or our own guidance,
- trends and fluctuations in the use of our coin, DVD, entertainment, money transfer and E-payment services,

## Table of Contents

- release of analyst reports,
- period-to-period fluctuations in our financial results,
- announcements regarding the establishment, modification or termination of relationships regarding the development of new or enhanced products and services,
- announcements of technological innovations or new products or services by us or our competitors,
- ineffective internal controls, and
- industry developments.

In addition, the securities markets have experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also seriously harm the market price of our common stock.

*Our anti-takeover mechanisms may affect the price of our common stock and make it harder for a third party to acquire us without the consent of our board of directors.*

We have implemented anti-takeover provisions that may discourage takeover attempts and depress the market price of our stock. Provisions in our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. Delaware law also imposes some restrictions on mergers and other business combinations between us and any acquirer of 15% or more of our outstanding common stock. Furthermore, Washington law may impose additional restrictions on mergers and other business combinations between us and any acquirer of 10% or more of our outstanding common stock. These provisions may make it harder for a third party to acquire us without the consent of our board of directors, even if the offer from a third party may be considered beneficial by some stockholders.

### **Item 2. Properties.**

We are headquartered in Bellevue, Washington, where we maintain the majority of our sales, marketing, research and development, quality control, and administration. In addition, our main entertainment services office is located in Louisville, Colorado, our primary E-payment office is located in Chicago, Illinois and we have our main money transfer offices in La Mirada, California and London, England.

Our corporate administrative, marketing and product development facility is located in a 46,070 square foot facility in Bellevue, Washington, under a lease that expires December 1, 2009.

Our entertainment services office is located in a 31,000 square foot facility in Louisville, Colorado, which is utilized for administrative, warehouse, pre-pack and field office functions. The lease for this facility expires on February 28, 2013.

Redbox leases headquarter offices in Oakbrook Terrace, Illinois. The headquarter offices occupy 60,180 square feet, and these premises are under a lease that expires in 2011.

### **Item 3. Legal Proceedings.**

In April 2007, we received a request for arbitration filed by ScanCoin before the Arbitration Institute of the Stockholm Chamber of Commerce regarding ownership of intellectual property related to an agreement between Coinstar and ScanCoin dated April 23, 1993. The parties have selected arbitrators, and we advanced partial payment for the arbitration. In August 2007, we received ScanCoin's statement of claim and we responded with our statement of defense in November 2007. ScanCoin seeks a declaration of ownership of over 70 of our patents and patent applications related to our coin-counting machines, as well as monetary damages of approximately 56 million Swedish kronor, plus interest. The arbitration is scheduled for December 2009. We believe that ScanCoin's claims against us are without merit and intend to defend ourselves vigorously in this arbitration. In October 2007, we filed a claim in United States District Court for the Northern District of Illinois against ScanCoin North America alleging that it is infringing on a patent we own relating to self-service coin machines. ScanCoin North America has moved to stay the case pending resolution of the arbitration.