ALLIANCE DATA SYSTEMS CORP Form 10-O May 11, 2009 **Table of Contents** 

# **UNITED STATES**

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# **FORM 10-Q**

(Mark One)

#### þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE **ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

#### •• TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE **ACT OF 1934** to

For the transition period from

Commission File Number: 001-15749

# **ALLIANCE DATA SYSTEMS CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of

Incorporation or Organization)

31-1429215 (I.R.S. Employer

Identification No.)

17655 Waterview Parkway

Dallas, Texas 75252

(Address of Principal Executive Office, Including Zip Code)

(972) 348-5100

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required 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 b No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes "No"

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.

 Large accelerated filer b
 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 Act). Yes " No b
 Yes " No b

As of May 7, 2009, 58,077,074 shares of common stock were outstanding.

#### ALLIANCE DATA SYSTEMS CORPORATION

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#### PART I

#### Item 1. Financial Statements.

#### ALLIANCE DATA SYSTEMS CORPORATION

#### UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2009	December 31, 2008	
ASSETS	(In thou ASSETS		
Cash and cash equivalents	\$ 321,631	\$ 156,911	
Trade receivables, less allowance for doubtful accounts (\$7,611 and \$7,172 at March 31, 2009 and	¢ 021,001	¢ 100,911	
December 31, 2008, respectively)	194,304	219,362	
Seller s interest and credit card receivables, less allowance for doubtful accounts (\$44,794 and \$40,718 at			
March 31, 2009 and December 31, 2008, respectively)	678,920	639,573	
Deferred tax asset, net	199,273	201,895	
Other current assets	139,923	142,661	
Redemption settlement assets, restricted	514,318	531,594	
Assets held for sale		32,015	
Total current assets	2,048,369	1,924,011	
Property and equipment, net	160,452	168,847	
Due from securitizations	762,656	701,347	
Intangible assets, net	284,861	297,776	
Goodwill	1,126,423	1,133,790	
Other non-current assets	117,356	116,219	
Total assets	\$ 4,500,117	\$ 4,341,990	
LIABILITIES AND STOCKHOLDERS EQUITY			
Accounts payable	\$ 114,050	\$ 108,370	
Accrued expenses	102,450	143,656	
Certificates of deposit	627,600	433,900	
Credit facility and other debt, current	275,392	275,549	
Other current liabilities	91,413	106,641	
Deferred revenue	816,341	860,455	
Liabilities held for sale		20,782	
Total current liabilities	2,027,246	1,949,353	
Deferred tax liability, net	155,854	123,476	
Deferred revenue	129,741	135,179	
Certificates of deposit	305,300	255,000	
Long-term and other debt	1,355,217	1,215,726	
Other liabilities	112,968	115,958	
Total liabilities	4,086,326	3,794,692	
Stockholders equity:			
Common stock, \$0.01 par value; authorized 200,000 shares; issued 90,049 shares and 89,029 shares at			
March 31, 2009 and December 31, 2008, respectively	900	890	
Additional paid-in capital	1,118,493	1,115,291	
Treasury stock, at cost (30,952 and 26,222 shares at March 31, 2009 and December 31, 2008, respectively)	(1,573,255)	(1,410,339)	

Retained earnings	917,160	889,305
Accumulated other comprehensive loss	(49,507)	(47,849)
Total stockholders equity	413,791	547,298
Total liabilities and stockholders equity	\$ 4,500,117	\$ 4,341,990

See accompanying notes to unaudited condensed consolidated financial statements.

#### ALLIANCE DATA SYSTEMS CORPORATION

#### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Mor Marc	nths Ended
	2009 2008 (In thousands, except per share amounts)	
Revenues		
Transaction	\$ 95,981	\$ 83,596
Redemption	112,147	116,779
Securitization income and finance charges, net	140,497	167,991
Database marketing fees and direct marketing fees	115,609	117,503
Other revenue	16,022	13,381
Total revenue	480,256	499,250
Operating expenses		
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	321,890	324,811
General and administrative	27,819	18,268
Depreciation and other amortization	15,086	17,762
Amortization of purchased intangibles	14,248	17,187
Loss on the sale of assets		1,052
Merger (income) costs	(580)	1,607
Total operating expenses	378,463	380,687
Operating income	101,793	118,563
Interest expense, net	31,607	17,103
Income from continuing operations before income taxes Provision for income taxes	70,186 27,233	101,460 38,758
Income from continuing operations	42,953	62,702
Loss from discontinued operations, net of taxes	(15,098)	(13,383)
Net income	\$ 27,855	\$ 49,319
Basic income per share:		
Income from continuing operations	\$ 0.70	\$ 0.80
Loss from discontinued operations	(0.24)	(0.17)
Net income per share	\$ 0.46	\$ 0.63
Diluted income per share:		
Income from continuing operations	\$ 0.69	\$ 0.78
Loss from discontinued operations	(0.24)	(0.17)
Net income per share	\$ 0.45	\$ 0.61
Weighted average shares basic	61,148	78,536
Weighted average shares diluted	61,833	80,589

See accompanying notes to unaudited condensed consolidated financial statements.

#### ALLIANCE DATA SYSTEMS CORPORATION

#### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Change in merchant settlement activity       (8,987)       (102,713         Change in accounts payable and accrued expenses       (15,616)       (83,152)         Change in accounts payable and accrued expenses       (14,890)       (11,369)         Change in accounts payable and accrued expenses       (55,616)       (83,152)         Change in other liabilities       8,933       12,722         Excess tax benefits from stock-based compensation       (528)       339         Other       6,640       (370)         Net cash provided by (used in) operating activities       71,095       (26,516)         Change in redemption settlement assets       1,581       (629)         Net (increase) decrease in seller s interest and credit card receivables       (55,966)       65,970         Change in use for mescuritizations       (62,369)       18,752         Capital expenditures       (10,888)       (13,852         Proceeds from the sale of assets       8,013       5,000         Other       531       (19,998)       73,310         CASH FLOWS FROM FINANCING ACTIVITIES:       863,000       933,000         Repayment of borrowings       (727,894)       (871,000         Other       531       (19,908)       53,300         Repayment of borrowings			onths Ended arch 31,
CASH ELOWS FROM OPERATING ACTIVITIES:       \$ 27,855       \$ 49,319         Adjustments to reconcile net income to net cash provided by (used in) operating activities:       29,334       42,941         Depreciation and amorization       29,334       42,941         Provision for doubtful accounts       12,288       12,388         Non-cash tock compensation       18,048       6,481         Provision for doubtful accounts       10,354       10,354         Amorization of discount on Convertible Senior Notes       10,354       10,354         Impairment of long-lived assets       15,060       22,3641         Change in operating assets and liabilities, net of acquisitions:       15,262       23,641         Change in intrade accounts receivable       15,262       23,641         Change in intrade accounts receivable       15,262       23,641         Change in intrade accounts receivable       16,818       11,152         Change in intrade accounts payable and accrued expenses       (56,616)       (68,152         Change in inderred revenue       (14,890)       11,369         Change in inderred revenue       (14,890)       11,369         Change in inderred revenue       (14,819)       (16,219)         Kecess tax benefits from stock-based compensation       (528)       339 <th></th> <th>2009</th> <th>2008</th>		2009	2008
Net income       \$ 27.855       \$ 49.319         Adjustments reconcile net income to net cash provided by (used in) operating activities:       29.334       42.941         Depreciation and amorization       29.334       42.941         Defered income taxes       21.348       2.041         Provision for doubtful accounts       13.288       13.855         Non-cash stock compensation       18.048       6.481         Fair value loss (gain) on interest-only strip       18.8       10.354         Impairment of long-lived assets       10.354       15.000         Loss (gain) on the sale of assets       18.018       (3.214         Change in indea accounts receivable       15.262       23.641         Change in indea accounts receivable       15.262       23.641         Change in indea accounts receivable       15.262       23.641         Change in inder assets       (17.152)       (4.375         Change in other assets       (17.152)       (4.375         Change in indered accounts receivable       15.262       23.641         Change in other liabilities       8.933       12.722         Excess tax benefits from stock-based compensation       (528)       339         Other       70.095       (26.516       (53.966)       65.970 </th <th></th> <th>(In th</th> <th>ousands)</th>		(In th	ousands)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:       29.334       42.941         Depreciation and amortization       29.334       42.941         Provision for doubtful accounts       12.388       13.858         Demonstration of discount on Convertible Senior Notes       10.354         Monorization of discount on Convertible Senior Notes       10.354         Impairment of long-lived assets       15.060         Long in operating assets and liabilities, net of acquisitions:       15.262       23.641         Change in noternating sastest and liabilities, net of acquisitions:       (17.152)       (4.375)         Change in inderate stellement activity       (8.987)       (102.713)       (12.713)         Change in other assets       (17.152)       (4.375)       (17.152)       (4.375)         Change in other assets       (17.152)       (4.376)       (17.152)       (4.376)         Change in other liabilities       8.933       12.722       (3.391)       (3.214)       (3.214)         Change in other liabilities       8.933       12.722       (3.391)       (3.214)       (3.214)       (3.214)       (3.214)       (3.214)       (3.214)       (3.214)       (3.214)       (3.214)       (3.214)       (3.216)       (3.216)       (3.216)       (			·
Depreciation and amorization       29,344       42,941         Deformation concentaxes       21,348       2,041         Provision for doubtful accounts       13,288       13,855         Non-cash stock compensation       18,049       6,481         Annotization of discount on Convertible Senior Notes       10,354       115,000         Long ein onterest-only strip       18       16,010         Change in trade accounts receivable       15,262       23,641         Change in trade accounts receivable       15,262       23,641         Change in trade accounts receivable       (16,271)       (10,2713)         Change in accred expenses       (56,616)       (83,152)         Change in other liabilities       8,933       12,722         Scesses tax benefits from stock-based compensation       (52,833)       0ther         Net cash provided by (used in) operating activities       71,095       (26,516         CAst periodic fuery set		\$ 27,855	\$ 49,319
Deferred income taxes       21,348       2,041         Provision for doubful accounts       13,288       13,855         Nun-cash stock compensation       18,048       6,481         Fair value loss (gain) on interest-only strip       18       (10,400         Amoritzation of discount on Convertible Senior Notes       10,354       10,354         Impairment of long-lived assets       15,000       (28,57)       (22,23,641         Change in operating assets and liabilities, net of acquisitions:       (8,887)       (102,71)       (4,375         Change in interchant settlement activity       (8,887)       (102,71)       (4,375         Change in deferred revenue       (14,890)       11,369       (13,892         Change in decounts payable and accrued expenses       (55,616)       (83,152)       (339         Other       6,640       (370         Vet cash provided by (used in) operating activities       71,095       (26,516         CASH ELOWS FROM INVESTING ACTIVITIES:       (10,888)       (13,852         Change in redemption settlement assets       1,581       (629         Net cash provided by (used in) operating activities       (26,316)       (55,906)       (55,970)         Change in redemption settlement assets       1,581       (629       (87,335) <td< td=""><td></td><td></td><td></td></td<>			
Provision for doubtful accounts       13,228       13,855         Non-cash stock compensation       18,048       6,481         Fair value loss (gain) on interest-only strip       108       (10,400         Amottrization of discount on Convertible Senior Notes       10,354       15,000         Loss (gain) on the sale of assets       15,000       22,641         Change in operating assets and liabilities, net of acquisitions:       (10,27,13       (4,375)         Change in merchant settlement activity       (8,987)       (10,27,13         Change in interface assets       (55,616)       (8,31,52         Change in other assets       (55,616)       (8,31,52         Change in other assets       (55,616)       (8,31,52         Change in other liabilities       8,933       12,722         Excess tax benefits from stock-based compensation       (528)       339         Other       6,640       (370         Net cash provided by (used in) operating activities       71,095       (26,516         CASH FLOWS FROM INVESTING ACTIVITIES:       15,81       6629         Capital expenditures       (10,888)       (13,852         Capital expenditures       (10,888)       (13,852         Capital expenditures       (10,908)       73,310 <tr< td=""><td>-</td><td></td><td></td></tr<>	-		
Non-cash stock compensation         18,048         6,481           Fair value loss (gain) on interest-only strip         188         (10,400           Amortization of discount on Convertible Senior Notes         10,353         115,000           Loss (gain) on interest-only strip         18,018         (3,214           Change in unde accounts receivable         15,262         23,644           Change in turde accounts receivable         15,252         23,644           Change in turde accounts receivable         (14,375         (14,375           Change in deferred revenue         (14,890)         11,369           Change in other stacts         (528)         339           Other         6,640         (370           Net cash provided by (used in) operating activities         71,095         (26,516           CASH FLOWS FROM INVESTING ACTIVITIES:         15,81         (622           Change in redemption settlement assets         1,581         (50,910           Change in redemption settlement assets         (10,888)         (13,852           Change in deferred			
Fair value loss (gain) on interest-only strip       188       (10,400         Amortization of discount on Convertible Senior Notes       10,354       Inpairment of long-lived assets       15,000         Loss (gain) on the sale of assets       18,018       (3,214         Change in operating assets and liabilities, net of acquisitions:       15,262       23,644         Change in operating assets and liabilities, net of acquisitions:       (17,152)       (4,4375         Change in operating assets and cared expenses       (17,152)       (4,4375         Change in ofter drevenue       (14,4800)       11,360         Change in oftered revenue       (14,4800)       11,360         Change in oftered revenue       (14,4800)       11,360         Change in oftered revenue       (14,4800)       11,360         Change in ofter assets       (10,610)       (370         Net cash provided by (used in) operating activities       71,095       (26,516         CASH FLOWS FROM INVESTING ACTIVITIES:       (10,888)       (13,852         Proceeds from the sale of assets       (55,960)       65,970         Change in defere s interest and credit card receivables       (55,960)       65,970         Change in defere s interest and credit card receivables       (10,888)       (13,850         Proceeds from the sale			
Amortization of discount on Convertible Senior Notes       10,354         Impairment of long-lived assets       15,000         Change in the sale of assets       18,018       (3,214         Change in nothe sale of assets       15,262       23,641         Change in the accounts receivable       15,262       23,641         Change in the accounts receivable       (17,152)       (10,2,713         Change in other assets       (17,152)       (4,375)         Change in other assets       (14,890)       11,366         Change in other tassets       (14,890)       11,366         Change in other tassets       (56,616)       (83,152)         Change in other tassets       (56,616)       (83,152)         Change in recounts payable and accrued expenses       (56,616)       (370)         Change in redemption settlement assets       (12,6516)       (370)         Other       .1581       (622)       339         Other       .1581       (622)       329         Net cash provided by (used in) operating activities       .1581       (622)         Change in redemption settlement assets       .1581       (622)         Change in redemption settlement assets       .1581       (622)         Change in redemption settlement assets			
Impairment of long-lived assets       15,000         Loss (gain) on the sale of assets       18,018       (3,214)         Change in operating assets and liabilities, net of acquisitions:       15,262       23,641         Change in nethernaln settlement activity       (8,987)       (102,713)         Change in other assets       (17,152)       (4,375)         Change in directed expenses       (56,616)       (83,152)         Change in directred reveue       (14,480)       11,360         Change in other liabilities       8,933       12,722         Excess tax banefits from stock-based compensation       (528)       339         Other       6,640       (370)         Net cash provided by (used in) operating activities       71,095       (26,516)         CASH FLOWS FROM INVESTING ACTIVITIES:       200       200         Change in deformations activities       71,095       (26,516)         CASH FLOWS FROM INVESTING ACTIVITIES:       201       201         Change in due from securitizations       (62,369)       18,752         Capital expenditures       (119,088)       73,310         Proceeds from the sale of assets       8,013       5,000         Other       531       (11,852)         Proceeds from the sale of assets			(10,400)
Less (gain) on the sale of assets18,018(3,214Change in operating assets and liabilities, net of acquisitions: Change in trade accounts receivable15,26223,641Change in merchant settlement activity(8,987)(102,713)Change in merchant settlement activity(8,987)(102,713)Change in necreat settlement activity(5,616)(83,152)Change in deferred revenue(14,490)11,369Change in deferred revenue(14,490)11,369Change in other liabilities8,93312,722Excess tax benefits from stock-based compensation(528)339Other6,640(370)Net cash provided by (used in) operating activities71,095(26,516)Cash FLOWS FROM INVESTING ACTIVITIES: Change in tredemption settlement assets1,581(629)Net (ack provided by cused in) operating activities(10,388)(13,852)Capital expenditures(10,388)(13,852)Capital expenditures(10,388)(13,852)Proceeds from the sale of assets8,0135,000Other531(1,931)Net cash (used in) provided by investing activities(119,098)73,310Cash FLOWS FROM FINANCING ACTIVITIES: Borrowings under debt agreements863,000933,000Quartificates of depositis(16,9300)(183,800)933,000Payment of deferred financing cotts(14,520)(13,830)Payment of deferred financing cotts(16,9307)(14,520)Excess tax benefits from stock based compensation		10,354	
Change in operating assets and liabilities, net of acquisitions: Change in trade accounts receivable 15,262 23,641 Change in merchant settlement activity (8,987) (102,713 Change in other assets (17,152) (4,375 Change in accounts payable and accrued expenses (56,616) (83,152 Change in acferred revenue (14,890) (14,890) Change in accounts payable and accrued expenses (56,616) (83,152 Change in deferred revenue (14,890) (12,893) (2,283) Other (528) 339 Other (528) (339) Other (528) (339) Other (528) (339) Other (528) (10,985) (2,6516) CASH FLOWS FROM INVESTING ACTIVITIES: Change in redemption settlement assets 1,581 (629) Net (increase) decrease in seller s interest and credit card receivables (55,966) (55,970) Change in due from securitizations (62,369) 18,752 Capital expenditures (10,888) (11,888) (13,882) Capital expenditures (119,088) (73,310) Other (331 (19,388) (13,832) Charge in used in provided by investing activities (119,098) 73,310 CASH FLOWS FROM FINANCING ACTIVITIES: Borrowings under debt agreements 863,000 933,000 Repayment of capital lease obligations (5,973) (16,970) CaSH FLOWS FROM FINANCING ACTIVITIES: Borrowings under debt agreements 863,000 933,000 Repayment of capital lease obligations (5,973) (16,970) CaSH FLOWS FROM FINANCING ACTIVITIES: Borrowings under debt agreements 863,000 933,000 Repayment of capital lease obligations (5,973) Capital elase obligations (5,973) (16,900) (183,800) Proceeds from susances (14,520) Excess tax breefits from stock-based compensation (5,983) (16,9837) Other (164 Net cash provided by (used in) financing activities (16,900) Other (164			
Change in trade accounts receivable       15,262       23,641         Change in merchant settlement activity       (8,987)       (102,713         Change in other assets       (17,152)       (4,375)         Change in other assets       (56,6616)       (83,152)         Change in other labilities       8,933       11,369         Change in other labilities       8,933       12,722         Excess tax benefits from stock-based compensation       (528)       339         Other       6,640       (370)         Net cash provided by (used in) operating activities       71,095       (26,516         Change in other emption settlement assets       1,581       (629)         Net cash provided by (used in) operating activities       1,581       (629)         Change in due from securitizations       (62,369)       (87,52)         Change in due from securitizations       (62,369)       (87,52)         Change in due from securitizations       (10,888)       (13,852)         Proceeds from the sale of assets       8,013       5,000         Other       531       (1,931)         Net cash (used in) provided by investing activities       (119,098)       73,310         CAsh HLOWS FROM FINANCING ACTIVITIES:       863,000       933,000       933,000<		18,018	(3,214)
Change in merchant settlement activity       (8,987)       (102,713         Change in counts payable and accrued expenses       (17,152)       (4,375         Change in accounts payable and accrued expenses       (16,4390)       (11,369         Change in accounts payable and accrued expenses       (16,289)       (12,228)         Change in other liabilities       8,933       12,722         Excess tax benefits from stock-based compensation       (528)       339         Other       6,640       (370         Net cash provided by (used in) operating activities       71,095       (26,516         CASH FLOWS FROM INVESTING ACTIVITIES:       1,581       (629         Change in redemption settlement assets       1,581       (629         Net (increase) decrease in seller s interest and credit card receivables       (55,666       65,970         Capital expenditures       (10,888)       (13,852         Proceeds from the sale of assets       8,013       5,000         Other       531       (19,918)       73,310         CASH FLOWS FROM FINANCING ACTIVITIES:       119,098       73,310         Proceeds from the sale of assets       863,000       933,000         Repayment of borrowings       (727,894)       (871,000         Capital Laxe obligations			
Change in other assets       (17,152)       (4,375         Change in accounts payable and accrued expenses       (56,616)       (83,152)         Change in deferred reveue       (14,890)       11,360         Change in other liabilities       8,933       12,722         Excess tax benefits from stock-based compensation       (528)       339         Other       6,640       (370)         Net cash provided by (used in) operating activities       71,095       (26,516)         CASH FLOWS FROM INVESTING ACTIVITIES:       (55,966)       65,970         Change in deermption settlement assets       1,581       (629)         Net cash provided by (used in) operating activities       (10,888)       (13,852)         Capital expenditures       (10,888)       (13,852)         Capital expenditures       (10,888)       (13,852)         Proceeds from the sale of assets       8,013       5,000         Other       531       (19,998)       73,310         CASH FLOWS FROM FINANCING ACTIVITIES:       863,000       933,000         Borrowings under debt agreements       863,000       933,000         Repayment of borrowings       (727,894)       (871,000)         Castificate of deposit issuances       (14,52)       Excest at benefits from stock-based			23,641
Change in accounts payable and accrued expenses       (56,616)       (83,152         Change in defered revenue       (14,890)       11,369         Change in other liabilities       8,933       112,722         Excess tax benefits from stock-based compensation       (528)       339         Other       6,640       (370)         Net cash provided by (used in) operating activities       71,095       (26,516)         CASH FLOWS FROM INVESTING ACTIVITIES:	Change in merchant settlement activity	(8,987)	
Change in deferred revenue(14,800)11,369Change in other liabilities8,93312,722Excess tax benefits from stock-based compensation(528)339Other6,640(370Net cash provided by (used in) operating activities71,095(26,516CASH FLOWS FROM INVESTING ACTIVITIES:71095(26,516Change in redemption settlement assets1.581(629Net (increase) decrease in seller s interest and credit card receivables(55,966)65,970Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(19,91)Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000)Cartificate of deposit issuances(13,80095,300Repayment of capital lease obligations(5,393)(4,733)Proceeds from isauce of common stock1,6582,7100Proceeds from sale-leaseback compensation528(339)Proceeds from sale-leaseback compensation528(339)Proceeds from sale-leaseback compensation528(339)Proceeds from isauce of common stock1,6582,7100Proceeds from isale-leaseback torus compensation528(339)Proceeds from isale-leaseback tor	Change in other assets	(17,152)	(4,375)
Change in other liabilities8,93312,722Excess tax benefits from stock-based compensation(528)339Other6,640(370Net cash provided by (used in) operating activities71,095(26,516CASH FLOWS FROM INVESTING ACTIVITIES:71,095(26,516Change in redemption settlement assets1.581(629Net (increase) decrease in seller s interest and credit card receivables(55,966)65,970Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(1,931)Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit is suances(169,900)(183,802Payment of capital lease obligations(1,452)1,658Proceeds from issuance of common stock1,6582,712Proceeds from issuance of common stock1,6582,710Proceeds from issuance of common	Change in accounts payable and accrued expenses	(56,616)	(83,152)
Excess tax benefits from stock-based compensation(528)339Other6,640(370Net cash provided by (used in) operating activities71,095(26,516CASH FLOWS FROM INVESTING ACTIVITIES:1,581(629Change in redemption settlement assets1,581(629Net (increase) decrease in seller s interest and credit card receivables(55,966)65,970Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(1,931)Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000)Certificate of deposit issuances(13,880138,800Payment of capital lease obligations(5,393)(4,733)Payment of deferred financing costs(1,452)12,000Excess tax benefits from stock-based compensation528(339Proceeds from sale-leaseback transactions12,00012,020Proceeds from sale-leaseback transactions12,00012,020 <td>Change in deferred revenue</td> <td>(14,890)</td> <td>11,369</td>	Change in deferred revenue	(14,890)	11,369
Other6,640(370Net cash provided by (used in) operating activities71,095(26,516CASH FLOWS FROM INVESTING ACTIVITIES:1,581(629Change in redemption settlement assets1,581(622,596)Net (increase) decrease in seller s interest and credit card receivables(55,966)65,970Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,882)Proceeds from the sale of assets8,0135,000Other531(19,998)73,310Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Repayment of borrowings(727,894)(871,000)Certificate of deposit issuances(169,900)(183,800Payment of capital lease obligations(5,393)(4,733)Payment of capital lease obligations(5,393)(4,733)Proceeds from issuance of common stock1,6582,712Proceeds from issuance of common stock1,6582,712Proceeds from issuance of common stock1,200012,000Proceeds from issuance of common stock1,200012,000Proceeds from issuance of uppersations12,00012,000Proceeds from issuance of uppersations12,00012,000Proceeds from issuance of uppersations12,00012,000Proceeds from issuance of uppersations12,00012,000Proceeds from issuance of uppersations12,00012,000 <t< td=""><td>Change in other liabilities</td><td>8,933</td><td>12,722</td></t<>	Change in other liabilities	8,933	12,722
Net cash provided by (used in) operating activities 71,095 (26,516 CASH FLOWS FROM INVESTING ACTIVITIES: Change in redemption settlement assets 1,581 (629 Net (increase) decrease in seller s interest and credit card receivables (55,966) (65,970 Change in due from securitizations (62,369) 18,752 Capital expenditures (62,369) (10,888) (13,852 Proceeds from the sale of assets 8,013 (5,000 Other 531 (1,931 Net cash (used in) provided by investing activities (119,098) 73,310 CASH FLOWS FROM FINANCING ACTIVITIES: Borrowings under debt agreements 863,000 933,000 Repayment of borrowings (727,894) (871,000 Certificate of depositi suances (119,909) (183,800 Payment of certificates of deposits (169,900) (183,800 Payment of certificates of deposits (14,52) Excess tax benefits from stock-based compensation (14,52) Excess tax benefits from stock-based compensation 528 (339 Proceeds from issuance of common stock 1,658 2,712 Proceeds from issuance of common stock 1,658 2,712 Proceeds from issuance of common stock 1,658 2,710 Purchase of treasury shares (159,837) Other (164 Net cash provided by (used in) financing activities 214,610 (17,024)	Excess tax benefits from stock-based compensation	(528)	339
CASH FLOWS FROM INVESTING ACTIVITIES:Change in redemption settlement assets1.581(629Net (increase) decrease in seller s interest and credit card receivables(55,966)65,970Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(1,931)Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000)Certificate of deposit isuances(169,900)(183,800)Payment of capital lease obligations(169,900)(183,800)Payment of capital lease obligations(169,900)(183,800)Payment of deferred financing costs(169,900)(183,800)Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,00012,000Purchase of treasury shares(159,837)(164)Net cash provided by (used in) financing activities214,610(17,024)	Other	6,640	(370)
Change in redemption settlement assets1.581(629Net (increase) decrease in seller s interest and credit card receivables(55,966)65,970Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(1,931Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances(169,900)(183,800Payment of capital lease obligations(5,393)(4,733Payment of deferred financing costs(1,452)(1,452)Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000(159,837)Other(164(17,024)(164)	Net cash provided by (used in) operating activities	71,095	(26,516)
Net (increase) decrease in seller s interest and credit card receivables(55,966)65,970Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(1,931Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances(169,900)(183,800Payment of capital lease obligations(1,452)Excess tax benefits from stock-based compensationPayment of deferred financing costs(1,452)(1,452)Proceeds from sale-leaseback transactions1,6582,712Proceeds from sale-leaseback transactions(159,837)(164)Net cash provided by (used in) financing activities214,610(17,024)	CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in due from securitizations(62,369)18,752Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(19,98)73,310Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayment of capital lease obligations(5,393)(4,733)Payment of deferred financing costs(1,452)1452Excess tax benefits from stock-based compensation528(339)Proceeds from sale-leaseback transactions12,00012,000Purchase of treasury shares(159,837)12,000Other(16412,000(17,024)	Change in redemption settlement assets	1,581	(629)
Capital expenditures(10,888)(13,852Proceeds from the sale of assets8,0135,000Other531(1,931Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayments of certificates of deposits(169,900)(183,800Payment of adital lease obligations(5,393)(4,733)Payment of deferred financing costs(1,452)1,658Excess tax benefits from stock-based compensation528(339)Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,0001,658,37)Other(164)(164)(164)Net cash provided by (used in) financing activities214,610(17,024)	Net (increase) decrease in seller s interest and credit card receivables	(55,966)	65,970
Proceeds from the sale of assets8,0135,000Other531(1,931Net cash (used in) provided by investing activities(119,098)73,310 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b> 863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayment of capital lease obligations(169,900)(183,800Payment of capital lease obligations(1,452)12,000Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,00012,000Purchase of treasury shares(159,837)(164Net cash provided by (used in) financing activities214,610(17,024	Change in due from securitizations	(62,369)	18,752
Other531(1,931Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayments of certificates of deposits(169,900)(183,800Payment of capital lease obligations(5,393)(4,733)Payment of capital lease obligations(1,452)12,000Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000129,837)Other(164)(164)Net cash provided by (used in) financing activities214,610(17,024)	Capital expenditures	(10,888)	(13,852)
Net cash (used in) provided by investing activities(119,098)73,310CASH FLOWS FROM FINANCING ACTIVITIES:863,000933,000Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayments of certificates of deposits(169,900)(183,800Payment of capital lease obligations(1,452)(1,452)Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000(159,837)Other(164(164Net cash provided by (used in) financing activities214,610(17,024	Proceeds from the sale of assets	8,013	5,000
CASH FLOWS FROM FINANCING ACTIVITIES:Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayments of certificates of deposits(169,900)(183,800Payment of capital lease obligations(5,393)(4,733Payment of deferred financing costs(1,452)Excess tax benefits from stock-based compensation528Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000Purchase of treasury shares(164Net cash provided by (used in) financing activities214,610(17,024	Other	531	(1,931)
Borrowings under debt agreements863,000933,000Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayments of certificates of deposits(169,900)(183,800Payment of capital lease obligations(5,393)(4,733Payment of deferred financing costs(1,452)(1,452)Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000(159,837)Other(164(164Net cash provided by (used in) financing activities214,610(17,024)	Net cash (used in) provided by investing activities	(119,098)	73,310
Repayment of borrowings(727,894)(871,000Certificate of deposit issuances413,90095,300Repayments of certificates of deposits(169,900)(183,800Payment of capital lease obligations(5,393)(4,733Payment of deferred financing costs(1,452)(1,452)Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000(159,837)Other(164(164Net cash provided by (used in) financing activities214,610(17,024	CASH FLOWS FROM FINANCING ACTIVITIES:		
Certificate of deposit issuances413,90095,300Repayments of certificates of deposits(169,900)(183,800Payment of capital lease obligations(5,393)(4,733Payment of deferred financing costs(1,452)(1,452)Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,00012,000Purchase of treasury shares(159,837)(164Net cash provided by (used in) financing activities214,610(17,024	Borrowings under debt agreements	863,000	933,000
Repayments of certificates of deposits(169,900)(183,800Payment of capital lease obligations(5,393)(4,733Payment of deferred financing costs(1,452)Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000Purchase of treasury shares(159,837)Other(164Net cash provided by (used in) financing activities214,610(17,024	Repayment of borrowings	(727,894)	(871,000)
Payment of capital lease obligations(5,393)(4,733)Payment of deferred financing costs(1,452)Excess tax benefits from stock-based compensation528(339)Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,00012,000Purchase of treasury shares(159,837)(164)Net cash provided by (used in) financing activities214,610(17,024)	Certificate of deposit issuances	413,900	95,300
Payment of deferred financing costs(1,452)Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000Purchase of treasury shares(159,837)Other(164Net cash provided by (used in) financing activities214,610(17,024)	Repayments of certificates of deposits	(169,900)	(183,800)
Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000Purchase of treasury shares(159,837)Other(164Net cash provided by (used in) financing activities214,610(17,024	Payment of capital lease obligations	(5,393)	
Excess tax benefits from stock-based compensation528(339Proceeds from issuance of common stock1,6582,712Proceeds from sale-leaseback transactions12,000Purchase of treasury shares(159,837)Other(164Net cash provided by (used in) financing activities214,610(17,024	Payment of deferred financing costs	(1,452)	
Proceeds from issuance of common stock       1,658       2,712         Proceeds from sale-leaseback transactions       12,000         Purchase of treasury shares       (159,837)         Other       (164         Net cash provided by (used in) financing activities       214,610       (17,024	Excess tax benefits from stock-based compensation		(339)
Proceeds from sale-leaseback transactions 12,000 Purchase of treasury shares (159,837) Other (164 Net cash provided by (used in) financing activities 214,610 (17,024	Proceeds from issuance of common stock	1,658	
Purchase of treasury shares     (159,837)       Other     (164       Net cash provided by (used in) financing activities     214,610     (17,024			
Other (164 Net cash provided by (used in) financing activities 214,610 (17,024		(159,837)	
	Other	( , ,	(164)
Effect of exchange rate changes on cash and cash equivalents (1,887) (6,085	Net cash provided by (used in) financing activities	214,610	(17,024)
	Effect of exchange rate changes on cash and cash equivalents	(1,887)	(6,085)

Change in cash and cash equivalents	164,720	23,685
Cash and cash equivalents at beginning of period	156,911	265,839
Cash and cash equivalents at end of period	\$ 321,631	\$ 289,524
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 16,088	\$ 10,098
Income taxes paid, net of refunds	\$ 15,078	\$ 39,533
		. ,

See accompanying notes to unaudited condensed consolidated financial statements.

#### ALLIANCE DATA SYSTEMS CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation (ADSC or, including its wholly owned subsidiaries, the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting of normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities; (2) disclosure of contingent assets and liabilities at the date of the financial statements; and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On January 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion (FSP APB No. 14-1). FSP APB No. 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer s nonconvertible debt borrowing rate. The statement requires retrospective application to all periods presented. The adoption of FSP APB No. 14-1 changed the historical accounting for the Company s \$805.0 million aggregate principal amount of convertible senior notes due 2013 (the Convertible Senior Notes). As a result, the Company recorded an additional \$10.4 million of interest expense for the first quarter of 2009. The impact to the Company s consolidated financial statements as of December 31, 2008 is as follows:

	As Previously Presented	r 31, 2008 Following the Adoption of FSP APB No. 14-1 usands)
Consolidated Balance Sheets		
Liabilities		
Long-term and other debt	\$ 1,451,626	\$ 1,215,726
Total liabilities	3,962,919	3,794,692
Stockholders equity		
Additional paid-in capital	\$ 951,122	\$ 1,115,291
Retained earnings	900,296	889,305
Total stockholders equity	394,120	547,298
Total liabilities and stockholders equity	4,357,039	4,341,990

#### ALLIANCE DATA SYSTEMS CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As Previously Presented	•	
	per shar	e amou	nts)
Consolidated Statements of Income	-		
Interest expense	\$ 79,249	\$	96,177
Income from continuing operations before income taxes	396,853		379,925
Provision for income taxes	153,454		147,517
Net income	217,393		206,402
Basic income per share			
Income from continuing operations	\$ 3.40	\$	3.25
Net income per share	\$ 3.04	\$	2.89
Diluted income per share			
Income from continuing operations	\$ 3.31	\$	3.16
Net income per share	\$ 2.95	\$	2.80
2 SHADES USED IN COMPUTING NET INCOME DED SHADE			

2. SHARES USED IN COMPUTING NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	Marc 2009 (In thousa	Three Months Ended March 31, 2009 2008 (In thousands, except per share amounts)	
Numerator			
Income from continuing operations	\$ 42,953	\$ 62,702	
Loss from discontinued operations	(15,098)	(13,383)	
Net income	\$ 27,855	\$ 49,319	
Denominator			
Weighted average shares, basic	61,148	78,536	
Weighted average effect of dilutive securities:			
Net effect of unvested restricted stock	78	695	
Net effect of dilutive stock options	607	1,358	
Denominator for diluted calculation	61,833	80,589	
Basic			
Income from continuing operations per share	\$ 0.70	\$ 0.80	
Loss from discontinued operations per share	(0.24)	(0.17)	
Net income per share	\$ 0.46	\$ 0.63	

Diluted		
Income from continuing operations per share	\$ 0.69	\$ 0.78
Loss from discontinued operations per share	(0.24)	(0.17)
Net income per share	\$ 0.45	\$ 0.61

#### ALLIANCE DATA SYSTEMS CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At March 31, 2009, the Company excluded 10.3 million warrants, 1.0 million restricted stock units, and 1.7 million stock options from the calculation of earnings per share as the effect was anti-dilutive.

#### **3. DISPOSITIONS**

In February 2009, the Company completed the sale of the remainder of its utility services business, including the termination of a services agreement and the resolution of certain contractual disputes, to a former utility client and recognized a pre-tax loss of approximately \$18.0 million, which has been included in loss from discontinued operations in the unaudited condensed consolidated statements of income. In addition, the Company entered into transition services and co-location agreements to provide such former utility client with certain services or access to certain facilities for varying terms through the fourth quarter of 2010.

The sale of the remainder of the utility services business completed the plan of disposition which began in March 2008.

The assets and liabilities of the discontinued operations are presented in the unaudited condensed consolidated balance sheets as assets held for sale and liabilities held for sale. The underlying assets and liabilities of the discontinued operations for the periods presented are as follows:

	March 31, 2009 (In 1	/ /	
Assets:			
Trade receivables, net	\$	\$	30,663
Other assets			1,307
Property and equipment, net			45
Assets held for sale	\$	\$	32,015
Liabilities:			
Accrued expenses	\$	\$	18,738
Other liabilities			2,044
Liabilities held for sale	\$	\$	20,782

The following table summarizes the operating results of the discontinued operations.

		Three Months Ended March 31,	
	2009 (In tho	2008 usands)	
Revenue	\$ 4,659	\$ 75,487	
Loss before provision for income taxes	(23,122)	(20,451)	
Benefit from income taxes	(8,024)	(7,068)	
Loss from discontinued operations	\$ (15,098)	\$ (13,383)	

#### ALLIANCE DATA SYSTEMS CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 4. INTANGIBLE ASSETS AND GOODWILL

#### Intangible Assets

Intangible assets consist of the following:

	Gross Assets	March 31, 2009 Accumulated Amortization (In thousands)	Net	Amortization Life and Method
Finite Lived Assets				
Customer contracts and lists	\$ 186,428	\$ (102,711)	\$ 83,717	5-10 years straight line
Premium on purchased credit card				
portfolios	84,344	(38,800)	45,544	3-10 years straight line, accelerated
Collector database	55,514	(45,857)	9,657	30 years 15% declining balance
Customer database	160,013	(43,789)	116,224	4-10 years straight line
Noncompete agreements	2,403	(1,647)	756	3-5 years straight line
Favorable lease	1,000	(955)	45	4 years straight line
Tradenames	11,517	(2,677)	8,840	4-10 years straight line
Purchased data lists	13,658	(5,930)	7,728	1-5 years straight line, accelerated
	\$ 514,877	\$ (242,366)	\$ 272,511	
Indefinite Lived Assets				
Tradenames	12,350		12,350	Indefinite life
Total intangible assets	\$ 527,227	\$ (242,366)	\$ 284,861	

	Gross Assets	December 31, 2008 Accumulated Amortization (In thousands)	Net	Amortization Life and Method
Finite Lived Assets				
Customer contracts and lists	\$ 186,428	\$ (96,435)	\$ 89,993	5-10 years straight line
Premium on purchased credit card				
portfolios	84,344	(35,925)	48,419	3-10 years straight line, accelerated
Collector database	57,528	(47,096)	10,432	30 years 15% declining balance
Customer database	160,103	(41,194)	118,909	4-10 years straight line
Noncompete agreements	2,425	(1,554)	871	3-5 years straight line
Favorable lease	1,000	(886)	114	4 years straight line
Tradenames	11,542	(2,361)	9,181	4-10 years straight line
Purchased data lists	12,994	(5,487)	7,507	1-5 years straight line, accelerated
	\$ 516,364	\$ (230,938)	\$ 285,426	
Indefinite Lived Assets				
Tradenames	12,350		12,350	Indefinite life

	Total intangible assets	\$ 528,714	\$ (230,938)	\$ 297,776	
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#### ALLIANCE DATA SYSTEMS CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2009 are as follows:

	Loyalty Services	Epsilon Marketing Services	Private Label Services (In thousa	Private Label Credit ands)	Corporate/ Other	Total
December 31, 2008	\$ 204,507	\$ 667,551	\$261,732	\$	\$	\$ 1,133,790
Goodwill acquired during the period						
Effects of foreign currency translation	(6,763)	(477)				(7,240)
Other, primarily final purchase price adjustments	(127)					(127)
March 31, 2009	\$ 197,617	\$ 667,074	\$ 261,732	\$	\$	\$ 1,126,423

#### 5. SECURITIZATION OF CREDIT CARD RECEIVABLES

As part of a securitization program, the Company regularly sells its credit card receivables to the World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust and World Financial Network Credit Card Master Trust III (collectively the WFN Trusts) and the World Financial Capital Credit Card Master Note Trust (the WFC Trust).

The following table shows the maturities of borrowing commitments as of March 31, 2009 for the WFN Trusts and the WFC Trust by year:

	2009	2010	2011 (In mi	2012 illions)	013 & ereafter	Total
Public notes	\$ 652.8	\$ 72.2	\$450.0	\$	\$ 500.0	\$ 1,675.0
Private conduits <sup>(1)</sup>	2,097.6	666.6				2,764.2
Total	\$ 2,750.4	\$ 738.8	\$450.0	\$	\$ 500.0	\$ 4,439.2

(1) Amount represents borrowing capacity, not outstanding borrowings.

Seller s interest and credit card receivables, less allowance for doubtful accounts included in the unaudited condensed consolidated balance sheets consists of seller s interest, credit card receivables, other receivables and an allowance for doubtful accounts. Seller s interest is recorded at the allocated carrying amount based on relative fair value. Changes in the fair values of our seller s interest are recorded through securitization income and finance charges, net in the unaudited condensed consolidated statements of income.

The Company is required to maintain minimum interests ranging from 4% to 10% of the securitized credit card receivables. This requirement is met through seller s interest and is supplemented through the excess funding deposits.

Due from securitizations included in the unaudited condensed consolidated balance sheets consists of spread deposits, interest-only strips, retained interest in securitization trusts and excess funding deposits.

The spread deposits and interest-only strips are recorded at their fair value. Fair value is determined by computing the present value of the estimated cash flows, using the dates that such cash flows are expected to be

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released to the Company, at a discount rate considered to be commensurate with the risks associated with the cash flows. The amounts and timing of the cash flows are estimated after considering various economic factors including payment rates, delinquency, default and loss assumptions. Interest-only strips, seller s interest and other interests retained are periodically evaluated for impairment based on the fair value of those assets.

Fair values of interest-only strips and other interests retained are based on a review of actual cash flows and on the factors that affect the amounts and timing of the cash flows from each of the underlying credit card receivable pools. Based on this analysis, assumptions are validated or revised as deemed necessary, the amounts and the timing of anticipated cash flows are estimated and fair value is determined. The Company has one collateral type, credit card receivables, which is comprised of both private label and co-brand retail credit card receivables.

Retained interest in securitization trusts represents the Company s investment in subordinated notes sold by the WFN Trusts and the WFC Trust. These investments are classified as available-for-sale, and changes in fair value are recorded through other comprehensive (loss) income.

At March 31, 2009, key economic assumptions and the sensitivity of the current fair value of residual cash flows to an immediate 10% and 20% adverse change in the assumptions are as follows:

		Impact on Fair	Impact on Fair
	Assumptions	Value of 10% Change (In thousands)	Value of 20% Change
Fair value of interest-only strips	\$ 168,890		
Weighted average life	9.5 11 months	\$ (13,140)	\$ (24,071)
Discount rate	18.8% 22.0%	(920)	(1,822)
Expected yield, net of dilution	28.5% 29.4%	(42,319)	(84,224)
Base rate <sup>(1)</sup>	0.5% 1.1%	(574)	(1,148)
Net charge-off rate	9.5% 11.5%	(14,051)	(28,245)

<sup>(1)</sup> Base rate assumptions do not factor any changes in spreads with respect to future refinancing.

At March 31, 2009, key economic assumptions and the sensitivity of the current fair value of the Company s seller s interest and retained interest of the subordinated notes to an immediate 10% and 20% adverse change in the assumptions are as follows:

	Impact on Fair	Impact on Fair
	Value of	Value of
Assumptions	10% Change	20% Change