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 EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

or

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

For the transition period from to

Commission file number 001-15749

ALLIANCE DATA SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**31-1429215**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
17655 Waterview Parkway, Dallas, Texas	**75252**
(Address of Registrant's Principal Executive Offices)	*(Zip Code)*

(972) 348-5100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

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

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 ☑ No o

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 amendments to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No o

As of June 30, 2004, the last business day of the registrant's most recently completed second fiscal quarter, 80,677,810 shares of common stock were outstanding and the aggregate market value of the common stock held by non-affiliates of the registrant on that date was approximately $2.4 billion (based upon the closing price on the New York Stock Exchange on June 30, 2004 of $42.25 per share). Aggregate market value is estimated solely for the purposes of this report. This shall not be construed as an admission for the purposes of determining affiliate status.

As of February 28, 2005, 82,614,310 shares of common stock were outstanding.

Documents Incorporated By Reference

Certain information called for by Part III is incorporated by reference to certain sections of the Proxy Statement for the 2005 Annual Meeting of our stockholders which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004.

ALLIANCE DATA SYSTEMS CORPORATION

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Caution Regarding Forward-Looking Statements

This Form 10-K and the documents incorporated by reference herein contain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in the "Risk Factors" section in Item 1 "Business" of this Form 10-K and elsewhere in this Form 10-K and the documents incorporated by reference in this Form 10-K.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward looking statements contained in this annual report or in the documents incorporated herein by reference reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We have no intention, and disclaim any obligation, to update or revise any forward looking statements, whether as a result of new information, future results or otherwise.

PART I

Item 1. Business

Our Company

We are a leading provider of transaction services, credit services and marketing services in North America. We partner with our clients to develop unique insight into consumer behavior. We use that insight to create and manage customized solutions that change consumer behavior and enable our clients to build stronger, mutually-beneficial relationships with their customers. We focus on facilitating and managing electronic transactions between our clients and their customers through multiple distribution channels including in-store, catalogs and the Internet. Our credit and marketing services assist our clients in identifying and acquiring new customers, as well as helping to increase the loyalty and profitability of their existing customers. We have a client base in excess of 350 companies, consisting mostly of specialty retailers, petroleum retailers, utilities, supermarkets and financial services companies. We generally have long-term relationships with our clients, with contracts typically ranging from three to five years in duration.

We are the result of the 1996 merger of two entities acquired by Welsh Carson Anderson & Stowe: J.C. Penney's transaction services business, BSI Business Services, Inc., and Limited Brands, Inc.'s credit card bank operation, World Financial Network National Bank. In June 2001, we concluded the initial public offering of our common stock, which is listed on the New York Stock Exchange. During 2003, we completed two secondary public offerings whereby Limited Commerce Corp., which is a wholly owned subsidiary of Limited Brands and was our second largest stockholder, sold all of our shares of common stock it beneficially owned.

We continue to execute on our growth strategy through a combination of internal growth and acquisitions. In early 2004, we entered into a five-year agreement to provide private label credit card services to Design Within Reach and expanded our relationship with Stage Stores, Inc. by entering into an agreement to purchase the Peebles, Inc. private label credit card portfolio. In May 2004 we signed a long-term renewal with The Buckle, Inc. to provide private label credit card and marketing services and we entered into a multi-year agreement with Alimentation Couche-Tard Inc. to provide payment processing services to Circle K convenience stores across the United States. In June 2004, we signed a long-term agreement with Little Switzerland, Inc. to provide private label credit card and marketing services. In August 2004, we signed a five-year agreement with our first commercial card client, American TV and

Appliance of Madison, Inc., to provide a comprehensive business credit card program. In November 2004, we signed a long-term agreement with Trek Bicycle Corporation and a long-term renewal with New York & Company, each to provide private label credit card services.

In March 2004, our Marketing Services division signed multi-year, exclusive agreements with BMO Bank of Montreal and WestJet to introduce a tri-branded MasterCard credit card issued by BMO Bank of Montreal and to renew agreements by which WestJet participates as a travel rewards supplier to the AIR MILES® Reward Program. In August 2004, we signed a multi-year renewal agreement with RONA Inc., the largest Canadian-owned hardware and home improvement retailer, in anticipation of its launch as a national Sponsor in the AIR MILES Reward Program in September 2004. In September 2004, Air Canada, with whom we had signed a long-term agreement in December 2003 for the provision of travel services to our AIR MILES Reward Program, emerged successfully from its capital restructuring proceedings under Canadian and American insolvency laws. In October 2004, we expanded our marketing capabilities with the acquisition of Epsilon Data Management, Inc., a provider of integrated direct marketing solutions that combine value-added marketing, transaction, technology and analytical services, for approximately $310.0 million.

In November 2004, we signed a five-year agreement with Direct Energy to provide customer information systems services and customer care solutions, and a ten-year agreement with Entergy Solutions to provide comprehensive billing and customer care solutions. Also in November, we acquired Capstone Consulting Partners, Inc., a provider of management consulting and technical services to the energy industry.

Our corporate headquarters are located at 17655 Waterview Parkway, Dallas, Texas 75252, and our telephone number is 972-348-5100.

Our Market Opportunity and Growth Strategy

Our services are applicable to the full spectrum of commerce opportunities involving companies that sell products and services to individual consumers. We are well positioned to benefit from trends favoring outsourcing and electronic transactions. Many companies lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure and credit card and loyalty or database operations. Companies are also increasingly outsourcing the development and management of their marketing programs.

Our growth strategy is to pursue initiatives to capitalize on our market position and core competencies. Key elements of our strategy are:

- *Expanding relationships with our base of over 350 clients by offering them integrated transaction processing and marketing services.* We offer our clients products and services that will help them more effectively understand and service their customers and allow them to build and maintain long-term relationships with their customers. By providing services directly to our clients' customers we are able to become an integral part of our clients' business.
- *Expanding our client base in our existing market sectors.* We will continue focusing on particular markets that are experiencing rapid growth and increasingly utilizing outsourcing, such as transaction and credit services related to our private label credit card programs for retailers, marketing services related to the AIR MILES Reward Program in Canada and database marketing in the United States, and transaction services for the utility industry.
- *Continuing to establish long-term relationships with our clients that result in a stable and recurring revenue base.* We seek to maintain a stable and recurring revenue base by building and maintaining long-term relationships with our clients and entering into contracts that typically extend for three to five years. Most of our services require the payment of monthly fees based on the number of transactions we process, allowing us to generate recurring revenues.

- *Pursuing focused, strategic acquisitions and alliances to enhance our core capabilities, increase our scale and expand our range of services.* Since our inception, we have grown in part through selective acquisitions. We intend to continue to acquire other companies with complementary products, services or relationships to enhance and expand our offering and increase our market share. We also seek to enter into other strategic relationships that extend our customer reach and generate additional revenue.

Products and Services

Our products and services are centered around three core capabilities — Transaction Services, Credit Services and Marketing Services. We have traditionally marketed and sold our products and services on a stand-alone basis but increasingly market and sell them on a bundled and integrated basis. Our products and services and target markets are listed below. Financial information about our segments and geographic areas appears in Note 18 of our consolidated financial statements.

Segment	Products and Services	Target Markets
Transaction Services	• Issuer Services	• Specialty Retail
	— Card Processing	
	— Billing and Payment Processing	
	— Customer Care	
	• Utility Services	• Utility
	— Customer Information System Hosting	
	— Customer Care	
	— Billing and Payment Processing	
	• Merchant Services	• Petroleum Retail
	— Point-of-Sale Services	
	— Merchant Bankcard Services	
Credit Services	• Private Label Receivables Financing	• Specialty Retail
	— Underwriting and Risk Management	
	— Merchant Processing	
	— Receivables Funding	
Marketing Services	• Loyalty Programs	• Financial Services
	— Coalition Loyalty	• Supermarkets
	— One-to-One Loyalty	• Petroleum Retail
	• Marketing Services	• Specialty Retail
	— Database Marketing	• Utility
		• Pharmaceuticals

Transaction Services

We facilitate and manage transactions between our clients and their customers through our scalable processing systems. Our largest clients within this segment include Limited Brands and its retail affiliates, representing approximately 15.5% of this segment's 2004 revenue.

Issuer Services. According to The Nilson Report, based on the total number of accounts on file, we were the second largest outsourcer of retail private label credit card programs in the United States in 2003, with over 80.5 million accounts on file. We assist clients in issuing private label credit cards with the retailers' brand that can be used by customers at the clients' store locations, catalogs or Internet. We also provide service and maintenance to our clients' private label credit card programs and assist our clients in acquiring, retaining and managing valuable repeat customers. Our Transaction Services segment performs

issuer services for our Credit Services segment in connection with that segment's private label credit card programs. The inter-segment services accounted for 46.0% of Transaction Services revenue in 2004.

We have developed a proprietary private label credit card system designed specifically for retailers with the flexibility to make changes to accommodate our clients' specific needs. We have also built into the system marketing tools to assist our clients in increasing sales. We utilize our Quick Credit and On-Line Prescreen products to originate new private label credit card accounts. We believe that these products provide an effective marketing advantage over competing services.

We use automated technology for bill preparation, printing and mailing. Commingling statements, presorting and bar coding allow us to take advantage of postal discounts. In addition, we also process customer payments using image processing technology to maximize efficiency. By doing so, we improve the funds availability for both our clients and for those private label credit card receivables that we own or securitize.

Our customer care operations are influenced by our retail heritage. We focus our training programs in all areas on achieving the highest possible standards. We monitor our performance by conducting surveys with our clients and their customers. Our call centers are equipped to handle phone, mail, fax and Internet inquiries. We also provide collection activities on delinquent accounts to support our retail private label credit card programs.

Utility Services. We believe that we are one of the largest independent service providers of customer information systems for utilities in North America. We provide a comprehensive single source business solution for customer care and billing solutions. We have solutions for the regulated, de-regulated and municipal marketplace. These solutions provide not only hosting of the customer information system, but also customer care, statement generation and payment processing, focusing on successful acquisition, value enhancement and retention of our clients' customers.

In both a regulated and de-regulated environment, providers will need more sophisticated and complex billing and customer information systems to effectively compete in the marketplace. We believe that our ability to integrate transaction and marketing services effectively will provide a competitive advantage for us.

Our current service offering is based on hosting customer information systems that allow us to provide our core service offerings of call center operation, statement generation and payment processing. In addition, we offer customer acquisition and database marketing services.

Merchant Services. We are a leading provider of transaction processing services, based on transactions processed, with an emphasis on the U.S. petroleum retail industry. We have built a network that enables us to process virtually all electronic payment types including credit card, debit card, prepaid card, electronic benefits and check transactions.

Credit Services

Through our Credit Services segment we are able to finance and operate private label credit card programs more effectively than a typical retailer can operate a stand alone program, as we are able to fund receivables through our securitization program to achieve lower borrowing costs while having the infrastructure to support and leverage a variety of portfolio types and a large number of account holders. Through our subsidiaries, World Financial Network National Bank and World Financial Capital Bank, we underwrite the accounts and fund purchases for over 65 private label credit card and commercial credit clients, representing almost 89.7 million cardholders and over $3.3 billion of receivables as of December 31, 2004. Our clients are predominately specialty retailers, and the largest within this segment include Limited Brands and its retail affiliates, representing 33.7% of this segment's 2004 revenue, and Brylane, representing 14.6% of this segment's 2004 revenue.

We believe that an effective risk management process is important in both account underwriting and servicing. We use a risk analysis in establishing initial credit limits with cardholders. Because we process a

large number of credit applications each year, we use automated proprietary scoring technology and verification procedures to process these applications. Our underwriting process involves the purchase of credit bureau information for each credit applicant. We continuously validate, monitor and maintain the scorecards, and we use the resulting data to ensure optimal risk performance. These models help segment prospects into narrower ranges within each risk score provided by credit bureau services, allowing us to better evaluate individual credit risk and to tailor our risk-based pricing accordingly. We generally receive a merchant fee for processing sales transactions charged to a private label credit card program for which we provide receivables funding. Processing includes authorization and settlement of the funds to the retailer, net of our merchant fee.

We utilize a securitization program as our primary funding vehicle for private label credit card receivables. Securitizations involve the packaging and selling of both current and future receivable balances of credit card accounts to a special purpose entity that then sells them to a master trust. Our Transaction Services segment retains rights to service the securitized accounts. Our securitizations are treated as sales for accounting purposes and, accordingly, the receivable is removed from our balance sheet. We retain an ownership interest in the receivables, which is commonly referred to as a seller's interest, and a residual interest in the trust, which is commonly referred to as an interest only strip. The fair value of the interest only strip is based on assumptions regarding future payments and credit losses and is subject to volatility that could materially affect our operating results. Both the amount and timing of estimated cash flows are dependent on the performance of the underlying credit card receivables, and actual cash flows may vary significantly from expectations. If payments from cardholders or defaults by cardholders exceed our estimates, we may be required to decrease the carrying value of the interest only strips through a charge against earnings. Limited Brands and its retail affiliates and Brylane accounted for approximately 26.4% and 11.2%, respectively of the receivables in the trust portfolio as of December 31, 2004.

In May 2004, World Financial Network Credit Card Master Note Trust issued $390.0 million of Class A Series 2004-A asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.18% per year and that will mature in May 2009, $42.5 million of Class B Series 2004-A asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.50% per year and that will mature in May 2009 and $67.5 million of Class C Series 2004-A asset backed notes that have an interest rate not to exceed one-month LIBOR plus 1.00% per year and that will mature in June 2009.

The notes are rated AAA through BBB, or its equivalent, by each of Standard and Poor's, Moody's, and Fitch. World Financial Network Credit Card Master Note Trust entered into interest rate swaps that effectively fix the interest rates on the notes starting at 5.9% and averaging 4.7% over the five-year term of the interest rate swap.

In September 2004, World Financial Network Credit Card Master Note Trust issued $355.5 million of Class A Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.10% per year and that will mature in September 2006, $16.9 million of Class M Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.25% per year and that will mature in September 2006, $21.4 million of Class B Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.32% per year and that will mature in September 2006 and $56.2 million of Class C Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.65% per year and that will mature in September 2006.

The notes are rated AAA through BBB, or its equivalent, by each of Standard and Poor's, Moody's, and Fitch. World Financial Network Credit Card Master Note Trust entered into interest rate swaps that effectively fix the interest rates on the notes starting at 5.2% and averaging 3.0% over the two-year term of the interest rate swap.

In September 2004, World Financial Network Credit Card Master Note Trust issued $355.5 million of Class A Series 2004-C asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.20% per year and that will mature in September 2011, $16.9 million of Class M Series 2004-C asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.40% per year and that will mature in September 2011, $21.4 million of Class C Series 2004-C asset backed notes that have an

interest rate not to exceed one-month LIBOR plus 0.60% per year and that will mature in September 2011 and $56.2 million of Class C Series 2004-C asset backed notes that have an interest rate not to exceed one-month LIBOR plus 1.25% per year and that will mature in September 2011.

The notes are rated AAA through BBB, or its equivalent, by each of Standard and Poor's, Moody's, and Fitch. World Financial Network Credit Card Master Note Trust entered into interest rate swaps that effectively fix the interest rates on the notes starting at 7.0% and averaging 4.4% over the seven-year term of the interest rate swap.

Marketing Services

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. We create and manage marketing programs that result in securing more frequent and sustained customer purchasing. We utilize the information gathered through our loyalty and database marketing programs to help our clients design and implement effective marketing programs. Our primary service for this segment is coalition loyalty, which is branded as the AIR MILES Reward Program, representing the substantial majority of this segment's 2004 revenue. Our clients within this segment are financial services providers, supermarkets, petroleum retailers, specialty retailers and pharmaceutical companies. BMO Bank of Montreal, Canada Safeway, Shell Canada and Amex Bank of Canada were the four largest Marketing Services clients in 2004, and represented approximately 58.6% of our 2004 Marketing Services revenue. BMO Bank of Montreal represented approximately 31.3% of this segment's 2004 revenue and Canada Safeway represented approximately 11.4% of this segment's 2004 revenue. To enhance our database and direct marketing capabilities, we acquired Epsilon during the fourth quarter of 2004.

Coalition Loyalty. We operate what we believe to be the largest coalition loyalty program in Canada through The Loyalty Group. The AIR MILES Reward Program enables consumers to earn AIR MILES reward miles as they shop across a range of retailers and other sponsors participating in the AIR MILES Reward Program. The AIR MILES Reward Program has enabled sponsors to use this tool to increase revenues by attracting new customers, retaining existing customers and increasing the amount spent by customers.

We deal with three primary parties in connection with our AIR MILES Reward Program: Sponsors, Collectors and Suppliers.

Sponsors

A sponsor enters into an agreement with us to secure exclusive rights for its particular region and product or service category, to reward customers for changing their shopping behavior and to increase sales from collectors. Collectors can collect AIR MILES reward miles at over 12,000 retail and service locations operated by more than 120 brand name sponsors, including BMO Bank of Montreal, Canada Safeway, Amex Bank of Canada, Shell Canada, A&P Canada and Sobeys.

Collectors

Members of the AIR MILES Reward Program, known as collectors, accumulate AIR MILES reward miles based on their purchasing behavior at sponsor locations. The AIR MILES Reward Program offers a reward structure that provides a quick and easy way for collectors to earn a broad selection of travel, entertainment and other lifestyle rewards by shopping at participating sponsors. Our active participants represent over 70% of all Canadian households. We have issued over seventeen billion AIR MILES reward miles since the program's inception in 1992.

Suppliers

We enter into supply agreements with suppliers of rewards to the program such as airlines, movie theaters and manufacturers of consumer electronics. We make these reward opportunities available through over 350 suppliers.

Marketing Services. With the acquisition of Epsilon, we are now a leader in providing integrated direct marketing solutions that combine database marketing technology and analytics with a broad range of direct marketing services. Epsilon leverages its deep technology, analytic and direct marketing capabilities to develop integrated marketing solutions for clients in a targeted group of industries including travel, financial services, pharmaceuticals, telecommunications, not-for-profit and insurance. Our integrated direct marketing services include the following:

Technology Services

We provide design and management of integrated marketing databases; customer and prospect data integration and hygiene; campaign management and marketing application integration; loyalty management; web design and development; and e-mail marketing.

Analytical Services

We provide behavior-based, demographic and attitudinal segmentation; acquisition, attrition, cross-sell and upsell, retention, loyalty and value predictive modeling; and program evaluation, testing and measurement.

Direct Marketing Services

We provide direct marketing program design, development and management; campaign design and execution; value proposition and business case development; concept development and creative media consulting; print, imaging and personalization services; data processing services; fulfillment services; and mailing services.

Safeguards to Our Business; Disaster and Contingency Planning

We have a number of safeguards to protect us from the risks we face as a business. Given the significant amount of data that we manage, much of which is real-time data to support our clients' commerce initiatives, we have established redundant capabilities within our data centers. We operate multiple data processing centers. In the event of a disaster we can restore our data centers' systems at a third party-provided disaster recovery center for the majority of our clients' data, and recover internally for the remaining critical systems. Our approach to disaster recovery is consistent with best practices and our client's needs.

Protection of Intellectual Property and Other Proprietary Rights

We rely on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and technology used in each segment of our business. We currently hold one patent. In addition, we have four patent applications with the U.S Patent and Trademark Office and one international application that has entered the national phase in two countries. We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our technology, documentation and other proprietary information. Despite the efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of our products or technology that we consider proprietary and third parties may attempt to develop similar technology independently. We pursue registration and protection of our trademarks primarily in the United States and Canada, although we do have applications pending in Mexico, South America and Europe. Effective protection of intellectual property rights may be unavailable or limited in some countries. The laws of some countries do not protect our proprietary rights to the same extent as in the United States and Canada. We are the exclusive Canadian licensee of the AIR MILES family of trademarks pursuant to a license agreement with Air Miles International Trading B.V. We believe that the AIR MILES family of trademarks and our other trademarks are important for our branding and corporate identification and marketing of our services in each segment.

Competition

The markets for our products and services are highly competitive. We compete with data processing companies, credit card issuers and marketing services companies, as well as with the in-house staffs of our current and potential clients.

Transaction Services. We are a leading provider of transaction services. Our focus has been on industry segments characterized by companies with large customer bases, detail-rich data and high transaction volumes. Targeting these specific market sectors allows us to develop and deliver solutions that meet the needs of these sectors. This focus is consistent with our marketing strategy for all products and services. Additionally, we believe we effectively distinguish ourselves from other transaction processors by providing solutions that help our clients leverage investments they have made in payment systems by using these systems for electronic marketing programs. Competition in the area of utility services comes primarily from larger, more well-funded and well-established competitors and from companies developing in-house solutions and capabilities.

Credit Services. Our credit services business competes primarily with financial institutions whose marketing focus has been on developing credit card programs with large revolving balances. These competitors further drive their businesses by cross selling their other financial products to their cardholders. Our focus has been on targeting retailers that understand the competitive advantage of developing loyal customers. Typically these retailers have customers that make more frequent and smaller transactions. This results in the effective capture of detail-rich data within our database marketing services, allowing us to mine and analyze this data to develop successful customer relationship management strategies for our clients. As an issuer of private label credit cards, we compete with other payment methods, primarily general purpose credit cards like Visa and MasterCard, which we also issue, and American Express, as well as cash, checks and debit cards.

Marketing Services. As a provider of marketing services, we generally compete with advertising and other promotional and loyalty programs, both traditional and online, for a portion of a client's total marketing budget. In addition, we compete against internally developed products and services created by our existing and potential clients. For each of our marketing services, we expect competition to intensify as more competitors enter our market. In addition, new competitors with our AIR MILES Reward Program may target our sponsors and collectors as well as draw rewards from our rewards suppliers. Our ability to generate significant revenue from clients and loyalty partners will depend on our ability to differentiate ourselves through the products and services we provide and the attractiveness of our loyalty and rewards programs to consumers. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers. Intensifying competition will make it more difficult for us to do this. For our database marketing services, our ability to continue to capture detailed transaction data on consumers is critical in providing effective customer relationship management strategies for our clients.

Regulation

Federal and state laws and regulations extensively regulate the operations of our credit card services bank subsidiary, World Financial Network National Bank, as well as our industrial loan corporation, World Financial Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of World Financial Network National Bank and World Financial Capital Bank, and they impose significant restraints on them to which other non-regulated companies are not subject. Because World Financial Network National Bank is deemed a credit card bank and World Financial Capital Bank is an industrial loan corporation within the meaning of the Bank Holding Company Act, we are not subject to regulation as a bank holding company. If we were subject to regulation as a bank holding company, we would be constrained in our operations to a limited number of activities that are closely related to banking or financial services in nature. Nevertheless, as a national bank, World Financial Network National Bank is still subject to overlapping supervision by the Board of Governors of the Federal Reserve System, the

Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation; and, as an industrial loan corporation, World Financial Capital Bank is still subject to overlapping supervision by the Federal Deposit Insurance Corporation and the State of Utah.

World Financial Network National Bank and World Financial Capital Bank must maintain minimum amounts of regulatory capital. If World Financial Network National Bank or World Financial Capital Bank do not meet these capital requirements, their respective regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial statements. Under the Federal Deposit Insurance Corporation's Order approving World Financial Capital Bank's application for deposit insurance, World Financial Capital Bank must meet specific capital ratios and paid-in capital minimums, must maintain adequate allowances for loan losses, and must operate within its three-year business plan, among other restrictions. If World Financial Capital Bank fails to meet the terms of the Federal Deposit Insurance Corporations' Order, the Federal Deposit Insurance Corporation may withdraw insurance coverage from World Financial Capital Bank and the State of Utah may withdraw its approval of World Financial Capital Bank. Under capital adequacy guidelines and the regulating framework for prompt corrective action, World Financial Network National Bank must meet specific guidelines that involve measures and ratios of its assets, liabilities, regulatory capital, interest rate exposure and certain off-balance sheet items under regulatory accounting standards, among other factors. Under the National Bank Act, if the capital stock of World Financial Network National Bank is impaired by losses or otherwise, we, as the sole shareholder, may be assessed the deficiency. To the extent necessary, if a deficiency in capital still exists, the FDIC may be appointed as a receiver to wind up World Financial Network National Bank's affairs.

Before World Financial Network National Bank can pay dividends to us, it must obtain prior regulatory approval if all dividends declared in any calendar year would exceed its net profits for that year plus its retained net profits for the preceding two calendar years, less any transfers to surplus. In addition, World Financial Network National Bank may only pay dividends to the extent that retained net profits, including the portion transferred to surplus, exceed bad debts. Moreover, to pay any dividend, World Financial Network National Bank must maintain adequate capital above regulatory guidelines. Further, if a regulatory authority believes that World Financial Network National Bank is engaged in or is about to engage in an unsafe or unsound banking practice, which, depending on its financial condition, could include the payment of dividends, the authority may require, after notice and hearing, that World Financial Network National Bank cease and desist from the unsafe practice. Before World Financial Capital Bank can pay dividends to us, it must obtain prior written regulatory approval.

As part of an acquisition in 2003 by World Financial Network National Bank, which required approval by the Office of the Comptroller of the Currency, the Office of the Comptroller of the Currency required World Financial Network National Bank to enter into an operating agreement with it and a capital adequacy and liquidity maintenance agreement with us. The operating agreement requires World Financial Network National Bank to continue to operate in a manner consistent with its current practices, regulatory guidelines and applicable law, including those related to affiliate transactions, maintenance of capital and corporate governance. World Financial Network National Bank does not expect that the operating agreement will require any changes in World Financial Network National Bank's current operations. The capital adequacy and liquidity maintenance agreement memorializes our current obligations to World Financial Network National Bank.

We are limited under Sections 23A and 23B of the Federal Reserve Act in the extent to which we can borrow or otherwise obtain credit from or engage in other "covered transactions" with World Financial Network National Bank or World Financial Capital Bank, which may have the effect of limiting the extent to which World Financial Network National Bank or World Financial Capital Bank can finance or otherwise supply funds to us. "Covered transactions" include loans or extensions of credit, purchases of or investments in securities, purchases of assets, including assets subject to an agreement to repurchase, acceptance of securities as collateral for a loan or extension of credit, or the issuance of a guarantee, acceptance or letter of credit. Although the applicable rules do not serve as an outright bar on engaging in "covered transactions," they do require that we engage in covered transactions with World Financial

Network National Bank or World Financial Capital Bank only on terms and under circumstances that are substantially the same, or at least as favorable to World Financial Network National Bank or World Financial Capital Bank, as those prevailing at the time for comparable transactions with nonaffiliated companies. Furthermore, with certain exceptions, each loan or extension of credit by World Financial Network National Bank or World Financial Capital Bank to us or our other affiliates must be secured by collateral with a market value ranging from 100% to 130% of the amount of the loan or extension of credit, depending on the type of collateral.

We are required to monitor and report unusual or suspicious account activity as well as transactions involving amounts in excess of prescribed limits under the Bank Secrecy Act, IRS rules and other regulations. Congress, the IRS and the bank regulators have focused their attention on banks' monitoring and reporting of suspicious activities. Additionally, Congress and the bank regulators have proposed, adopted or passed a number of new laws and regulations that may increase reporting obligations of banks.

We are also subject to numerous laws and regulations that are intended to protect consumers, including state law, the Truth in Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. These laws and regulations mandate various disclosure requirements and regulate the manner in which we may interact with consumers. These and other laws also limit finance charges or other fees or charges earned in our activities. We conduct our operations in a manner that we believe excludes us from regulation as a consumer reporting agency under the Fair Credit Reporting Act. If we were deemed a consumer reporting agency, however, we would be subject to a number of additional complex regulatory requirements and restrictions.

A number of privacy regulations have been implemented in the United States and Canada in recent years. These regulations place many new restrictions on our ability to collect and disseminate customer information.

Under the Gramm Leach Bliley Act, we are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. We also were required to develop an initial privacy notice and we are required to provide annual privacy notices to customers that describe in general terms our information sharing practices. If we intend to share nonpublic personal information about customers with nonaffiliated third parties, we must provide our customers with a notice and a reasonable period of time for each customer to "opt out" of any such disclosure.

In addition to the federal privacy laws with which we must comply, states also have adopted statutes, regulations or other measures governing the collection and distribution of personal information about customers. In some cases these state measures are preempted by federal law, but if not, we make efforts to monitor and comply with individual state privacy laws in the conduct of our business.

We also have systems and processes to comply with the USA Patriot Act of 2001, which is designed to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and for other purposes.

Canada has likewise enacted privacy legislation known as the Personal Information Protection and Electronic Documents Act. This act requires organizations to obtain a consumer's consent to collect, use or disclose personal information. Under this act, which took effect on January 1, 2001, the nature of the required consent depends on the sensitivity of the personal information, and the act permits personal information to be used only for the purposes for which it was collected. Some provinces have enacted substantially similar privacy legislation. We believe we have taken appropriate steps with our AIR MILES Reward Program to comply with the law.

Employees

As of December 31, 2004 we had approximately 7,900 employees in the United States and Canada. We believe our relations with our employees are good. We have no collective bargaining agreements with our employees.

Available Information

We file annual, quarterly, special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the SEC's web site at www.sec.gov. Our web site is www.alliancedatasystems.com. No information from this web site is incorporated by reference herein. You may also obtain copies of our annual, quarterly and current reports, proxy statements and certain other information filed with the SEC, as well as amendments thereto, free of charge from our web site. These documents are posted to our web site as soon as reasonably practicable after we have filed or furnished these documents with the SEC. We post our audit committee, compensation committee, nominating and corporate governance committee, and executive committee charters, our corporate governance guidelines, and our code of ethics and code of ethics for Senior Financial Executives and CEO on our web site. These documents are available free of charge to any stockholder upon request.

Risk Factors

Risks Related to General Business Operations

Our ten largest clients represented 51.6% of our consolidated revenue in 2004, and the loss of any of these clients could cause a significant drop in our revenue.

We depend on a limited number of large clients for a significant portion of our consolidated revenue. Our 10 largest clients represented approximately 51.6% of our consolidated revenue during the year ended December 31, 2004, with Limited Brands and its retail affiliates representing approximately 14.8% of our 2004 consolidated revenue. Our contracts with Limited Brands and its retail affiliates expire in 2009, and our contracts with Brylane expire in 2013. A decrease in revenue from any of our significant clients for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services we provide, could have a material adverse effect on our consolidated revenue.

Transaction Services. Our 10 largest clients in this segment represented approximately 53.1% of our Transaction Services revenue in 2004. Limited Brands and its retail affiliates were the largest Transaction Services client in 2004, representing approximately 15.5% of this segment's 2004 revenue. Our contracts with Limited Brands and its retail affiliates expire in 2009.

Credit Services. Our two largest clients in this segment represented approximately 48.3% of our Credit Services revenue in 2004. Limited Brands and its retail affiliates represented approximately 33.7%, and Brylane represented approximately 14.6% of our Credit Services revenue in 2004. Our contracts with Limited Brands and its retail affiliates expire in 2009, and our contracts with Brylane expire in 2013.

Marketing Services. Our 10 largest clients in this segment represented approximately 72.5% of our Marketing Services revenue in 2004. BMO Bank of Montreal, Canada Safeway, Shell Canada and Amex Bank of Canada were the four largest Marketing Services clients in 2004, representing approximately 58.6% of our 2004 Marketing Services revenue. BMO Bank of Montreal represented approximately 31.3% of this segment's 2004 revenue and Canada Safeway, our second largest Marketing Services client, represented approximately 11.4% of this segment's 2004 revenue. Our contract with BMO Bank of Montreal expires in 2009 and our contract with Canada Safeway expires at the end of 2005.

Competition in our industry is intense and we expect it to intensify.

The markets for our products and services are highly competitive, and we expect competition to intensify in each of those markets. Many of our current competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than we do. We cannot assure you that we will be able to compete successfully against our current and potential competitors.

The markets for the services that we offer may fail to expand or may contract and this could negatively impact our growth and profitability.

Our growth and continued profitability depend on acceptance of the services that we offer. If demand for transaction, credit or marketing services decreases, the price of our common stock could fall and you could lose value in your investment. We cannot guarantee that retailers will continue to use loyalty and database marketing strategies. Changes in technology may enable merchants and retail companies to directly process transactions in a cost-efficient manner without the use of our services. Additionally, downturns in the economy or the performance of retailers may result in a decrease in the demand for our marketing strategies. Further, if our customers make fewer sales of their products and services, we will have fewer transactions to process, resulting in lower revenue. Any decrease in the demand for our services for the reasons discussed above or other reasons could have a material adverse effect on our growth and revenue.

We cannot assure you that we will effectively integrate acquisitions or realize their full benefits, and future acquisitions may result in dilutive equity issuances or increases in debt.

Historically, we have completed a few acquisitions each year. We expect to continue to seek selective acquisitions as an element of our growth strategy. If we are unable to successfully integrate completed or any future acquisitions, we may incur substantial costs and delays or other operational, technical or financial problems, any of which could harm our business and impact the trading price of our common stock. In addition, the failure to successfully integrate any future acquisition may divert management's attention from our core operations or could harm our ability to timely meet the needs of our customers. To finance future acquisitions, we may need to raise funds either by issuing equity securities or incurring debt. If we issue additional equity securities, such sales could reduce the current value of our stock by diluting the ownership interest of our stockholders.

Failure to safeguard our databases and consumer privacy could affect our reputation among our clients and their customers and may expose us to legal claims from consumers.

An important feature of our marketing and credit services is our ability to develop and maintain individual consumer profiles. As part of our AIR MILES Reward Program, database marketing program and private label credit card program, we maintain marketing databases containing information on consumers' account transactions. Although we have extensive security procedures, our databases may be subject to unauthorized access. If we experience a security breach, the integrity of our marketing databases could be affected. Security and privacy concerns may cause consumers to resist providing the personal data necessary to support our profiling capability. The use of our loyalty, database marketing or private label credit card programs could decline if any well-publicized compromise of security occurred. Any public perception that we released consumer information without authorization could subject us to legal claims from consumers and adversely affect our client relationships.

Loss of data center capacity, interruption of telecommunication links, or inability to utilize proprietary software of third party vendors could affect our ability to timely meet the needs of our clients and their customers.

Our ability to protect our data centers against damage from fire, power loss, telecommunications failure and other disasters is critical. In order to provide many of our services, we must be able to store, retrieve, process and manage large databases and periodically expand and upgrade our capabilities. Any damage to our data centers, any failure of our telecommunication links that interrupts our operations or any impairment of our ability to use software licensed to us could adversely affect our ability to meet our clients' needs and their confidence in utilizing us for future services.

As a result of our significant Canadian operations, our reported financial information will be affected by fluctuations in the exchange rate between the U.S. and Canadian dollars.

A significant portion of our Marketing Services revenue is derived from our Loyalty Group operations in Canada, which transacts business in Canadian dollars. Therefore, our reported financial information from quarter-to-quarter will be affected by changes in the exchange rate between the U.S. and Canadian dollars over the relevant periods. We do not hedge any of our net investment exposure in our Canadian subsidiary.

The hedging activity related to our securitization trusts subjects us to off-balance sheet counterparty risks relating to the creditworthiness of the commercial banks with whom we enter into hedging transactions.

In order to execute our hedging strategies, our securitization trusts have entered into interest rate derivative contracts with commercial banks. These banks are otherwise known as counterparties. It is our policy to enter into such contracts with counterparties that are deemed to be creditworthy. However, if macro- or micro-economic events were to negatively impact the respective banks, the banks might not be

able to honor their obligations to the securitization trusts and we might suffer a loss related to our residual interest in the securitization trusts.

Our failure to protect our intellectual property rights may harm our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly.

Third parties may infringe or misappropriate our trademarks or other intellectual property rights, which could have a material adverse effect on our business, financial condition or operating results. The actions we take to protect our trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information. Any infringement or misappropriation could harm any competitive advantage we currently derive or may derive from our proprietary rights. Third parties may assert infringement claims against us. Any claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. In addition, litigation is time-consuming and expensive to defend and could result in the diversion of our time and resources. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims.

If we are required to pay state taxes on transaction processing, it could negatively impact our profitability.

Transaction processing companies may be subject to state taxation of certain portions of their fees charged to merchants for their services. If we are required to pay such taxes and are unable to pass this tax expense through to our merchant clients, these taxes would negatively impact our profitability.

Risks Particular to Transaction Services

In 2004, our Transaction Services segment derived approximately 46.0% of its revenue from servicing cardholder accounts for the Credit Services segment. If the Credit Services segment suffered a significant client loss, our revenue and profitability attributable to the Transaction Services segment could be materially and adversely affected.

Our Transaction Services segment performs card processing and servicing activities for cardholder accounts generated by our Credit Services segment. During 2004, our Transaction Services segment derived $313.9 million, or 46.0% of its revenues, from these services for our Credit Services segment. The financial performance of our Transaction Services segment, therefore, is linked to the activities of our Credit Services segment. If the Credit Services segment were to lose a significant client, our revenue and profitability attributable to the Transaction Services segment could be materially and adversely affected.

Risks Particular to Credit Services

If we are unable to securitize our credit card receivables due to changes in the market, the unavailability of credit enhancements, an early amortization event or for other reasons, we would not be able to fund new credit card receivables, which would have a negative impact on our operations and earnings.

Since January 1996, we have sold substantially all of the credit card receivables originated by our private label credit card bank, World Financial Network National Bank, to WFN Credit Company, LLC and WFN Funding Company II, LLC, which in turn sold them to World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Trust II and World Financial Network Credit Card Master Trust III, which we refer to as the WFN Trusts, as part of our securitization program. This securitization program is the primary vehicle through which World Financial Network National Bank finances our private label credit card receivables.

As part of our securitization program, during 2003 and 2004, the WFN Trusts issued approximately $600.0 million and $1.4 billion, respectively, of asset backed notes. If World Financial Network National Bank were not able to regularly securitize the receivables it originates, our ability to grow or even maintain our credit services business would be materially impaired. World Financial Network National Bank's ability to effect securitization transactions is impacted by the following factors, some of which are beyond our control:

- conditions in the securities markets in general and the asset backed securitization market in particular;
- conformity in the quality of credit card receivables to rating agency requirements and changes in those requirements; and
- our ability to fund required overcollateralizations or credit enhancements, which we routinely utilize in order to achieve better credit ratings to lower our borrowing costs.

Once World Financial Network National Bank securitizes receivables, the agreement governing the transaction contains covenants that address the receivables' performance and the continued solvency of the retailer where the underlying sales were generated. In the event such a covenant or other similar covenant is breached, an early amortization event could be declared, in which case the trustee for the securitization trust would retain World Financial Network National Bank's interest in the related receivables, along with the excess interest income that would normally be paid to World Financial Network National Bank, until such time as the securitization investors are fully repaid. The occurrence of an early amortization event would significantly limit, or even negate, our ability to securitize additional receivables.

Increases in net charge-offs beyond our current estimates could have a negative impact on our operating income and profitability.

The primary risk associated with unsecured consumer lending is the risk of default or bankruptcy of the borrower, resulting in the borrower's balance being charged-off as uncollectible. We rely principally on the customer's creditworthiness for repayment of the loan and therefore have no other recourse for collection. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. An increase in defaults or net charge-offs beyond historical levels will reduce the net spread available to us from the securitization master trust and could result in a reduction in finance charge income or a write-down of the interest only strip. General economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies that lead to greater credit losses among consumers. In addition to being affected by general economic conditions and the success of our collection and recovery efforts, our delinquency and net credit card receivable charge-off rates are affected by the credit risk of our private label credit card receivables and the average age of our various private label credit card account portfolios. The average age of our private label credit card receivables affects the stability of delinquency and loss rates of the portfolio. An older private label credit card portfolio generally drives a more stable performance in the portfolio. At December 31, 2004, 43.9% of the total number of our securitized accounts with outstanding balances and 39.4% of the amount of our outstanding securitized receivables were less than 24 months old. For 2004, our securitized net charge-off ratio was 6.9% compared to 7.1% for 2003 and 7.4% for 2002. We cannot assure you that our pricing strategy can offset the negative impact on profitability caused by increases in delinquencies and losses. Any material increases in delinquencies and losses beyond our current estimates could have a material adverse impact on us and the value of our net retained interests in loans that we sell through securitizations.

Changes in the amount of payments and defaults by cardholders on credit card balances may cause a decrease in the estimated value of interest only strips.

The estimated fair value of interest only strips depends upon the anticipated cash flows of the related credit card receivables. A significant factor affecting the anticipated cash flows is the rate at which the underlying principal of the securitized credit card receivables is reduced. Other assumptions used in estimating the value of the interest only strips include estimated future credit losses and a discount rate

commensurate with the risks involved. The rate of cardholder payments or defaults on credit card balances may be affected by a variety of economic factors, including interest rates and the availability of alternative financing, most of which are not within our control. A decrease in interest rates could cause cardholder payments to increase, thereby requiring a write down of the interest only strips. If payments from cardholders or defaults by cardholders exceed our estimates, we may be required to decrease the estimated value of the interest only strips through a charge against earnings.

Interest rate increases could significantly reduce the amount we realize from the spread between the yield on our assets and our cost of funding.

An increase in market interest rates could reduce the amount we realize from the spread between the yield on our assets and our cost of funding. A rise in market interest rates may indirectly impact the payment performance of consumers or the value of, or amount we could realize from the sale of, interest only strips. At December 31, 2004, approximately 1.0% of our outstanding debt, including the off-balance sheet debt of our securitization program, was subject to fixed rates with a weighted average interest rate of 2.5%. An additional 72.2% of our outstanding debt at December 31, 2004 was locked at a current effective interest rate of 5.3% through interest rate swap agreements with notional amounts totaling $2.6 billion. Assuming we do not take any counteractive measures, a 1.0% increase in interest rates would result in an annual decrease to pretax income of approximately $3.8 million. The foregoing sensitivity analysis is limited to the potential impact of an interest rate increase of 1.0% on cash flows and fair values, and does not address default or credit risk.

We expect growth in our credit services segment to result from new and acquired private label credit card programs whose credit card receivable performance could result in increased portfolio losses and negatively impact our net retained interests in loans securitized.

We expect an important source of growth in our private label credit card operations to come from the acquisition of existing private label credit card programs and initiating private label credit card programs with retailers who do not currently offer a private label credit card. Although we believe our pricing and models for determining credit risk are designed to evaluate the credit risk of existing programs and the credit risk we are willing to assume for acquired and start-up programs, we cannot assure you that the loss experience on acquired and start-up programs will be consistent with our more established programs. The failure to successfully underwrite these private label credit card programs may result in defaults greater than our expectations and could have a material adverse impact on us and the value of our net retained interests in loans securitized.

Current and proposed regulation and legislation relating to our credit services could limit our business activities, product offerings and fees charged.

Various Federal and state laws and regulations significantly limit the credit services activities in which we are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we can impose on consumers, limit or prescribe certain other terms of our products and services, require specified disclosures to consumers, or require that we maintain certain licenses, qualifications and minimum capital levels. In some cases, the precise application of these statutes and regulations is not clear. In addition, numerous legislative and regulatory proposals are advanced each year which, if adopted, could have a material adverse effect on our profitability or further restrict the manner in which we conduct our activities. The failure to comply with, or adverse changes in, the laws or regulations to which our business is subject, or adverse changes in their interpretation, could have a material adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

If our bank subsidiary fails to meet credit card bank criteria, we may become subject to regulation under the Bank Holding Company Act, which would force us to cease all of our non-banking business activities and thus cause a drastic reduction in our profits and revenue.

Our bank subsidiary, World Financial Network National Bank, is a limited purpose credit card bank. The Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation, insures the deposits of World Financial Network National Bank. World Financial Network National Bank is not a "bank" as defined under the Bank Holding Company Act because it is in compliance with the following requirements:

- it engages only in credit card operations;
- it does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties;
- it does not accept any savings or time deposits of less than $100,000, except for deposits pledged as collateral for extensions of credit;
- it maintains only one office that accepts deposits; and
- it does not engage in the business of making commercial loans.

If World Financial Network National Bank failed to meet the credit card bank criteria described above, World Financial Network National Bank would be a "bank" as defined by the Bank Holding Company Act, subjecting us to regulation under the Bank Holding Company Act. Being deemed a bank holding company could significantly harm us, as we could be required to either divest any activities deemed to be non-banking activities or cease any activities not permissible for a bank holding company and its affiliates. While the consequences of being subject to regulation under the Bank Holding Company Act would be severe, we believe that the risk of becoming subject to such regulation is minimal as a result of the precautions we have taken in structuring our business.

If our industrial loan corporation fails to meet the terms of the Federal Deposit Insurance Corporation or State of Utah Orders, we may be subject to termination of our industrial loan corporation.

Our industrial loan corporation, World Financial Capital Bank, is authorized to do business by the State of Utah and the Federal Deposit Insurance Corporation. World Financial Capital Bank is subject to capital ratios and paid-in capital minimums and must maintain adequate allowances for loan losses and operate within its three-year business plan. While the consequence of losing the World Financial Capital Bank authority to do business would be significant, we believe that the risk of such loss is minimal as a result of the precautions we have taken and the management team we have in place.

Risks Particular to Marketing Services

If actual redemptions by collectors of AIR MILES reward miles are greater than expected, our profitability could be adversely affected.

A portion of our revenue is based on our estimate of the number of AIR MILES reward miles that will go unused by the collector base. The percentage of unredeemed reward miles is known as "breakage" in the loyalty industry. While our AIR MILES reward miles currently do not expire, we experience breakage when reward miles are not redeemed by collectors for a number of reasons, including:

- loss of interest in the program or sponsors;
- collectors moving out of the program area; and
- death of a collector.

If actual redemptions are greater than our estimates, our profitability could be adversely affected due to the cost of the excess redemptions.

We could face increased competition from other loyalty programs, including Aeroplan, Air Canada's frequent flyer program.

As a result of increased competition in the loyalty market, including from Aeroplan, Air Canada's frequent flyer program, we may experience greater competition in attracting and retaining sponsors in our AIR MILES Reward Program.

The loss of our AIR MILES reward miles collectors who participate most actively could negatively impact our growth and profitability.

Our most active AIR MILES reward miles collectors represent a disproportionately large percentage of our AIR MILES Reward Program revenue. We estimate that over half of the AIR MILES Reward Program revenues for 2005 will be derived from our AIR MILES reward miles collectors who participate most actively. The loss of a significant portion of these collectors, for any reason, could impact our ability to generate significant revenue from sponsors and loyalty partners. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive.

Airline or travel industry disruptions, such as an airline insolvency, could negatively affect the AIR MILES Reward Program, our revenues and profitability.

Air travel is one of the appeals of the AIR MILES Reward Program to collectors. As a result of airline insolvencies and restructurings, we may experience service disruptions that prevent us from fulfilling collectors' flight redemption requests. If one of our existing airline suppliers sharply reduces its fleet capacity and route network, we may not be able to satisfy our collectors' demands for airline tickets. Tickets from other airlines, if available, could be more expensive than a comparable ticket under our current supply agreements with existing suppliers, and the routes offered by the other airlines may be inadequate, inconvenient or undesirable to the redeeming collectors. As a result, we may experience higher air travel redemption costs and collector satisfaction with the AIR MILES Reward Program might be adversely affected.

As a result of airline or travel industry disruptions, or as might result from political instability, terrorist acts or war, some collectors could determine that air travel is too dangerous or, given new airport regulations, too burdensome. Consequently, collectors might forego redeeming reward miles for air travel and therefore might not participate in the AIR MILES Reward Program to the extent they previously did, which could adversely affect our revenue from the program. A reduction in collector use of the program could impact our ability to attract new sponsors and loyalty partners and to generate revenue from current sponsors and loyalty partners.

Legislation relating to consumer privacy may affect our ability to collect data that we use in providing our marketing services, which could negatively affect our ability to satisfy our clients' needs.

The enactment of legislation or industry regulations arising from public concern over consumer privacy issues could have a material adverse impact on our marketing services. Any such legislation or industry regulations could place restrictions upon the collection and use of information that is currently legally available, which could materially increase our cost of collecting some data. Legislation or industry regulation could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements.

In the United States, the federal Gramm Leach Bliley Act makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. Regulations under this act give cardholders the ability to "opt out" of having information generated by their credit card purchases shared with other parties or the public. Our ability to gather and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to "opt out," thereby precluding us from using their data. Under the regulations, we generally are required to

refrain from sharing data generated by our new cardholders until such cardholders are given the opportunity to "opt out."

In the United States, the federal Do-Not-Call Implementation Act makes it more difficult to telephonically communicate with customers. Regulations under this act give consumers the ability to "opt out," through a national do-not-call list, a state do-not-call list or an internal do-not-call list which is required by the regulation, of having telephone calls placed to them by telemarketers who do not have an existing business relationship with the consumer. This act could limit our ability to provide services and information to our clients. Failure to comply with the terms of this act could have a negative impact to our reputation and subject us to significant penalties.

In the United States, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act restricts our ability to send commercial electronic mail messages to customers. The act requires that a customer provide consent prior to a commercial electronic mail message being sent to the customer and further restricts the transmission information (header/subject line) and content of the electronic mail message. Under the regulation, we generally are prohibited from issuing electronic mail or obtaining a benefit from an electronic mail message until such time as the customer has affirmatively granted permission for us to do so. Failure to comply with the terms of this act could have a negative impact to our reputation and subject us to significant penalties.

In Canada, the Personal Information Protection and Electronic Documents Act requires organizations to obtain a consumer's consent to collect, use or disclose personal information. Under this act, which took effect on January 1, 2001, the nature of the required consent depends on the sensitivity of the personal information, and the act permits personal information to be used only for the purposes for which it was collected. The Loyalty Group allows its customers to voluntarily "opt out" from receiving either one or both promotional and marketing mail or promotional and marketing electronic mail. Heightened consumer awareness of, and concern about, privacy may result in customers "opting out" at higher rates than they have historically. This would mean that a reduced number of customers would receive bonus mile offers and therefore would collect fewer AIR MILES reward miles.

Risks Related to Our Company

The affiliated entities of Welsh Carson currently own a significant amount of our common stock. These stockholders may have interests that conflict with yours and may be able to control the election of directors and the approval of significant corporate transactions, including a change in control.

As of February 28, 2005, the affiliated entities of Welsh Carson beneficially owned approximately 16.9% of our outstanding common stock. Welsh Carson is able to exercise significant influence over matters requiring stockholder approval, including the election of directors, changes to our charter documents and significant corporate transactions. Welsh Carson may have interests that conflict with our interests or those of other stockholders. Welsh Carson's continued concentrated ownership will make it difficult for another company to acquire us and for you to receive any related takeover premium for your shares unless Welsh Carson approves the acquisition.

Delaware law and our charter documents could prevent a change of control that might be beneficial to you.

Delaware law, as well as provisions of our certificate of incorporation and bylaws, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to you. These provisions include:

- a board of directors classified into three classes of directors with the directors of each class having staggered, three-year terms;
- our board's authority to issue shares of preferred stock without further stockholder approval; and

- provisions of Delaware law that restrict many business combinations and provide that directors serving on staggered boards of directors, such as ours, may be removed only for cause.

These provisions of our certificate of incorporation, bylaws and Delaware law could discourage tender offers or other transactions that might otherwise result in our stockholders receiving a premium over the market price for our common stock.

Future sales of our common stock, or the perception that future sales could occur, may adversely affect our common stock price.

As of February 28, 2005, we had an aggregate of 105,251,077 shares of our common stock authorized but unissued and not reserved for specific purposes. In general, we may issue all of these shares without any action or approval by our stockholders. We have reserved 16,253,000 shares of our common stock for issuance under our stock option and restricted stock plans, employee stock purchase plan and our 2003 long term incentive plan, of which 8,682,265 shares are issuable upon vesting of restricted stock awards and upon exercise of options granted as of February 28, 2005, including options to purchase approximately 3,568,890 shares exercisable as of February 28, 2005 or that will become exercisable within 60 days after February 28, 2005. We have reserved for issuance 1,500,000 shares of our common stock, all of which remain issuable under our 401(k) and Retirement Savings Plan. In addition, we may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions. Sales or issuances of a substantial number of shares of common stock, or the perception that such sales could occur, could adversely affect prevailing market prices of our common stock, and any sale or issuance of our common stock will dilute the percentage ownership held by our stockholders. Further, sales of a substantial number of shares of common stock by our largest stockholder, Welsh Carson, or the perception that such sales could occur, could also adversely affect prevailing market prices of our common stock.

Item 2. Properties

As of December 31, 2004, we leased over 30 general office properties throughout the United States and Canada, comprising over 2.0 million square feet. These facilities are used to carry out our operational, sales and administrative functions. Our principal facilities are as follows:

Location	Segment	Approximate Square Footage	Lease Expiration Date
Dallas, Texas	Corporate, Transaction Services	230,061	October 31, 2010
Dallas, Texas	Corporate	61,750	July 31, 2007
Dallas, Texas	Transaction Services	247,618	July 31, 2009
San Antonio, Texas	Transaction Services	67,540	October 31, 2007
Columbus, Ohio	Credit Services	103,161	January 1, 2008
Westerville, Ohio	Credit Services	100,800	May 31, 2006
Toronto, Ontario, Canada	Marketing Services	137,411	September 16, 2007
Wakefield, Massachusetts	Marketing Services	96,726	April 30, 2013
Earth City, Missouri	Marketing Services	116,783	September 30, 2012

We believe our current and proposed facilities are suitable to our businesses and that we will be able to lease, purchase or newly construct additional facilities as needed.

Item 3. Legal Proceedings

From time to time, we are involved in various claims and lawsuits arising in the ordinary course of our business that we believe will not have a material adverse affect on our business or financial condition, including claims and lawsuits alleging breaches of contractual obligations.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the security holders during the fourth quarter of 2004.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the New York Stock Exchange and trades under the symbol "ADS." The following table sets forth for the periods indicated the high and low composite per share closing sales prices as reported by the New York Stock Exchange.

	High	Low
Fiscal Year Ended December 31, 2003		
First quarter	$ 19.02	$ 14.79
Second quarter	25.66	16.15
Third quarter	29.60	23.46
Fourth quarter	30.51	26.69
Fiscal Year Ended December 31, 2004		
First quarter	$ 33.55	$ 26.92
Second quarter	42.25	33.07
Third quarter	42.00	35.73
Fourth quarter	48.52	40.64

Holders

As of February 28, 2005, the closing price of our common stock was $39.45 per share, there were 82,614,310 shares of our common stock outstanding, and there were approximately 140 holders of record of our common stock.

Dividends

We have never declared or paid any dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends on our common stock will be at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that our board deems relevant. In addition, under the terms of our credit facilities, we cannot declare or pay dividends or return capital to our common stockholders, and we are restricted in the amount of any other distribution, payment or delivery of property or cash to our common stockholders.

Issuer Purchases of Equity Securities

We do not currently have a common stock repurchase program in place. However, the administrator of our 401(k) and Retirement Savings Plan purchased shares of our common stock for the benefit of the employees who participated in that portion of the plan during the fourth quarter of 2004. The following table presents information with respect to those purchases of our common stock made during the three months ended December 31, 2004:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
During 2004:				
October	2,889	$ 41.88	—	—
November	3,298	42.20	—	—
December	1,827	44.95	—	—
Total	8,014	$ 42.71	—	—

Item 6. Selected Financial Data

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. You should read the following historical financial information along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Form 10-K and the financial statements and related notes that are incorporated by reference in this Form 10-K. The fiscal year financial information included in the table below is derived from audited financial statements.

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(Amounts in thousands, except per share amounts)				
Income statement data					
Total revenue	$ 669,867	$ 769,867	$ 865,297	$ 1,046,544	$ 1,257,438
Cost of operations	547,905	607,623	670,544	788,874	916,201
General and administrative(1)	32,281	41,301	53,784	52,320	77,740
Depreciation and other amortization	26,265	30,698	41,768	53,948	62,586
Amortization of purchased intangibles	49,879	43,506	24,707	20,613	28,812
Total operating expenses	656,330	723,128	790,803	915,755	1,085,339
Operating income	13,537	46,739	74,494	130,789	172,099
Other expenses	2,477	6,025	834	4,275	—
Fair value loss on interest rate derivative	—	15,131	12,017	2,851	808
Interest expense, net	30,542	26,245	19,924	14,681	6,972
(Loss) income from continuing operations before income taxes	(19,482)	(662)	41,719	108,982	164,319
Provision for income taxes	1,841	9,700	18,060	41,684	61,948
Net (loss) income	$ (21,323)	$ (10,362)	$ 23,659	$ 67,298	$ 102,371
Net (loss) income per share — basic	$ (0.60)	$ (0.21)	$ 0.32	$ 0.86	$ 1.27
Net (loss) income per share — diluted	$ (0.60)	$ (0.21)	$ 0.31	$ 0.84	$ 1.22
Weighted average shares used in computing per share amounts — basic	47,538	64,555	74,422	78,003	80,614
Weighted average shares used in computing per share amounts — diluted	47,538	64,555	76,696	80,313	84,040

(1) Included in general and administrative is stock compensation expense of $0, $1.8 million, $2.9 million, $5.9 million and $15.8 million for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, respectively.

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(Amounts in thousands, except per share amounts)				
Adjusted EBITDA and Operating EBITDA(2)					
Adjusted EBITDA	$ 89,681	$ 122,729	$ 143,917	$ 211,239	$ 279,264
Operating EBITDA	$ 114,753	$ 154,009	$ 162,781	$ 276,138	$ 321,779
Other financial data					
Cash flows from operating activities	$ 87,183	$ 166,409	$ 122,569	$ 125,804	$ 353,067
Cash flows from investing activities	$ (24,457)	$ (190,982)	$ (192,603)	$ (256,657)	$ (404,297)
Cash flows from financing activities	$ 1,144	$ 30,711	$ (15,670)	$ 165,003	$ 66,369
Segment operating data					
Statements generated	127,217	131,253	138,669	167,118	190,976
Credit sales	$ 3,685,069	$ 4,050,554	$ 4,924,952	$ 5,604,233	$ 6,227,421
Average securitized portfolio	$ 2,073,574	$ 2,197,935	$ 2,408,444	$ 2,686,527	$ 3,045,840
AIR MILES reward miles issued	1,927,016	2,153,550	2,348,133	2,571,501	2,834,125
AIR MILES reward miles redeemed	781,823	984,926	1,259,951	1,512,788	1,782,185

(2) See “Use of Non-GAAP Financial Measures” set forth in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of our use of adjusted EBITDA and operating EBITDA and a reconciliation to net (loss) income, the most directly comparable GAAP financial measure.

	As of December 31,				
	2000	2001	2002	2003	2004
	(Amounts in thousands)				
Balance sheet data					
Cash and cash equivalents	$ 116,941	$ 117,535	$ 30,439	$ 67,745	$ 84,409
Seller’s interest and credit card receivables, net	137,865	128,793	147,899	271,396	248,074
Redemption settlement assets, restricted	152,007	150,330	166,293	215,271	243,492
Intangible assets, net	72,647	74,964	75,399	143,733	233,779
Goodwill	370,291	404,797	429,720	484,415	709,146
Total assets	1,419,026	1,464,428	1,447,462	1,867,424	2,239,080
Deferred revenue — service and redemption	298,080	327,683	362,510	476,387	547,123
Certificates of deposit	139,400	120,800	96,200	200,400	94,700
Credit facilities, subordinated debt and other debt	296,660	189,625	196,711	189,751	342,823
Total liabilities	1,058,246	958,787	904,904	1,165,093	1,368,560
Series A preferred stock	119,400	—	—	—	—
Total stockholders’ equity	241,380	505,641	542,558	702,331	870,520

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading provider of transaction services, credit services and marketing services in North America. We focus on facilitating and managing electronic transactions between our clients and their customers. We operate in three business segments: Transaction Services, Credit Services and Marketing Services.

Transaction Services. Transaction Services is our largest segment. The Transaction Services segment primarily generates revenue based on the number of statements generated, customer calls handled and transactions processed. Statements generated is the primary driver of revenue for this segment and represents the majority of revenue.

- Statements Generated: This driver represents the number of statements generated for our private label credit card and utility clients. The number of statements generated in any given period is a fairly reliable indicator of the number of active accountholders during that period. In addition to receiving payment for each statement generated, we also are paid for other services such as remittance processing, customer care and various marketing services.

Transaction Services primarily is affected by increased outsourcing in our targeted industry verticals. Companies are increasingly outsourcing their non-core processes such as customer information systems, billing and customer care. We are impacted by this trend with our clients in utility services and issuer services.

Credit Services. The Credit Services segment primarily generates revenue from servicing fees from our securitization trusts, merchant discount fees, and securitization income. Private label credit sales and average securitized portfolio are the two primary drivers of revenue for this segment.

- Private Label Credit Sales: This driver represents the dollar value of private label credit card sales that occur at our clients' point of sale terminals or through catalogs or web sites. We are paid a percentage of these sales, referred to as merchant discount, from the retailers that utilize our private label credit card program. Private label credit sales typically lead to higher portfolio balances as cardholders finance their purchases through our credit card banks.

- Average Securitized Portfolio: This represents the average balance of outstanding receivables from our cardholders that have been securitized. Customers are assessed a finance charge based on their outstanding balance at the end of a billing cycle. There are many factors that drive the outstanding balances such as payment rates, charge-offs, recoveries and delinquencies. Management actively monitors all of these factors. Generally we securitize our receivables, which results in a sale for accounting purposes and effectively removes them from our balance sheet to one of our securitization trusts.

Credit Services is affected by industry trends similar to Transaction Services. The growing trend of outsourcing of private label credit card programs leads to increased accounts and balances to finance. Additionally, economic trends can impact this segment. Interest expense is a significant component of operating costs for our securitized trusts. Over the last three years we have experienced a historically low interest rate environment. We have refinanced our recent bond maturities with instruments that lock in our effective interest rate for up to five year terms. Interest rates began to increase in 2004 as the economic environment has improved. A low interest rate environment is usually indicative of a slower economic environment, which can negatively impact our net charge-offs, a significant cost of financing receivables. In the last five years, our net charge-offs have increased from 7.6% in 2000 to a peak of 8.4% in 2001 as the economy slowed during that period. We have been able to lower our net charge-offs to our current 2004 rate of 6.9%. Our expectation for 2005 is that we will experience similar levels of net charge-offs and cost of funds as we experienced during 2004.

Marketing Services. Marketing Services has historically been represented primarily by our AIR MILES Reward Program, which we believe to be the largest coalition loyalty program in Canada. We

primarily collect fees from our clients based on the number of AIR MILES reward miles issued and in limited circumstances the number of AIR MILES reward miles redeemed. All of the fees collected for AIR MILES reward miles issued are deferred and recognized over time. AIR MILES reward miles issued and AIR MILES reward miles redeemed are the two primary drivers of revenue for this segment, and as a result they are both indicators of the success of the program. These two drivers are also important in the revenue recognition process.

- AIR MILES Reward Miles Issued: The number of AIR MILES reward miles issued depends upon the buying activity of the collectors at our participating sponsors. The fees collected from sponsors for the issuance of AIR MILES reward miles represents future revenue and earnings for us.
- AIR MILES Reward Miles Redeemed: A majority of the revenue we recognize in this segment is derived from the redemptions of AIR MILES reward miles by collectors. Redemptions also show that collectors are attaining the rewards that are offered through our programs.

Our AIR MILES Reward Program tends not to be significantly impacted by economic swings as the majority of the sponsors are in non-discretionary categories such as grocery, petroleum and financial institutions. Additionally, we target the sponsor's most loyal customers, who are unlikely to change their spending patterns. We are impacted by changes in the exchange rate between the U.S. dollar and the Canadian dollar. The Canadian dollar appreciated this year, which benefited our operating results. Our expectation is that the Canadian dollar/ U.S. dollar exchange rate will be more stable in 2005 than in 2004 and remain at its current relative levels. Additionally in 2005, we expect to show a significant increase in database marketing fees as a result of the acquisition of Epsilon in the fourth quarter of 2004.

Year in Review Highlights

Our 2004 results of operations were largely impacted by new and renewed agreements with significant clients, three capital market transactions and continued selective execution of our acquisition strategy. During 2004, we signed or renewed agreements with several significant clients and sponsors:

- In January 2004, we signed a long-term renewal with BMO Bank of Montreal MasterCard, a top-five client and founding sponsor in the AIR MILES Reward Program.
- In January 2004, we entered into an agreement with Stage Stores, Inc. to purchase the Peebles' private label credit card portfolio.
- In January 2004, we signed a long-term renewal with Shell Canada Limited, a top-ten client and significant, high-frequency sponsor in the AIR MILES Reward Program.
- In January 2004, we signed a long-term renewal whereby Air Canada will continue as a rewards supplier in the AIR MILES Reward Program.
- In February 2004, we commenced a five-year agreement to start a private label credit card program with Design Within Reach.
- In March 2004, we signed multi-year, exclusive agreements with BMO Bank of Montreal and WestJet to introduce a tri-branded MasterCard credit card issued by BMO Bank of Montreal and to renew agreements by which WestJet participates as a travel rewards supplier to the AIR MILES Reward Program.
- In May 2004, we signed a long-term renewal with The Buckle, Inc. to provide private label credit card and marketing services.
- In May 2004, we signed a multi-year agreement with Alimentation Couche-Tard Inc. to provide payment processing services to Circle K convenience stores across the United States.
- In June 2004, we signed a long-term agreement with Little Switzerland, Inc. to provide private label credit card and marketing services.

- In August 2004, we signed a five-year agreement with American TV and Appliance of Madison, Inc. to provide a comprehensive business credit card program.
- In August 2004, we signed a multi-year agreement with RONA to become a national Sponsor in the AIR MILES Reward Program.
- In November 2004, we signed a five-year agreement with Direct Energy to provide customer information systems services and customer care solutions.
- In November 2004, we signed a ten-year agreement with Entergy Solutions to provide comprehensive billing and customer care solutions.
- In November 2004, we signed a long-term agreement with Trek Bicycle Corporation to provide private label credit card services.
- In November 2004, we signed a long-term agreement with New York & Company to provide private label credit card services.

During 2004, we completed two acquisitions:

- In October 2004, we acquired Epsilon Data Management, Inc., a provider of integrated direct marketing solutions that combine value-added marketing, transaction, technology and analytical services, for approximately $310.0 million.
- In November 2004, we acquired Capstone Consulting Partners, Inc., a provider of management consulting and technical services to the energy industry.

Additionally, during 2004, we completed three significant capital market transactions:

- In May 2004, we completed the sale of $500.0 million in asset backed notes for our securitization trusts.
- In September 2004, we completed the sale of $900.0 million in asset backed notes for our securitization trusts.
- In October 2004, we entered into amendments to our three credit facilities. Collectively, the three amendments increased the aggregate amount of revolving commitments under the three credit facilities from $400.0 million to $435.0 million, since adjusted to $455.0 million. In addition, the amendments increased the aggregate amount of commitments permitted under the three credit facilities from $450.0 million to $500.0 million.

Discussion of Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting policies that are described in the Notes to the Consolidated Financial Statements. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our judgments and estimates in determination of our financial condition and operating results. Estimates are based on information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and operating results and require management's most subjective judgments. The most critical accounting policies and estimates are described below.

Securitization of credit card receivables. We utilize a securitization program to finance substantially all of the credit card receivables that we underwrite. Our securitization trusts allow us to sell credit card receivables to the trusts on a daily basis. We use our off-balance sheet securitization program to lower our cost of funds and more efficiently use capital. In a securitization transaction, we sell credit card receivables originated by our Credit Services segment to a trust and retain servicing rights to those receivables, an

equity interest in the trust, and an interest in the receivables. The securitization trusts are deemed to be qualifying special purpose entities under accounting principles generally accepted in the United States ("GAAP") and are appropriately not included in our Consolidated Financial Statements. Our interest in the trusts is represented on our consolidated balance sheets as seller's interest (our interest in the receivables) and due from securitizations (our retained interests and credit enhancement components).

In turn, the trusts issue bonds in the capital markets and notes in private transactions. The proceeds from the debt are used to fund the receivables, while cash collected from cardholders is used to finance new receivables and repay borrowings and related borrowing costs. The excess spread is remitted to us as securitization income.

Our retained interest, often referred to as an interest only strip, is recorded at fair value. Our interest only strip has historically been valued between 1.75% and 2.25% of average securitized receivables. The fair value of our interest only strip represents the present value of the anticipated cash flows we have retained over the estimated outstanding period of the receivables. This anticipated excess cash flow consists of the excess of finance charges and past-due fees net of the sum of the return paid to bond holders, estimated contractual servicing fees and credit losses. Because there is not a highly liquid market for these assets, we estimated the fair value of the interest only strip primarily based upon discount, payment and default rates, which is the method we assume that another market participant would use to purchase the interest only strip. The estimated market assumptions are applied based upon the underlying loan portfolio grouped by loan types, terms, credit quality, interest rates and geographic location, which are the predominant characteristics that affect payment and default rates.

Changes in the fair value of the interest only strip are reflected in our consolidated financial statements as additional gains related to new receivables originated and securitized or other comprehensive income related to mark to market changes.

In recording and accounting for interest only strips, we made assumptions about rates of payments and defaults that we believe reasonably reflect economic and other relevant conditions that affect fair value. Due to subsequent changes in economic and other relevant conditions, the actual rates of payments and defaults generally differ from our initial estimates, and these differences could sometimes be material. If actual payment and default rates are higher than previously assumed, the value of the interest only strip could be impaired and the decline in the fair value recorded in earnings. Further sensitivity information is provided in Note 6 to the Consolidated Financial Statements.

AIR MILES Reward Program. Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of revenue on all fees received based on issuance is deferred. We allocate the proceeds from issuances of AIR MILES reward miles into two components based on the relative fair value of the related element:

- *Redemption element.* The redemption element is the larger of the two components. For this component, we recognize revenue at the time an AIR MILES reward mile is redeemed, or, for those AIR MILES reward miles that we estimate will go unredeemed by the collector base, known as "breakage," over the estimated life of an AIR MILES reward mile. The total amount of deferred revenue related to the redemption element is shown on the balance sheet as "Deferred Revenue — Redemption."
- *Service element.* For this component, which consists of marketing and administrative services provided to sponsors, we recognize revenue pro rata over the estimated life of an AIR MILES reward mile. The total amount of deferred revenue related to the service element is shown on the balance sheet as "Deferred Revenue — Service."

Under certain of our contracts, a portion of the proceeds is paid to us at the issuance of AIR MILES reward miles and a portion is paid at the time of redemption. Under such contracts the proceeds received at issuance are initially deferred as service revenue and the revenue and earnings are recognized pro rata over the estimated life of an AIR MILES reward mile.

The amount of revenue recognized in a period is subject to the estimated life of an AIR MILES reward mile. Based on our historical analysis, we make a determination as to average life of an AIR MILES reward mile. The estimated life of an AIR MILES reward mile of 42 months and breakage of one-third has remained constant over the past five years. The estimated life of an AIR MILES reward mile and breakage is actively monitored by management and subject to external influences that may cause actual performance to differ from estimates.

We believe that the issuance and redemption of AIR MILES reward miles is influenced by the nature and volume of sponsors, the type of rewards offered, the overall health of the Canadian economy, the nature and extent of AIR MILES promotional activity in the marketplace and the extent of competing loyalty programs. These influences will primarily affect the average life of an AIR MILES reward mile. We do not believe that the estimated life will vary significantly over time, consistent with historical trends. The shortening of the life of an AIR MILES reward mile will accelerate the recognition of revenue and may affect the breakage rate. As of December 31, 2004, we had $547.1 million in deferred revenue related to the AIR MILES Reward Program that will be recognized in the future. Further information is provided in Note 8 to the Consolidated Financial Statements.

Inter-Segment Sales

Our Transaction Services segment performs card processing and servicing activities related to our Credit Services segment. For this, our Transaction Services segment receives a fee equal to its direct costs before corporate overhead plus a margin. The margin is based on current market rates for similar services. This fee represents an operating cost to the Credit Services segment and a corresponding revenue for our Transaction Services segment. Inter-segment sales are eliminated upon consolidation. Revenues earned by our Transaction Services segment from servicing our Credit Services segment, and consequently paid by our Credit Services segment to our Transaction Services segment, are set forth opposite “Other/eliminations” in the tables presented in the annual comparisons in our “Results of Operations.”

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to net (loss) income, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, fair value loss on interest rate derivative, other expenses, depreciation and other amortization and amortization of purchased intangibles. Operating EBITDA is a non-GAAP financial measure equal to adjusted EBITDA plus the change in deferred revenue less the change in redemption settlement assets. We have presented operating EBITDA because we use the financial measure as part of our monitoring of compliance with the financial covenants in our credit facilities. For 2004, senior debt-to-operating EBITDA was 0.9x compared to a maximum ratio of 2.0x and operating EBITDA to interest expense was 24.1x compared to a minimum ratio of 3.5x. Our covenant ratios for 2005 will be the same as for 2004. As discussed in more detail in the liquidity section of the "Management's Discussion and Analysis of Financial Condition and Results of Operations", our credit facilities together with cash flow from operations are the two main sources of funding for our acquisition strategy and for our future working capital needs and capital expenditures. As of December 31, 2004, we had borrowings of $324.6 million outstanding under these credit facilities and had approximately $130.4 million in unused borrowing capacity. We were in compliance with our covenants at December 31, 2004 and we expect to be in compliance with these covenants during the year ending December 31, 2005.

We use adjusted EBITDA as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management. Adjusted EBITDA is considered an important indicator of the operational strength of our businesses. Adjusted EBITDA eliminates the uneven effect across all business segments of considerable amounts of non-cash depreciation of tangible assets and amortization of certain intangible assets that were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets, the impact of related impairments, as well as asset sales through other financial measures, such as capital expenditures, investment spending and return on capital. Adjusted EBITDA also eliminates the non-cash effect of stock compensation expense. Stock compensation expense is not included in the measurement of segment adjusted EBITDA provided to the chief operating decision maker for purposes of assessing segment performance and decision making with respect to resource allocations. Therefore, we believe that adjusted EBITDA provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA and operating EBITDA are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA and operating EBITDA are not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The adjusted EBITDA and operating EBITDA measures presented

in this Form 10-K may not be comparable to similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements.

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(Amounts in thousands)				
Net income (loss)	$ (21,323)	$ (10,362)	$ 23,659	$ 67,298	$ 102,371
Stock compensation expense	—	1,786	2,948	5,889	15,767
Provision for income taxes	1,841	9,700	18,060	41,684	61,948
Interest expense, net	30,542	26,245	19,924	14,681	6,972
Fair value loss on interest rate derivative	—	15,131	12,017	2,851	808
Other expenses(1)	2,477	6,025	834	4,275	—
Depreciation and other amortization	26,265	30,698	41,768	53,948	62,586
Amortization of purchased intangibles	49,879	43,506	24,707	20,613	28,812
Adjusted EBITDA	89,681	122,729	143,917	211,239	279,264
Change in deferred revenue	43,429	29,603	34,827	113,877	70,736
Change in redemption settlement assets	(18,357)	1,677	(15,963)	(48,978)	(28,221)
Operating EBITDA	$ 114,753	$ 154,009	$ 162,781	$ 276,138	$ 321,779

Note: Operating EBITDA is affected by fluctuations in foreign exchange rates and transfers of cash to redemption settlement assets.

(1) For the years ended December 31, 2000 and 2001, other expenses primarily relate to the write off of equity investments. For the years ended December 2002 and 2003, other expenses are debt related.

Results of Operations

Year ended December 31, 2003 compared to the year ended December 31, 2004

	Year Ended December 31,		Growth	
	2003	2004	$	%
	(In thousands, except percentages)			
Revenue:				
Transaction Services	$ 614,454	$ 681,736	$ 67,282	10.9%
Credit Services	433,701	513,988	80,287	18.5
Marketing Services	289,764	375,630	85,866	29.6
Other/ Eliminations	(291,375)	(313,916)	(22,541)	7.7
Total	$ 1,046,544	$ 1,257,438	$ 210,894	20.2%
Adjusted EBITDA:				
Transaction Services	$ 88,001	$ 97,465	$ 9,464	10.8%
Credit Services	76,957	125,718	48,761	63.4
Marketing Services	46,281	56,081	9,800	21.2
Total	$ 211,239	$ 279,264	$ 68,025	32.2%
Stock compensation expense:				
Transaction Services	$ 1,963	$ 5,255	$ 3,292	167.7%
Credit Services	1,963	5,256	3,293	167.8
Marketing Services	1,963	5,256	3,293	167.8
Total	$ 5,889	$ 15,767	$ 9,878	167.7%
Depreciation and amortization:				
Transaction Services	$ 51,508	$ 61,786	$ 10,278	20.0%
Credit Services	5,581	7,938	2,357	42.2
Marketing Services	17,472	21,674	4,202	24.0
Total	$ 74,561	$ 91,398	$ 16,837	22.6%
Operating income:				
Transaction Services	$ 34,530	$ 30,424	$ (4,106)	(11.9)%
Credit Services	69,413	112,524	43,111	62.1
Marketing Services	26,846	29,151	2,305	8.6
Total	$ 130,789	$ 172,099	$ 41,310	31.6%
Adjusted EBITDA margin(1):				
Transaction Services	14.3%	14.3%	—%	
Credit Services	17.7	24.5	6.8	
Marketing Services	16.0	14.9	(1.1)	
Total	20.2%	22.2%	2.0%	
Segment operating data:				
Statements generated	167,118	190,976	23,858	14.3%
Credit Sales	$ 5,604,233	$ 6,227,421	$ 623,188	11.1%
Average securitized portfolio	$ 2,686,527	$ 3,045,840	$ 359,313	13.4%
AIR MILES reward miles issued	2,571,501	2,834,125	262,624	10.2%
AIR MILES reward miles redeemed	1,512,788	1,782,185	269,397	17.8%

(1) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses.

Revenue. Total revenue increased $210.9 million, or 20.2%, to $1,257.4 million for 2004 from $1,046.5 million for 2003. The increase was due to the following:

- *Transaction Services.* Transaction Services revenue increased $67.3 million, or 10.9%, primarily due to an increase in the number of statements generated. Approximately one-half of the revenue increase is related to the increase in utility statements generated, which grew 27.9%. The growth in utility statements is primarily related to Conservation Billing Services Inc. (acquired in September 2003) and Orcom Solutions, Inc. (acquired in December 2003). Approximately one-third of the revenue increase is related to the increase in private label credit card statements generated, which grew 9.2%. The growth in private label credit card statements is primarily related to Stage Stores, Inc. (signed in September 2003) and Peebles Inc. (signed in January 2004) and core growth in existing clients. Additional growth in Transaction Services revenue came from an increase in merchant services revenue of 6.4% as our petroleum clients experienced higher transaction volume due to higher gas prices. Higher gas prices drive more frequent visits by consumers to our petroleum clients.

- *Credit Services.* Credit Services revenue increased $80.3 million, or 18.5%, primarily due to an increase in securitization income. Approximately three-quarters of the increase in revenue is related to securitization income. Securitization income increased as a result of a 13.4% higher average outstanding securitized portfolio. The increase in average outstanding securitized portfolio is the result of new client signings and growth in our existing programs. The net yield on our retail portfolio for 2004 was approximately 60 basis points higher than in 2003. The increase in the net yield is largely related to lower net charge-offs of 20 basis points in addition to an increase in collected yield, partially offset by an increase in cost of funds. Additional revenue increases came from servicing fees and merchant fees. Servicing fees increased as a result of a 13.4% increase in average securitized portfolio. Merchant discount fees increased as a result of an 11.1% increase in credit sales.

- *Marketing Services.* Marketing Services revenue increased $85.9 million, or 29.6%, primarily due to an increase in redemption, issuance and database marketing revenue. Approximately one-half of the increase in revenue is related to redemption revenue, which increased as a result of a 17.8% increase in the redemption of AIR MILES reward miles. Additionally, services revenue increased 16.3% as a result of a 10.2% increase in the number of AIR MILES reward miles issued and the corresponding recognition of deferred revenue balances. As a result of the increased issuance activity and the appreciation of the Canadian dollar as of December 31, 2004, our deferred revenue balance increased 14.8% to $547.1 million at December 31, 2004 from $476.4 million at December 31, 2003. The growth rate in the number of AIR MILES reward miles redeemed continues to outpace the growth rate in the number of AIR MILES reward miles issued, currently a positive indicator as to the success of the program. The increase in redemptions relates to the continued trend to offer more redemption options to our collectors, such as merchandise and certificates. Database marketing fees, including our historical database products in the United States and Canada, increased $24.4 million primarily as a result of our acquisition of Epsilon during the fourth quarter of 2004.

Operating Expenses. Total operating expenses, excluding depreciation, amortization and stock compensation expense increased $142.9 million, or 17.1%, to $978.2 million for 2004 from $835.3 million for 2003. Total adjusted EBITDA margin increased to 22.2% for 2004 from 20.2% for 2003. The increase in adjusted EBITDA margin is due to increases in Marketing Services and Credit Services margins.

- *Transaction Services.* Transaction Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased $57.8 million, or 11.0%, to $584.3 million for 2004 from $526.5 million for 2003, and adjusted EBITDA margin remained constant at 14.3% for 2004 and 2003. The lack of growth in adjusted EBITDA margin was primarily driven by excess capacity in our utility services business. We are currently streamlining processes to eliminate the excess capacity. The benefit from these consolidation efforts should begin to occur later in 2005 and 2006.

Revenue gains and leverage in merchant services contributed positive adjusted EBITDA margin increases to offset the utility services decline.

- *Credit Services.* Credit Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased $31.6 million, or 8.9%, to $388.3 million for 2004 from $356.7 million for 2003, and adjusted EBITDA margin increased to 24.5% for 2004 from 17.7% for 2003. The increase in adjusted EBITDA margin is the result of favorable revenue trends from increased receivable balances, higher collected yield, lower net charge-offs, partially offset by an increase in cost of funds.
- *Marketing Services.* Marketing Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased $76.1 million, or 31.3%, to $319.6 million for 2004 from $243.5 million for 2003, and adjusted EBITDA margin decreased to 14.9% for 2004 from 16.0% for 2003. The decrease in adjusted EBITDA margin is the result of a higher mix of lower margin redemption revenue during the year.
- *Stock compensation expense.* Stock compensation expense increased $9.9 million, or 167.7%, to $15.8 million for 2004 from $5.9 million for 2003. The increase is primarily related to the issuance and vesting of 199,120 shares of performance based restricted stock issued in 2001. Vesting occurred because we exceeded specific performance targets based on the stock performance over the last three years, among other performance measures.
- *Depreciation and Amortization.* Depreciation and amortization increased $16.8 million, or 22.6%, to $91.4 million for 2004 from $74.6 million for 2003. The increase is primarily due to an increase of $8.2 million in amortization of purchased intangibles primarily related to the Orcom and Epsilon transactions. In addition, depreciation and amortization increased $8.6 million as a result of increased capital expenditures.

Operating Income. Operating income increased $41.3 million, or 31.6%, to $172.1 million for 2004 from $130.8 million for 2003. Operating income increased primarily from revenue gains, an increase in adjusted EBITDA margins offset by an increase in depreciation and amortization and stock compensation expense.

Interest Expense, net. Interest expense, net, decreased $7.7 million, or 52.4%, to $7.0 million for 2004 from $14.7 million for 2003 due to lower average debt outstanding.

Fair Value Loss on Derivatives. During 2004, we incurred a $0.8 million fair value loss on an interest rate swap compared to a $2.9 million loss in 2003. Part of the fair value loss was associated with cash payments we made to counterparties of $5.5 million and $11.1 million in 2004 and 2003, respectively. In accordance with Statement of Financial Accounting Standard (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended, fair value changes in derivative instruments that do not meet the accounting criteria for hedge treatment are recorded as part of earnings. The related derivative was a $200.0 million notional amount interest rate swap that swapped a LIBOR based variable interest rate for a fixed interest rate, and expired in May 2004.

Provision for Income Taxes. The provision for income taxes increased $20.2 million to $61.9 million in 2004 from $41.7 million in 2003 primarily due to an increase in taxable income. The effective rate remained relatively flat, decreasing to 37.7% in 2004 from 38.3% in 2003.

Year ended December 31, 2002 compared to the year ended December 31, 2003

	Year Ended December 31,		Growth	
	2002	2003	$	%
	(In thousands, except percentages)			
Revenue:				
Transaction Services	$ 538,240	$ 614,454	$ 76,214	14.2%
Credit Services	341,229	433,701	92,472	27.1
Marketing Services	231,454	289,764	58,310	25.2
Other/ Eliminations	(245,626)	(291,375)	(45,749)	18.6
Total	$ 865,297	$ 1,046,544	$ 181,247	20.9%
Adjusted EBITDA:				
Transaction Services	$ 78,125	$ 88,001	$ 9,876	12.6%
Credit Services	37,893	76,957	39,064	103.1
Marketing Services	27,899	46,281	18,382	65.9
Total	$ 143,917	$ 211,239	$ 67,322	46.8%
Stock compensation expense:				
Transaction Services	$ 1,474	$ 1,963	$ 489	33.2%
Credit Services	884	1,963	1,079	122.1
Marketing Services	590	1,963	1,373	232.7
Total	$ 2,948	$ 5,889	$ 2,941	99.8%
Depreciation and amortization:				
Transaction Services	$ 44,627	$ 51,508	$ 6,881	15.4%
Credit Services	6,724	5,581	(1,143)	(17.0)
Marketing Services	15,124	17,472	2,348	15.5
Total	$ 66,475	$ 74,561	$ 8,086	12.2%
Operating income:				
Transaction Services	$ 32,024	$ 34,530	$ 2,506	7.8%
Credit Services	30,285	69,413	39,128	129.2
Marketing Services	12,185	26,846	14,661	120.3
Total	$ 74,494	$ 130,789	$ 56,295	75.6%
Adjusted EBITDA margin(1):				
Transaction Services	14.5%	14.3%	(0.2)%	
Credit Services	11.1	17.7	6.6	
Marketing Services	12.1	16.0	3.9	
Total	16.6%	20.2%	3.6%	
Segment operating data:				
Statements generated	138,669	167,118	28,449	20.5%
Credit Sales	$ 4,924,952	$ 5,604,233	$ 679,281	13.8%
Average securitized portfolio	$ 2,408,444	$ 2,686,527	$ 278,083	11.5%
AIR MILES reward miles issued	2,348,133	2,571,501	223,368	9.5%
AIR MILES reward miles redeemed	1,259,951	1,512,788	252,837	20.1%

(1) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses.

Revenue. Total revenue increased $181.2 million, or 20.9%, to $1,046.5 million for 2003 from $865.3 million for 2002. The increase was due to a 14.2% increase in Transaction Services revenue, a 27.1% increase in Credit Services revenue and a 25.2% increase in Marketing Services revenue as follows:

- *Transaction Services.* Transaction Services revenue increased $76.2 million, or 14.2%, primarily due to increases in the volume of statements generated and in the revenue per statement generated, partially offset by a decrease in total transactions processed. During 2003, utility services statements generated increased 79.7%. The increase in the number of statements generated by utility services was led by our new relationship with Centrica and American Electric Power consummated in the first quarter. The volume of full service private label credit card statements generated increased 8.7%, primarily due to the addition of Spiegel Catalog, Eddie Bauer, Newport News, Stage Stores, and Fortunoff during 2003. In addition, the increase in utility services and full service private label credit card statements led to an increase in revenue per statement of 4.6%. The decrease in total transactions processed was the result of pruning of non-core accounts during the third and fourth quarter of 2002.

- *Credit Services.* Credit Services revenue increased $92.5 million, or 27.1%, due to increases in servicing fees and securitization income, slightly offset by a decrease in other fees generated from our private label credit card program. Servicing fee income increased by $3.9 million, or 8.5%, during 2003 due to an increase in the average outstanding balance of the securitized credit card receivables. Securitization income, increased $90.7 million, or 44.5%, during 2003 as a result of a 11.5% higher average outstanding securitized portfolio. The increase in average outstanding securitized portfolio is the result of new client signings and growth in our existing programs. The net yield on our retail portfolio for 2003 was approximately 240 basis points higher than in 2002. The increase in the net yield is largely related to an increase in collected yield in addition to lower financing costs as a result of refinancing of our public securitization bonds in June and August 2003 and November 2002.

- *Marketing Services.* Marketing Services revenue increased $58.3 million, or 25.2%, primarily due to an increase in redemption revenue related to a 20.1% increase in the redemption of AIR MILES reward miles. Additionally, services revenue increased 21.7% as a result of a 9.5% increase in the number of AIR MILES reward miles issued and the corresponding recognition of deferred revenue balances. Changes in the exchange rate of the Canadian dollar accounted for approximately $30.0 million of the $58.3 million increase in our revenue, or 13.0%. As a result of the increased issuance activity and the increase in the Canadian dollar as of December 31, 2003, our deferred revenue balance increased 31.4% to $476.4 million at December 31, 2003 from $362.5 million at December 31, 2002. The growth rate in the number of AIR MILES reward miles redeemed continues to outpace the growth rate in the number of AIR MILES reward miles issued, a positive indicator as to the success of the program. The increase in redemptions relates to the continued trend to offer more redemption options to our collectors, such as merchandise and certificates.

Operating Expenses. Total operating expenses, excluding depreciation, amortization and stock compensation expense, increased $113.9 million, or 15.8%, to $835.3 million for 2003 from $721.4 million for 2002. Total adjusted EBITDA margin increased to 20.2% for 2003 from 16.6% for 2002. The increase in adjusted EBITDA margin is due to increases in Marketing Services and Credit Services margins.

- *Transaction Services.* Transaction Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased $66.4 million, or 14.4%, to $526.5 million for 2003 from $460.1 million for 2002, and adjusted EBITDA margin decreased to 14.3% for 2003 from 14.5% for 2002. The decrease in adjusted EBITDA margin was primarily driven by start-up costs related to new private label credit card customers and the migration of a call center operation from a third-party vendor. Also contributing to the decrease in adjusted EBITDA margin, was a decrease in our merchant services business, primarily resulting from our reduction in the number of total transactions processed. Margin gains and volume growth from private label credit card statements offset the majority of the decrease from merchant services.

- *Credit Services.* Credit Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased $53.4 million, or 17.6%, to $356.7 million for 2003 from $303.3 million for 2002, and adjusted EBITDA margin increased to 17.7% for 2003 from 11.1% for 2002. The increase in adjusted EBITDA margin is the result of lower net charge-offs and financing costs and an increase in private label credit sales and portfolio growth.
- *Marketing Services.* Marketing Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased $39.9 million, or 19.6%, to $243.5 million for 2003 from $203.6 million for 2002, and adjusted EBITDA margin increased to 16.0% for 2003 from 12.1% for 2002. The increase is directly related to the increase in revenue. The increase in the Canadian dollar resulted in a 1.8% increase in adjusted EBITDA margin.
- *Stock compensation expense.* Stock compensation expense increased $2.9 million, or 99.8% to $5.9 million for 2003 from $2.9 million for 2002. The increase is primarily related to an increase in both the number of restricted shares vested and our share price at the time of vesting.
- *Depreciation and Amortization.* Depreciation and amortization increased $8.1 million, or 12.2%, to $74.6 million for 2003 from $66.5 million for 2002. The increase is primarily due to an increase of $12.2 million in depreciation and amortization from increased capital expenditures, partially offset by a decrease in amortization of purchased intangibles of $4.1 million.

Operating Income. Operating income increased $56.3 million, or 75.6%, to $130.8 million for 2003 from $74.5 million for 2002. Operating income increased primarily from revenue gains, an increase in adjusted EBITDA margins and a decrease in purchased intangible amortization.

Interest Expense, Net. Interest expense, net, decreased $5.2 million, or 26.1%, to $14.7 million for 2003 from $19.9 million for 2002 due in part to the repayment of $52.0 million of subordinated debt to Welsh Carson in 2003. Additionally, we had lower average debt outstanding and experienced lower interest rates as a result of our new credit facility.

Fair Value Loss on Derivatives. During 2003, we incurred a $2.9 million fair value loss on an interest rate swap compared to a $12.0 million loss in 2002. Part of the fair value loss was associated with cash payments we made to counterparties of $11.1 million and $9.4 million in 2003 and 2002, respectively. In accordance with SFAS No. 133, fair value changes in derivative instruments that do not meet the accounting criteria for hedge treatment are recorded as part of earnings. The related derivative was a $200.0 million notional amount interest rate swap that swapped a LIBOR based variable interest rate for a fixed interest rate, and expired in May 2004.

Provision for Income Taxes. The provision for income taxes increased $23.6 million to $41.7 million in 2003 from $18.1 million in 2002 due to an increase in taxable income. The effective rate decreased to 38.3% in 2003 from 43.3% in 2002 due to a benefit from a change in Canadian corporate tax rates.

Asset Quality

Our delinquency and net charge-off rates reflect, among other factors, the credit risk of our private label credit card receivables, the average age of our various private label credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our private label credit card portfolio affects the stability of delinquency and loss rates of the portfolio. We continue to focus our resources on refining our credit underwriting standards for new accounts and on collections and post charge-off recovery efforts to minimize net losses. An older private label credit card portfolio generally drives a more stable performance in the portfolio. At December 31, 2004, 43.9% of securitized accounts with balances and 39.4% of securitized receivables were less than 24 months old. As of December 31, 2004, our allowance for doubtful accounts related to on-balance sheet private label credit card receivables was $11.7 million compared to $17.2 million as of December 31, 2003. The decrease is primarily related to the sale of on-balance sheet portfolios to our securitization trusts during 2004.

Delinquencies. A credit card account is contractually delinquent if we do not receive the minimum payment by the specified due date on the cardholder's statement. It is our policy to continue to accrue interest and fee income on all credit card accounts, except in limited circumstances, until the account balance and all related interest and other fees are charged off or paid, beyond 90 days delinquent. When an account becomes delinquent, we print a message on the cardholder's billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account rolling to a more delinquent status. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. If we are unable to make a collection after exhausting all in-house efforts, we engage collection agencies and outside attorneys to continue those efforts.

The following table presents the delinquency trends of our securitized credit card portfolio:

	December 31, 2003	% of Total	December 31, 2004	% of Total
	(Dollars in thousands)			
Receivables outstanding	$ 3,186,799	100%	$ 3,377,305	100%
Receivables balances contractually delinquent:				
31 to 60 days	57,931	1.8%	52,722	1.6%
61 to 90 days	35,849	1.1	32,942	1.0
91 or more days	70,447	2.2	69,413	2.1
Total	$ 164,227	5.2%	$ 155,077	4.6%

Net Charge-Offs. Net charge-offs comprise the principal amount of losses from cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased cardholders, less current period recoveries. Net charge-offs exclude accrued finance charges and fees. The following table presents our net charge-offs for the periods indicated on a securitized basis. Average credit card portfolio outstanding represents the average balance of the securitized receivables at the beginning of each month in the year indicated.

	Year Ended December 31,		
	2002	2003	2004
	(Dollars in thousands)		
Average securitized portfolio	$ 2,408,444	$ 2,686,527	$ 3,045,840
Net charge-offs	177,603	190,399	209,646
Net charge-offs as a percentage of average securitized portfolio	7.4%	7.1%	6.9%

We believe, consistent with our statistical models and other credit analyses, that our securitized net charge-off ratio will continue to fluctuate.

Age of Portfolio. The following table sets forth, as of December 31, 2004, the number of accounts with balances and the related balances outstanding, based upon the age of the securitized accounts:

Age Since Origination	Number of Accounts	Percentage of Accounts	Balances Outstanding	Percentage of Balances Outstanding
			(Dollars in thousands)	
0-11 Months	3,180	28.0%	$ 835,402	24.7%
12-23 Months	1,808	15.9	495,436	14.7
24-35 Months	1,340	11.8	397,169	11.8
36-47 Months	987	8.7	307,480	9.1
48-59 Months	769	6.8	245,795	7.3
60+ Months	3,279	28.8	1,096,023	32.4
Total	11,363	100.0%	$ 3,377,305	100.0%

Liquidity and Capital Resources

Operating Activities. We have historically generated cash flows from operations, although that amount may vary based on fluctuations in working capital and the timing of merchant settlement activity. Our operating cash flow is seasonal, with cash utilization peaking at the end of December due to increased activity in our Credit Services segment related to holiday retail sales.

	Year Ended December 31,		
	2002	2003	2004
		(Dollars in thousands)	
Cash provided by operating activities before changes in credit card portfolio activity and merchant settlement activity	$ 142,768	$ 198,534	$ 264,010
Net change in credit card portfolio activity	49,188	(100,010)	71,121
Net change in merchant settlement activity	(69,387)	27,280	17,936
Cash provided by operating activities	$ 122,569	$ 125,804	$ 353,067

Net change in credit card portfolio activity represents the difference in portfolios purchased from new clients and their subsequent sale to our securitization trusts. There is typically a several month lag between the purchase and sale of credit card portfolios. During late 2003 and early 2004, we purchased several credit card portfolios that were sold to our securitization trusts in the second quarter of 2004. Merchant settlement activity is driven by the number of days of float at the end of the period. For these purposes, “float” means the difference between the number of days we hold cash before remitting the cash to our merchants and the number of days the card associations hold cash before remitting the cash to us. Merchant settlement activity fluctuates significantly depending on the day in which the period ends.

We generated cash flow from operating activities before changes in credit card portfolio activity and merchant settlement activity of $264.0 million for the year ended December 31, 2004 compared to $198.5 million for the comparable period in 2003. The increase in operating cash flows before changes in credit card portfolio activity and merchant settlement activity is primarily related to the increased earnings of the Company. We utilize our cash flow from operations for ongoing business operations, acquisitions and capital expenditures.

Investing Activities. We use a significant portion of our cash flows from operations for acquisitions and capital expenditures. We utilized cash flow for investing activities of $404.3 million for the year ended

December 31, 2004 compared to $256.7 million for the comparable period in 2003. Significant components of investing activities are as follows:

- *Acquisitions.* We acquired Epsilon Data Management, Inc. and Capstone Consulting Partners, Inc, each in a cash for common stock transaction, for approximately $327.2 million compared to acquisitions totaling $51.7 million in 2003.
- *Payments to secure customer processing relationship.* During March 2003, we entered into an agreement with Centrica plc and American Electric Power to provide billing and customer care services to over 800,000 accounts in the Texas marketplace. As part of this agreement, we paid approximately $30.5 million for the contract and back office operations.
- *Securitizations and Receivables Funding.* We generally fund all private label credit card receivables through a securitization program that provides us with both liquidity and lower borrowing costs. As of December 31, 2004, we had over $3.3 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread accounts and additional receivables. The credit enhancement is funded through the use of certificates of deposit issued through our subsidiary, World Financial Network National Bank. Net securitization activity utilized $12.7 million for the year ended December 31, 2004 compared to $118.8 million in 2003. We intend to utilize our securitization program for the foreseeable future.
- *Capital Expenditures.* Our capital expenditures for the year ended December 31, 2003 were $48.3 million compared to $47.0 million for the prior year. This is consistent with our normal level of capital expenditures. We have no expectation that this will change in the foreseeable future.

Financing Activities. Our cash flows provided by financing activities were $66.4 million in 2004 compared to $165.0 million used in financing activities in 2003. Our financing activities for 2004 relate to borrowings and repayments of debt in the normal course of business, $214.0 million in borrowings for the purchase of Epsilon and the exercise of stock options.

Liquidity Sources. In addition to cash generated by operating activities, we have four main sources of liquidity: our securitization program; certificates of deposit issued by World Financial Network National Bank; our credit facilities; and issuances of equity securities. We believe that internally generated funds and existing sources of liquidity are sufficient to meet current and anticipated financing requirements during the next 12 months.

Securitization Program and Off-Balance Sheet Transactions. Since January 1996, we have sold, sometimes through WFN Credit Company, LLC and WFN Funding Company II, LLC, substantially all of the credit card receivables owned by our credit card bank, World Financial Network National Bank, to the WFN Trusts as part of our securitization program. This securitization program is the primary vehicle through which we finance our private label credit card receivables. The following table shows expected maturities for borrowing commitments of the WFN Trusts under our securitization program by year:

	2005	2006	2007	2008	2009 & Thereafter	Total
			(In thousands)			
Public notes	$ —	$ 450,000	$ 600,000	$ 600,000	$ 950,000	$ 2,600,000
Private conduits(1)	1,157,143	—	—	—	—	1,157,143
Total	$ 1,157,143	$ 450,000	$ 600,000	$ 600,000	$ 950,000	$ 3,757,143

(1) Represents borrowing capacity, not outstanding borrowings.

In May 2004, World Financial Network Credit Card Master Note Trust, issued $390.0 million of Class A Series 2004-A asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.18% per year and that will mature in May 2009, $42.5 million of Class B Series 2004-A asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.50% per year and that will mature

in May 2009 and $67.5 million of Class C Series 2004-A asset backed notes that have an interest rate not to exceed one-month LIBOR plus 1.00% per year and that will mature in June 2009.

The notes are rated AAA through BBB, or its equivalent, by each of Standard and Poor's, Moody's, and Fitch. World Financial Network Credit Card Master Note Trust entered into interest rate swaps that effectively fix the interest rates on the notes starting at 5.9% and averaging 4.7% over the five-year term of the interest rate swap.

As public notes approach maturity, the notes will enter a controlled accumulation period, which typically lasts three months. During the controlled accumulation period, we will either need to arrange an additional private conduit facility or use our own balance sheet to finance the controlled accumulation until such time as we can issue a new public series in the public markets.

We continue to utilize private conduits as a source of funding, including while our public asset backed transactions are being completed. A private conduit facility was put in place to fund the accumulation of the 2001-A notes that matured in August 2004. To replace this conduit, World Financial Network Credit Card Master Note Trust completed a $900.0 million offering of asset backed notes issued in multiple offerings as follows:

In September 2004, World Financial Network Credit Card Master Note Trust issued $355.5 million of Class A Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.10% per year and that will mature in September 2006, $16.9 million of Class M Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.25% per year and that will mature in September 2006, $21.4 million of Class B Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.32% per year and that will mature in September 2006 and $56.2 million of Class C Series 2004-B asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.65% per year and that will mature in September 2006.

The notes are rated AAA through BBB, or its equivalent, by each of Standard and Poor's, Moody's, and Fitch. World Financial Network Credit Card Master Note Trust entered into interest rate swaps that effectively fix the interest rates on the notes starting at 5.2% and averaging 3.0% over the two-year term of the interest rate swap.

In September 2004, World Financial Network Credit Card Master Note Trust issued $355.5 million of Class A Series 2004-C asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.20% per year and that will mature in September 2011, $16.9 million of Class M Series 2004-C asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.40% per year and that will mature in September 2011, $21.4 million of Class C Series 2004-C asset backed notes that have an interest rate not to exceed one-month LIBOR plus 0.60% per year and that will mature in September 2011 and $56.2 million of Class C Series 2004-C asset backed notes that have an interest rate not to exceed one-month LIBOR plus 1.25% per year and that will mature in September 2011.

The notes are rated AAA through BBB, or its equivalent, by each of Standard and Poor's, Moody's, and Fitch. World Financial Network Credit Card Master Note Trust entered into interest rate swaps that effectively fix the interest rates on the notes starting at 7.0% and averaging 4.4% over the seven-year term of the interest rate swap.

As of December 31, 2004, the WFN Trusts had over $3.3 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits and additional receivables. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and by the performance of the private label credit cards in the securitization trust. During the period from November to January, the WFN Trusts are required to maintain a credit enhancement level of between 6% and 8% of securitized credit card receivables. Certain of the WFN Trusts are required to maintain a level of between 4% and 7% for the remainder of the year. Accordingly, at December 31, 2004 the WFN Trusts typically have their highest balance of credit enhancement assets as a result of the increased balances during the holiday season. We intend to utilize our securitization program for the foreseeable future.

If World Financial Network National Bank were not able to regularly securitize the receivables it originates, our ability to grow or even maintain our credit services business would be materially impaired as we would be severely limited in our financing ability. World Financial Network National Bank's ability to effect securitization transactions is impacted by the following factors, some of which are beyond our control:

- conditions in the securities markets in general and the asset backed securitization market in particular; and
- conformity in the quality of credit card receivables to rating agency requirements and changes in those requirements; and
- our ability to fund required overcollateralizations or credit enhancements, which we routinely utilize in order to achieve better credit ratings to lower our borrowing costs.

We believe that the conditions to securitize private label credit card receivables are favorable for us. We plan to continue using our securitization program as our primary financing vehicle.

Once World Financial Network National Bank securitizes receivables, the agreement governing the transaction contains covenants that address the receivables' performance and the continued solvency of the retailer where the underlying sales were generated. In the event one of those or other similar covenants is breached, an early amortization event could be declared, in which case the trustee for the securitization trust would retain World Financial Network National Bank's interest in the related receivables, along with the excess interest income that would normally be paid to World Financial Network National Bank, until such time as the securitization investors are fully repaid. The occurrence of an early amortization event would significantly limit, or even negate, our ability to securitize additional receivables.

Certificates of Deposit. We utilize certificates of deposit to finance the operating activities of our credit card bank subsidiary, World Financial Network National Bank, and to fund securitization enhancement requirements. World Financial Network National Bank issues certificates of deposit in denominations of $100,000 in various maturities ranging between three months and two years, with current effective annual fixed rates ranging from 2.0% to 2.7%. As of December 31, 2004, we had $94.7 million of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

Credit Facilities. On April 10, 2003, we entered into three credit facilities to replace our prior credit facilities. The first facility matures in April 2006, the second facility is a 364-day facility that, as amended as of April 8, 2004, matures in April 2005, and the third facility, under which the borrower is Loyalty Management Group Canada Inc., a wholly owned Canadian subsidiary, matures in April 2006. The covenants contained in the three credit facilities are substantially identical. We were in compliance with our covenants at December 31, 2004.

On October 21, 2004, we entered into amendments to our three credit facilities. Collectively, the three amendments increased the aggregate amount of revolving commitments under the three credit facilities from $400.0 million to $435.0 million since adjusted to $455.0 million. The amendment to the 3-year credit facility increased the amount of revolving commitments thereunder from $150.0 million to $200.0 million. The amendment to the 364-day credit facility increased the amount of revolving commitments thereunder from $150.0 million to $185.0 million, which has since been adjusted to $205.0 million. The amendment to the Canadian credit facility decreased the amount of revolving commitments thereunder from $100.0 million to $50.0 million. In addition, the amendments increased the aggregate amount of commitments permitted under the three credit facilities from $450.0 million to $500.0 million. As a result, we have the right to obtain commitments under the three credit facilities for an additional $45.0 million in the aggregate without having to amend the credit facilities. Except as described above, the remaining terms of each credit facility remain unchanged.

Advances under the credit facilities are in the form of either base rate loans or eurodollar loans. The interest rate on base rate loans fluctuates based upon the higher of (1) the interest rate announced by the

administrative agent as its "prime rate" and (2) the Federal funds rate plus 0.5%, in each case with no additional margin. The interest rate on eurodollar loans fluctuates based upon the rate at which eurodollar deposits in the London interbank market are quoted plus a margin of 1.0% to 1.5% based upon the ratio of total debt under the credit facilities to consolidated Operating EBITDA, as each term is defined in the credit facilities. The credit facilities are secured by pledges of stock of certain of our subsidiaries and pledges of certain intercompany promissory notes.

At December 31, 2004, we had borrowings of $324.6 million outstanding under these credit facilities (with an average interest rate of 3.6%), we issued no letters of credit, and we had available unused borrowing capacity of approximately $130.4 million. The credit facilities limit our aggregate outstanding letters of credit to $50.0 million. We can obtain an increase in the total commitment under the credit facilities of up to $45.0 million if we are not in default under the credit facilities, one or more lenders agrees to increase its commitment and the administrative agent consents.

We utilize our credit facilities and excess cash flows from operations to support our acquisition strategy and to fund working capital and capital expenditures. The Epsilon acquisition was funded in part by $214.0 million drawn on our credit facilities.

Issuances of Equity Securities. In April 2003, we completed a public offering of 10,350,000 shares of our common stock at $19.65 per share. Limited Commerce Corp. sold 7,000,000 of those shares and the remaining 3,350,000 shares were sold by us. The net proceeds to us from the offering were $61.9 million after deducting offering expenses and our pro-rata underwriting discounts and commissions. Concurrently with the closing of the public offering, we used $52.7 million of the net proceeds to repay in full $52.0 million of debt outstanding, plus accrued interest, under a 10% subordinated note that we issued in September 1998 to an affiliated entity of Welsh Carson.

In November 2003, we facilitated a secondary public offering of 8,663,382 shares of common stock at $26.95 per share. 7,533,376 shares were sold by Limited Commerce Corp. and the remaining 1,130,006 shares were sold by Welsh Carson through two of its affiliated entities. We sold no stock and received none of the proceeds from the secondary offering. In connection with the secondary offering, we incurred approximately $450,000 in registration costs, which were expensed in the fourth quarter. As a result of the secondary offering, Limited Commerce Corp. is no longer a stockholder.

Contractual Obligations. The following table highlights, as of December 31, 2004, our contractual obligations and commitments to make future payments by type and period:

	2005	2006 & 2007	2008 & 2009	2010 & Thereafter	Total(1)
			(Dollars in thousands)		
Certificates of deposit(2)	$ 95,079	$ —	$ —	$ —	$ 95,079
Credit facilities(2)	138,148	196,528	—	—	334,676
Operating leases	37,121	55,358	24,327	15,267	132,073
Capital leases	7,458	10,566	3,593	7	21,624
Software licenses	16,433	35,059	37,069	19,936	108,497
Purchase obligations(3)	50,689	62,790	25,520	—	138,999
	$ 344,928	$ 360,301	$ 90,509	$ 35,210	$ 830,948

(1) The table does not include an estimate for income taxes that we are required to pay, but are not required to include above.

(2) The certificates of deposit and credit facilities represent our estimated debt service obligations, including both principle and interest. Interest was based on the interest rates in effect as of December 31, 2004, applied to the contractual repayment period.

(3) Purchase obligations include purchase commitments under our AIR MILES Reward Program, minimum payments under support and maintenance contracts and agreements to purchase other goods and services.

We believe that we will have access to sufficient resources to meet these commitments.

Economic Fluctuations

Although we cannot precisely determine the impact of inflation on our operations, we do not believe that we have been significantly affected by inflation. For the most part, we have relied on operating efficiencies from scale and technology, as well as decreases in technology and communication costs, to offset increased costs of employee compensation and other operating expenses.

Portions of our business are seasonal. Our revenues and earnings are favorably affected by increased transaction volume and credit card balances during the holiday shopping period in the fourth quarter and, to a lesser extent, during the first quarter as credit card balances are paid down. Similarly, our petroleum related businesses are favorably affected by increased volume in the latter part of the second quarter and the first part of the third quarter as consumers make more frequent purchases of gasoline in connection with summer travel.

Regulatory Matters

World Financial Network National Bank is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency, or OCC. World Financial Capital Bank is subject to regulatory capital requirements administered by both the Federal Deposit Insurance Corporation, or FDIC, and the State of Utah. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on our financial statements. Under the FDIC's order approving World Financial Capital Bank's application for deposit insurance, World Financial Capital Bank must meet specific capital ratios and paid-in capital minimums, must maintain adequate allowances for loan losses and must operate within its three-year business plan. If World Financial Capital Bank fails to meet the terms of the FDIC's order, the FDIC may withdraw insurance coverage from World Financial Capital Bank, and the State of Utah may withdraw its approval of World Financial Capital Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, World Financial Network National Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. World Financial Network National Bank is limited in the amounts that it can dividend to us. World Financial Capital Bank is restricted from providing dividends to us at this time.

Quantitative measures established by regulations to ensure capital adequacy require World Financial Network National Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets. Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases. Under these guidelines, World Financial Network National Bank is considered well capitalized. As of December 31, 2004, World Financial Network National Bank's Tier 1 capital ratio was 32.7%, total capital ratio was 33.9% and leverage ratio was 48.3%, and World Financial Network National Bank was not subject to a capital directive order. World Financial Capital Bank, under the terms of the State of Utah's order must maintain Total Capital equal to or exceeding 10% of total assets during the first three years of operations and under the FDIC's order must maintain Tier 1 capital to total assets ratio of not less than 8%.

As part of an acquisition by World Financial Network National Bank, which required approval by the OCC, the OCC required World Financial Network National Bank to enter into an operating agreement with the OCC and a capital adequacy and liquidity maintenance agreement with us. The operating agreement requires World Financial Network National Bank to continue to operate in a manner consistent with its current practices, regulatory guidelines and applicable law, including those related to affiliate

transactions, maintenance of capital and corporate governance. World Financial Network National Bank does not expect that the operating agreement will require any changes in World Financial Network National Bank's current operations. The capital adequacy and liquidity maintenance agreement memorializes our current obligations to World Financial Network National Bank.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", which replaces SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123(R) will cause unrecognized expense (based on the fair values determined for the pro forma footnote disclosure, adjusted for estimated forfeitures) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. We are required to adopt SFAS No. 123(R) in our third quarter of 2005, beginning July 1, 2005. Under SFAS No. 123(R), we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include the modified prospective or the modified retrospective adoption methods. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of SFAS No. 123(R), while the modified retrospective methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. We are evaluating the requirements of SFAS No. 123(R) and we expect that the adoption of SFAS No. 123(R) will have a material impact on our statements of income and earnings per share. We have not determined the method of adoption or the effect of adopting SFAS No. 123(R) as a determination has not yet been made as to the selection of acceptable option pricing model alternatives, as well as lack of precision around expected forfeitures.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs-an amendment of ARB No. 43, Chapter 4", which amends Chapter 4 of ARB No. 43 that deals with inventory pricing. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and spoilage. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, although earlier application is permitted for fiscal years beginning after the date of issuance. Retroactive application is not permitted. We are analyzing the requirements of SFAS No. 151 and believe that its adoption will not have any significant impact on our financial position, statements of income or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29". SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. We are analyzing the requirements of SFAS No. 153 and believe that its adoption will not have any significant impact on our financial position, statements of income or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our primary market risks include off-balance sheet risk, interest rate risk, credit risk, foreign currency exchange rate risk and redemption reward risk.

Off-Balance Sheet Risk. We are subject to off-balance sheet risk in the normal course of business, including commitments to extend credit and through our securitization program. We sell substantially all of our credit card receivables to the WFN Trusts, qualifying special purpose entities. The trusts enter into interest rate swaps to reduce the interest rate sensitivity of the securitization transactions. The securitization program involves elements of credit, market, interest rate, legal and operational risks in excess of the amount recognized on the balance sheet through our retained interests in the securitization and the interest only strips.

Interest Rate Risk. Interest rate risk affects us directly in our lending and borrowing activities. Our total interest incurred was approximately $140.4 million for 2004, which includes both on- and off-balance sheet transactions. Of this total, $7.0 million of the interest expense, net for 2004 was attributable to on-balance sheet indebtedness and the remainder to our securitized credit card receivables, which are financed off-balance sheet. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components both on- and off-balance sheet to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates by matching asset and liability repricings and through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we enter into derivative financial instruments such as interest rate swaps and treasury locks to mitigate our interest rate risk on a related financial instrument or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes. At December 31, 2004, approximately 1.0% of our outstanding debt was subject to fixed rates with a weighted average interest rate of 2.5%. An additional 72.2% of our securitization trusts' debt at December 31, 2004 was locked at an effective interest rate of 5.3% through interest rate swap agreements and treasury locks with notional amounts totaling $2.6 billion.

The approach we use to quantify interest rate risk is a sensitivity analysis which we believe best reflects the risk inherent in our business. This approach calculates the impact on pretax income from an instantaneous and sustained increase in interest rates of 1.0%. In 2004, a 1.0% increase in interest rates would have resulted in an annual decrease to pretax income of approximately $3.8 million. Conversely, a corresponding decrease in interest rates would result in a comparable increase to pretax income. Our use of this methodology to quantify the market risk of financial instruments should not be construed as an endorsement of its accuracy or the accuracy of the related assumptions.

Credit Risk. We are exposed to credit risk relating to the credit card loans we make to our clients' customers. Our credit risk relates to the risk that consumers using the private label credit cards that we issue will not repay their revolving credit card loan balances. We have developed credit risk models designed to identify qualified consumers who fit our risk parameters. To minimize our risk of loan write-offs, we control approval rates of new accounts and related credit limits and follow strict collection practices. We monitor the buying limits, as well as set pricing regarding fees and interest rates charged.

Foreign Currency Exchange Rate Risk. We are exposed to fluctuations in the exchange rate between the U.S. and the Canadian dollar through our significant Canadian operations. We do not hedge any of our net investment exposure in our Canadian subsidiary.

Redemption Reward Risk. Through our AIR MILES Reward Program, we are exposed to potentially increasing reward costs associated primarily with travel rewards. To minimize the risk of rising travel reward costs, we:

- have multi-year supply agreements with several Canadian, U.S. and international airlines;
- are seeking new supply agreements with additional airlines;
- periodically alter the total mix of rewards available to collectors with the introduction of new merchandise rewards, which are typically lower cost per AIR MILES reward mile than air travel;
- allow collectors to obtain certain travel rewards using a combination of reward miles and cash or cash alone in addition to using AIR MILES reward miles alone; and
- periodically adjust the number of AIR MILES reward miles required to be redeemed to obtain a reward.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements begin on page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2004, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2004, our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Our evaluation of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Epsilon Data Management, Inc. ("Epsilon") and Capstone Consulting Partners, Inc. ("Capstone"), entities we acquired during 2004, which are included in the 2004 consolidated financial statements, and that constituted $363.9 million of total assets as of December 31, 2004 and an immaterial amount of revenues and net income for the year then ended. We did not assess the effectiveness of internal control over financial reporting at Epsilon or Capstone because of the timing of the acquisitions, which were completed in October 2004 and November 2004, respectively.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our evaluation and those criteria, our internal control over financial reporting was effective as of December 31, 2004.

There has been no change in our internal control over financial reporting during the fourth quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Deloitte & Touche's attestation report on management's assessment of our internal control over financial reporting appears on page F-3 hereof.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Incorporated by reference to the Proxy Statement for the 2005 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004.

Item 11. Executive Compensation

Incorporated by reference to the Proxy Statement for the 2005 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Incorporated by reference to the Proxy Statement for the 2005 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004.

Item 13. Certain Relationships and Related Transactions

Incorporated by reference to the Proxy Statement for the 2005 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004.

Item 14. Principal Accountant Fees and Services

Incorporated by reference to the Proxy Statement for the 2005 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this report:

(1) Financial Statements

(2) Financial Statement Schedule

(3) The following exhibits are filed as part of this Annual Report or, where indicated, were previously filed and are hereby incorporated by reference.

Exhibit No.	Description
2.1	Purchase and Sale Agreement, dated September 5, 2002, among ADS Alliance Data Systems, Inc., Loyalty Management Group Canada, Inc. and Westcoast Energy Inc. carrying on business as Duke Energy Gas Transmission (incorporated by reference to Exhibit No. 2.1 to our Current Report on Form 8-K filed with the SEC on September 10, 2002, File No. 001-15749).
2.2	Agreement and Plan of Merger, dated as of October 8, 2004, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc., Everest Nivole, Inc., The Relizon e-CRM Company and Relizon Holding,s LLC (incorporated by reference to Exhibit No. 2.1 to our Current Report on Form 8-K filed with the SEC on October 29, 2004, File No. 0001-15749).
2.3	First Amendment to Agreement and Plan of Merger, dated as of October 8, 2004, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc., Everest Nivole, Inc., The Relizon e-CRM Company and Relizon Holdings, LLC (incorporated by reference to Exhibit No. 2.2 to our Current Report on Form 8-K filed with the SEC on October 29, 2004, File No. 0001-15749).
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.2	Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.3	First Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.3 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
3.4	Second Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.4 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
4	Specimen Certificate for shares of Common Stock of the Registrant (incorporated by reference to Exhibit No. 4 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2003, File No. 001-15749).
10.1	Private Label Credit Card Program Agreement between World Financial Network National Bank, Bath & Body Works, Inc. and Tri-State Factoring, Inc., dated as of August 29, 2002 (incorporated by reference to Exhibit No. 10.3 to our Quarterly Report on Form 10-Q filed with the SEC on November 11, 2002 File No. 001-15749).
10.2	Private Label Credit Card Program Agreement between World Financial Network National Bank, Victoria’s Secret Direct, LLC, and Far West Factoring, Inc., dated as of August 29, 2002 (incorporated by reference to Exhibit No. 10.4 to our Quarterly Report on Form 10-Q filed with the SEC on November 11, 2002 File No. 001-15749).

Exhibit No.	Description
10.3	Private Label Credit Card Program Agreement between World Financial Network National Bank, Victoria's Secret Stores, Inc., and Lone Mountain Factoring, Inc., dated as of August 29, 2002 (incorporated by reference to Exhibit No. 10.5 to our Quarterly Report on Form 10-Q filed with the SEC on November 11, 2002 File No. 001-15749).
10.4	Private Label Credit Card Program Agreement between World Financial Network National Bank, Express, LLC, and Retail Factoring, Inc., dated as of August 29, 2002 (incorporated by reference to Exhibit No. 10.7 to our Quarterly Report on Form 10-Q filed with the SEC on November 11, 2002 File No. 001-15749).
10.5	Private Label Credit Card Program Agreement between World Financial Network National Bank, The Limited Stores, Inc., and American Receivable Factoring, Inc., dated as of August 29, 2002 (incorporated by reference to Exhibit No. 10.8 to our Quarterly Report on Form 10-Q filed with the SEC on November 11, 2002 File No. 001-15749).
10.6	Amendment, dated February 17, 2003, to Private Label Credit Card Program Agreement between World Financial Network National Bank, Express, LLC, and Retail Factoring, Inc., dated as of August 29, 2002 (incorporated by reference to Exhibit No. 10.7 to our Annual Report on Form 10-K filed with the SEC on March 12, 2003, File No. 001-15749).
10.7	Private Label Credit Card Program Agreement between World Financial Network National Bank, Henri Bendel, Inc., and Western Factoring, Inc., dated as of August 29, 2002 (incorporated by reference to Exhibit No. 10.10 to our Quarterly Report on Form 10-Q filed with the SEC on November 11, 2002 File No. 001-15749).
10.8	Indenture of Sublease between J.C. Penney Company, Inc. and BSI Business Services, Inc., dated January 11,1996 (incorporated by reference to Exhibit No. 10.12 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.9	Build-to-Suit Net Lease between Opus South Corporation and ADS Alliance Data Systems, Inc., dated January 29, 1998, as amended (incorporated by reference to Exhibit No. 10.10 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
10.10	Lease between YCC Limited and London Life Insurance Company and Loyalty Management Group Canada Inc. dated May 28, 1997 and amended June 19, 1997 and January 15, 1998 (incorporated by reference to Exhibit No. 10.15 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.11	Amendments of April 14, 2000, January 17, 2001, and June 12, 2002 to lease between YCC Limited and London Life Insurance Company and Loyalty Management Group Canada Inc. dated May 28, 1997, as amended (incorporated by reference to Exhibit No. 10.12 to our Annual Report on Form 10-K filed with the SEC on March 12, 2003, File No. 001-15749).
10.12	Office Lease between Office City, Inc. and World Financial Network National Bank, dated December 24, 1986, and amended January 19, 1987, May 11, 1988, August 4, 1989 and August 18, 1999 (incorporated by reference to Exhibit No. 10.17 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File N o. 333-94623).
10.13	Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated July 2, 1990, and amended September 11, 1990, November 16, 1990 and February 18, 1991 (incorporated by reference to Exhibit No. 10.18 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.14	Fourth Amendment to Lease Agreement by and between Partners at Brooksedge and ADS Alliance Data Systems, Inc., dated June 30, 2001 (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
10.15	Indenture of Lease by and between OTR and ADS Alliance Data Systems, Inc., dated as of February 1, 2002, as amended (incorporated by reference to Exhibit No. 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
10.16	Lease Agreement by and between Petula Associates, Ltd. and Compass International Services, dated August 28, 1998, as amended (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2003, File No. 001-15749).

Exhibit No.	Description
*10.17	Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, Inc., dated July 30, 2002.
*10.18	Lease Agreement by and between Sterling Direct, Inc. and Sterling Properties, L.L.C., dated September 22, 1997, as subsequently assigned.
10.19	Capital Assurance and Liquidity Maintenance Agreement, dated August 28, 2003, by and between Alliance Data Systems Corporation and World Financial Network National Bank (incorporated by reference to Exhibit No. 10.3 to our Registration Statement on Form S-3 filed with the SEC on October 15, 2003, File No. 333-109713).
+10.20	ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan, as Amended and Restated effective January 1, 2003 (incorporated by reference to Exhibit No. 10.17 to our Annual Report on Form 10-K filed with the SEC on March 12, 2003, File No. 001-15749).
+10.21	Amendment No. 1, effective January 1, 2003, to ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan (incorporated by reference to Exhibit No. 10.20 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.22	Amendment No. 2, effective January 1, 2004, to ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan (incorporated by reference to Exhibit No. 10.21 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+*10.23	Alliance Data Systems Corporation Executive Deferred Compensation Plan.
+10.24	Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 10.34 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
+10.25	Form of Alliance Data Systems Corporation Incentive Stock Option Agreement (incorporated by reference to Exhibit No. 10.35 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623)
+10.26	Form of Alliance Data Systems Corporation Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit No. 10.36 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
+10.27	Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan (incorporated by reference to Exhibit No. 10.10 to our Registration Statement on Form S-1 filed with the SEC on February 7, 2001, File No. 333-94623).
+10.28	Alliance Data Systems Corporation 2003 Long-Term Incentive Plan (incorporated by reference to Exhibit No. 4.6 to our Registration Statement on Form S-8 filed with the SEC on June 18, 2003, File No. 333-106246).
+10.29	Form of Alliance Data Systems Associate Confidentiality Agreement (incorporated by reference to Exhibit No. 10.24 to our Annual Report on Form 10-K filed with the SEC on March 12, 2003, File No. 001-15749).
+10.30	Form of Alliance Data Systems Corporation Indemnification Agreement for Officers and Directors (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on February 1, 2005, File No. 001-15749).
+10.31	Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form S-8 filed with the SEC on July 20, 2001, File No. 333-65556).
+10.32	Amendment, dated February 4, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.7 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
+10.33	Amendment No. 2, dated April 7, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.8 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
+10.34	Amendment No. 3, dated May 8, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.9 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).

Exhibit No.	Description
+10.35	Amendment No. 4, dated June 9, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.32 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.36	Amendment No. 5, dated September 29, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.33 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.37	Amendment No. 6, dated December 12, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.34 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.38	Amendment No. 7, dated December 12, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.35 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.39	Amendment No. 8, dated December 12, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.36 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.40	Letter employment agreement with J. Michael Parks, dated February 19, 1997 (incorporated by reference to Exhibit 10.39 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
+10.41	Letter employment agreement with Ivan Szeftel, dated May 4, 1998 (incorporated by reference to Exhibit 10.40 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.42	Amended and Restated License to Use the Air Miles Trade Marks in Canada, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc. (incorporated by reference to Exhibit No. 10.43 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333 -94623) (assigned by Air Miles International Holdings N.V. to Air Miles International Trading B.V. by a novation agreement dated as of July 18, 2001).
10.43	Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, dated July 24, 1998, by and between Air Miles International Trading B.V. and Loyalty Management Group Canada Inc. (incorporated by reference to Exhibit No. 10.44 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.44	Second Amended and Restated Pooling and Servicing Agreement, dated as of January 17, 1996 amended and restated as of September 17, 1999 and August 2001 by and among WFN Credit Company, LLC, World Financial Network National Bank, and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.6 to the Registration Statement on Form S-3 of world financial network credit card master trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.45	Second Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 19, 2004, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on August 4, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.46	Omnibus Amendment, dated as of March 31, 2003, among WFN Credit Company, LLC, World Financial Network Credit Card Master Trust, World Financial Network National Bank and BNY Midwest Trust Company (incorporated by reference to Exhibit 4 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on April 22, 2003, File Nos. 333-60418 and 333-60418-01).

Exhibit No.	Description
10.47	Transfer and Servicing Agreement, dated as of August 1, 2001, between WFN Credit Company, LLC, World Financial Network National Bank, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.3 to the Registration Statement on Form S-3 of World Financial Network Credit Card Master Trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.48	First Amendment to the Transfer and Servicing Agreement, dated as of November 7, 2002, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on November 20, 2002, File Nos. 333-60418 and 333-60418-01).
10.49	Third Amendment to the Transfer and Servicing Agreement, dated as of May 19, 2004, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on August 4, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.50	Receivables Purchase Agreement, dated as of August 1, 2001, between World Financial Network National Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-3 of World Financial Network Credit Card Master Trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.51	Master Indenture, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company, as supplemented by the Series 2001-A Indenture Supplement, the Series 2002-A Indenture Supplement, the Series 2002-VFN Supplement (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on July 5, 2001, File Nos. 333-60418 and 333-60418-01).
10.52	Series 2003-A Indenture Supplement, dated as of June 19, 2003 (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by World Financial Network Credit Card Master Trust filed with the SEC on August 28, 2003, File No. 333-60418-01).
10.53	Series 2004-A Indenture Supplement, dated as of May 19, 2004 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on May 27, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.54	Series 2004-B Indenture Supplement, dated as of September 22, 2004 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on September 28, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.55	Series 2004-C Indenture Supplement, dated as of September 22, 2004 (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on September 28, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.56	Supplemental Indenture No. 1, dated as of August 13, 2003, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on August 28, 2003, File Nos. 333-60418 and 333-60418-01).

Exhibit No.	Description
10.57	Issuance Supplement to Series 2003-A Indenture Supplement, dated as of August 14, 2003, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.3 of the Current Report on Form 8-K filed with the SEC by World Financial Network Credit Card Master Trust on August 28, 2003, File No. 333-60418-01).
+10.58	Form of 2001 Term Promissory Note, issued to ADS Alliance Data Systems, Inc. by Michael D. Kubic as a participant in the performance-based restricted stock plan (incorporated by reference to Exhibit 10.12 to our Quarterly Report on Form 10-Q filed with the SEC on November 12, 2002, File No. 001-15749).
+10.59	Form of 2002 Term Promissory Note, issued to ADS Alliance Data Systems, Inc. by Michael D. Kubic as a participant in the performance-based restricted stock plan (incorporated by reference to Exhibit 10.13 to our Quarterly Report on Form 10-Q filed with the SEC on November 12, 2002, File No. 001-15749).
10.60	Credit Agreement (3-Year), dated as of April 10, 2003, by and among Alliance Data Systems Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.2 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).
10.61	First Amendment to Credit Agreement (3-Year), dated as of October 21, 2004, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris Trust and Savings Bank, as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed with the SEC on November 5, 2004, File No. 001-15749).
10.62	Credit Agreement (364-Day), dated as of April 10, 2003, by and among Alliance Data Systems Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.3 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).
10.63	First Amendment to Credit Agreement (364-Day) dated as of April 8, 2004, by and among Alliance Data Systems Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 7, 2004, File No. 001-15749).
10.64	Second Amendment to Credit Agreement (364-Day), dated as of October 21, 2004, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris Trust and Savings Bank, as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed with the SEC on November 5, 2004, File No. 001-15749).
10.65	Credit Agreement (Canadian), dated as of April 10, 2003, by and among Loyalty Management Group Canada Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.4 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).
10.66	First Amendment to Credit Agreement (Canadian), dated as of October 21, 2004, by and among Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, Bank of Montreal, as Letter of Credit Issuer, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed with the SEC on November 5, 2004, File No. 001-15749).
+10.67	Form of Change in Control Agreement, dated as of September 25, 2003, by and between ADS Alliance Data Systems, Inc. and each of Michael A. Beltz, Edward J. Heffernan, John W. Scullion, Ivan M. Szeftel, Dwayne H. Tucker and Alan M. Utay (incorporated by reference to Exhibit No. 10.1 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on October 15, 2003, File No. 333-109713).

Exhibit No.	Description
+10.68	Change in Control Agreement, dated as of September 25, 2003, by and between ADS Alliance Data Systems, Inc. and J. Michael Parks (incorporated by reference to Exhibit No. 10.2 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on October 15, 2003, File No. 333-109713).
10.69	Stockholders Agreement dated as of June 12, 2001, among Alliance Data Systems Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VI, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P., WCAS Capital Partners II, L.P., and WCAS Capital Partners III, L.P. (incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
10.70	First Amendment, dated as of April 9, 2003, to Stockholders Agreement, dated as of June 12, 2001, among Alliance Data Systems Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VI, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P., WCAS Capital Partners II, L.P., and WCAS Capital Partners III, L.P. (incorporated by reference to Exhibit No. 10.1 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).
+10.71	Alliance Data Systems Corporation 2004 Incentive Compensation Plan (incorporated by reference to Exhibit No. 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2004, File No. 001-15749).
*21	Subsidiaries of the Registrant.
*23.1	Consent of Deloitte & Touche LLP.
*24	Power of Attorney (included on the signature page hereto).
*31.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*32.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
*32.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

* Filed herewith.

\+ Management contract, compensatory plan or arrangement.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Alliance Data Systems Corporation

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Alliance Data Systems Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting. As described in our report dated March 4, 2005, management excluded from their assessment the internal control over financial reporting of Epsilon Data Management, Inc. ("Epsilon") and Capstone Consulting Partners, Inc. ("Capstone"), which were acquired in October and November, 2004, respectively; accordingly, our audit did not include the internal control over financial reporting at Epsilon or Capstone.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 4, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Alliance Data Systems Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Controls Over Financial Reporting, that Alliance Data Systems Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Controls Over Financial Reporting, management excluded from their assessment the internal control over financial reporting at Epsilon Data Management, Inc. ("Epsilon") and Capstone Consulting Partners, Inc. ("Capstone") which were acquired in October and November, 2004, respectively, and whose collective financial statements reflect total assets and revenues constituting 16% and 2% percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. Accordingly, our audit did not include the internal control over financial reporting at Epsilon or Capstone. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria

established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2004 of the Company and our report dated March 4, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 4, 2005

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2002	2003	2004
	(In thousands, except per share amounts)		
Revenues			
Transaction and marketing services	$ 512,288	$ 548,045	$ 644,849
Redemption	136,314	180,782	226,726
Securitization income	199,530	294,816	355,912
Other revenue	17,165	22,901	29,951
Total revenue	865,297	1,046,544	1,257,438
Operating expenses			
Cost of operations	670,544	788,874	916,201
General and administrative	53,784	52,320	77,740
Depreciation and other amortization	41,768	53,948	62,586
Amortization of purchased intangibles	24,707	20,613	28,812
Total operating expenses	790,803	915,755	1,085,339
Operating income	74,494	130,789	172,099
Other expenses	834	4,275	—
Fair value loss on interest rate derivative	12,017	2,851	808
Interest expense, net	19,924	14,681	6,972
Income before income taxes	41,719	108,982	164,319
Provision for income taxes	18,060	41,684	61,948
Net income	$ 23,659	$ 67,298	$ 102,371
Net income per share:			
Basic	$ 0.32	$ 0.86	$ 1.27
Diluted	$ 0.31	$ 0.84	$ 1.22
Weighted average shares:			
Basic	74,422	78,003	80,614
Diluted	76,696	80,313	84,040

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2004
	(In thousands, except share amounts)	
ASSETS		
Cash and cash equivalents	$ 67,745	$ 84,409
Due from card associations	7,855	10,995
Trade receivables, less allowance for doubtful accounts ($1,316 and $1,458 at December 31, 2003 and 2004, respectively)	124,377	158,236
Seller's interest and credit card receivables, less allowance for doubtful accounts ($17,151 and $11,673 at December 31, 2003 and 2004, respectively)	271,396	248,074
Deferred tax asset, net	45,881	49,606
Other current assets	64,052	66,026
Total current assets	581,306	617,346
Redemption settlement assets, restricted	215,271	243,492
Property and equipment, net	133,746	147,531
Due from securitizations	280,778	244,291
Intangible assets, net	143,733	233,779
Goodwill	484,415	709,146
Other non-current assets	28,175	43,495
Total assets	$ 1,867,424	$ 2,239,080
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 63,466	$ 56,214
Accrued expenses	108,861	141,534
Merchant settlement obligations	56,904	77,980
Certificates of deposit	195,800	94,700
Credit facilities and other debt, current	4,990	135,962
Other current liabilities	49,999	54,229
Total current liabilities	480,020	560,619
Deferred tax liability, net	6,744	49,283
Deferred revenue — service	132,741	158,026
Deferred revenue — redemption	343,646	389,097
Certificates of deposit	4,600	—
Long-term and subordinated debt	184,761	206,861
Other liabilities	12,581	4,674
Total liabilities	1,165,093	1,368,560
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, $0.01 par value; authorized, 200,000 shares; issued, 80,043 shares (December 31, 2003) and 82,765 shares (December 31, 2004)	800	828
Unearned compensation	—	(7,739)
Additional paid-in capital	611,550	679,776
Treasury stock, at cost, 418 shares	(6,151)	(6,151)
Retained earnings	96,965	199,336
Accumulated other comprehensive (loss) income	(833)	4,470
Total stockholders' equity	702,331	870,520
Total liabilities and stockholders' equity	$ 1,867,424	$ 2,239,080

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Unearned Compensation	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				(In thousands)			
January 1, 2002	73,987	$ 740	$ —	$ 509,741	$ (6,151)	$ 6,008	$ (4,697)		$ 505,641
Net income						23,659		$ 23,659	23,659
Other comprehensive income, net of tax:									
Change in fair value of derivatives							(317)	(317)	(317)
Reclassifications into earnings							93	93	93
Net unrealized gain on securities available-for-sale							1,635	1,635	1,635
Foreign currency translation adjustments							(630)	(630)	(630)
Other comprehensive income							781		
Total comprehensive income								$ 24,440	
Other common stock issued	951	9		12,468					12,477
December 31, 2002	74,938	749	—	522,209	(6,151)	29,667	(3,916)		542,558
Net income						67,298		$ 67,298	67,298
Other comprehensive income, net of tax:									
Change in fair value of derivatives							(1,755)	(1,755)	(1,755)
Reclassifications into earnings							2,730	2,730	2,730
Net unrealized gain on securities available-for-sale							476	476	476
Foreign currency translation adjustments							1,632	1,632	1,632
Other comprehensive income							3,083		
Total comprehensive income								$ 70,381	
Common stock issued in conjunction with public offering	3,350	33		61,877					61,910
Other common stock issued	1,755	18		27,464					27,482
December 31, 2003	80,043	800	—	611,550	(6,151)	96,965	(833)		702,331
Net income						102,371		$ 102,371	102,371
Other comprehensive income, net of tax:									
Reclassifications into earnings							482	482	482
Net unrealized loss on securities available-for-sale							(144)	(144)	(144)
Foreign currency translation adjustments							4,965	4,965	4,965
Other comprehensive income							5,303		
Total comprehensive income								$ 107,674	
Issuance of restricted stock	491	5	(7,739)	22,461					14,727
Other common stock issued	2,231	23		45,765					45,788
December 31, 2004	82,765	$ 828	$ (7,739)	$ 679,776	$ (6,151)	$ 199,336	$ 4,470		$ 870,520

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2003	2004
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 23,659	$ 67,298	$ 102,371
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	23,852	29,688	36,272
Amortization	42,623	44,873	55,126
Deferred income taxes	11,582	9,701	31,154
Fair value loss on interest rate derivative	12,017	2,851	808
Provision for doubtful accounts	11,015	20,886	2,487
Non-cash stock compensation	2,948	5,889	15,767
Change in operating assets and liabilities, net of acquisitions:			
Change in trade accounts receivable	3,016	(22,880)	(602)
Change in merchant settlement activity	(69,387)	27,280	17,936
Change in other assets	(8,149)	4,116	(3,240)
Change in accounts payable and accrued expenses	(9,967)	(3,266)	(7,394)
Change in deferred revenue	31,963	32,836	30,827
Change in other liabilities	(232)	(186)	(17,831)
Purchase of credit card receivables	(104,858)	(302,332)	(34,417)
Proceeds from sale of credit card receivable portfolios	154,046	202,322	105,538
Tax benefit of stock option exercises	—	2,065	11,209
Other operating activities	(1,559)	4,663	7,056
Net cash provided by operating activities	122,569	125,804	353,067
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in redemption settlement assets	(15,963)	(12,001)	(10,464)
Change in due from securitizations	(17,631)	(44,356)	35,743
Purchase business acquisitions, net of cash acquired	(35,891)	(51,656)	(329,493)
Payments to secure customer contracts	—	(30,541)	(4,362)
Change in seller's interest	(80,739)	(74,402)	(48,441)
Capital expenditures	(42,379)	(46,955)	(48,329)
Other investing activities	—	3,254	1,049
Net cash used in investing activities	(192,603)	(256,657)	(404,297)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	543,960	853,324	860,988
Repayment of borrowings	(567,600)	(766,599)	(823,337)
Payment of capital lease obligations	(1,559)	(3,160)	(5,810)
Proceeds from public stock offerings	—	61,910	—
Proceeds from issuance of common stock	9,529	19,528	34,528
Net cash (used in) provided by financing activities	(15,670)	165,003	66,369
Effect of exchange rate changes on cash and cash equivalents	(1,392)	3,156	1,525
Change in cash and cash equivalents	(87,096)	37,306	16,664
Cash and cash equivalents at beginning of year	117,535	30,439	67,745
Cash and cash equivalents at end of year	$ 30,439	$ 67,745	$ 84,409
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 23,746	$ 19,868	$ 9,274
Income taxes paid, net of refunds	$ 15,337	$ 19,319	$ 21,094

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of the Business — Alliance Data Systems Corporation ("ADSC" or, including its wholly owned subsidiaries, the "Company") is a leading provider of transaction services, credit services and marketing services in North America. The Company focuses on facilitating and managing transactions between its clients and their customers through multiple distribution channels including in-store, catalog and the Internet. Through the Credit Services and Marketing Services segments, the Company assists its clients in identifying and acquiring new customers and helps to increase the loyalty and profitability of its clients' existing customers.

The Company operates in three reportable segments: Transaction Services, Credit Services and Marketing Services. Transaction Services encompasses card processing, billing and payment processing and customer care for specialty and petroleum retailers (issuer services), customer information system hosting, customer care and billing and payment processing for regulated and de-regulated utilities (utility services) and other processing-oriented businesses. Credit Services provides private label credit card receivables financing. Credit Services generally securitizes the credit card receivables that it underwrites from its private label credit card programs. Marketing Services provides loyalty programs, such as the AIR MILES® Reward Program and integrated database marketing services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation — The accompanying consolidated financial statements include the accounts of ADSC and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated.

Cash and Cash Equivalents — The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Due from Card Associations and Merchant Settlement Obligations — Due from card associations and merchant settlement obligations result from the Company's merchant services and associated settlement activities. Due from card associations is generated from credit card transactions, such as MasterCard, Visa and American Express, at merchant locations. The Company records corresponding settlement obligations for amounts payable to merchants. These accounts are settled with the respective card association or merchant on different days.

Credit Card Receivables — Credit card receivables are generally securitized immediately or shortly after origination. As part of its securitization agreements, the Company is required to retain an interest in the credit card receivables, which is referred to as seller's interest. Seller's interest is carried at fair value and credit card receivables are carried at lower of cost or market less an allowance for doubtful accounts. In its capacity as a servicer of the credit card receivables, the Company receives a servicing fee from the World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Trust II and World Financial Network Credit Card Master Trust III ("WFN Trusts"). Management estimates the cost incurred in servicing the credit card receivables approximates the service fees received, and therefore has not recorded a servicing asset or liability as of December 31, 2003 and 2004.

Redemption Settlement Assets, Restricted — These securities relate to the redemption fund for the AIR MILES Reward Program and are held in trust for the benefit of funding redemptions by collectors. These assets are restricted to funding rewards for the collectors by certain of our sponsor contracts. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income (loss). Debt securities that the Company does not have the positive intent and ability to hold to maturity are classified as securities available-for-sale.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Property and Equipment — Furniture, fixtures, computer equipment and software, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization, including capital leases are computed on a straight-line basis, using estimated lives ranging from three to 15 years. Leasehold improvements are amortized over the remaining lives of the respective leases or the remaining useful lives of the improvements, whichever is shorter. Software development (costs to create new platforms for certain of the Company's information systems) and conversion costs (systems, programming and other related costs to allow conversion of new client accounts to the Company's processing systems) are capitalized in accordance with Statement of Position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and are amortized on a straight-line basis over the length of the associated contract or benefit period, which generally ranges from three to five years.

Revenue Recognition

The Company's policy follows the guidance from SEC Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition". SAB No. 104 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements and updates existing SAB Topic 13 to be consistent with recently issued guidance, primarily Emerging Issues Task Force Issue ("EITF") No. 00-21, "Revenue Arrangements with Multiple Deliverables". The Company recognizes revenues when persuasive evidence of an arrangement exists, the services have been provided to the client, the sales price is fixed or determinable, and collectibility is reasonably assured.

Transaction and Marketing Services — The Company earns transaction fees, which are principally based on the number of transactions processed or statements generated and are recognized as such services are performed. Included are reimbursements received for "out-of-pocket" expenses. In general, the Company does not enter into license sales for its products or services. In cases where the Company enters into license sales, revenue is recognized in accordance with SOP 97-2 "Software Revenue Recognition" and related literature.

AIR MILES Reward Program — The Company allocates the proceeds received from sponsors for the issuance of AIR MILES reward miles based on relative fair values between the redemption element of the award ultimately provided to the collector (the "Redemption element") and the service element (the "Service element"). The Service element consists of direct marketing and support services provided to sponsors.

The fair value of the Service element is based on the estimated fair value of providing the services on a third-party basis. The revenue related to the Service element of the AIR MILES reward miles is initially deferred and amortized over the period of time beginning with the issuance of the AIR MILES reward miles and ending upon their expected redemption (the estimated life of an AIR MILES reward mile, or 42 months).

The fair value of the Redemption element of the AIR MILES reward miles issued is determined based on separate pricing offered by the Company as well as other objective evidence. The revenue related to the Redemption element is deferred until the collector redeems the AIR MILES reward miles or over the estimated life of an AIR MILES reward mile in the case of AIR MILES reward miles that the Company estimates will go unused by the collector base ("breakage"). The Company currently estimates breakage to be one-third of AIR MILES reward miles issued.

Securitization income — Securitization income represents gains and losses on securitization of credit card receivables and interest income on seller's interest and credit card receivables held on the balance sheet less a provision for doubtful accounts of $8.2 million, $20.4 million and $1.8 million for the years

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

ended December 31, 2002, 2003, and 2004, respectively. For the years ended December 31, 2002, 2003 and 2004, the Company recognized $2.8 million, $4.0 million and $2.0 million, respectively, in gains, related to the securitization of new credit card receivables accounted for as sales. The Company records gains or losses on the securitization of credit card receivables on the date of sale based on cash received, the estimated fair value of assets sold and retained, and liabilities incurred in the sale. The anticipated excess cash flow essentially represents an interest only ("I/O") strip, consisting of the excess of finance charges and certain other fees over the sum of the return paid to certificate holders and credit losses over the estimated outstanding period of the receivables. The amount initially allocated to the I/O strip at the date of a securitization reflects the allocated original basis of the relative fair values of those interests. The amount recorded for the I/O strip is reduced for distributions on the I/O strip, which the Company receives from the related trust, and is adjusted for changes in the fair value of the I/O strip, which are reflected in other comprehensive income. Because there is not a highly liquid market for these assets, management estimates the fair value of the I/O strip primarily based upon discount, payment and default rates, which is the method we assume that another market participant would use to purchase the I/O strip.

In recording and accounting for the I/O strip, management makes assumptions about rates of payments and defaults, which reflect economic and other relevant conditions that affect fair value. Due to subsequent changes in economic and other relevant conditions, the actual rates of payments and defaults would generally differ from our initial estimates, and these differences could sometimes be material. If actual payment and default rates are higher than previously assumed, the value of the I/O strip could be impaired and the decline in the fair value would be recorded in earnings.

Securitization Sales — The Company's securitization of its credit card receivables involves the sale to a trust and is accomplished primarily through the public and private issuance of asset-backed securities by the special purpose entities. The Company removes credit card receivables from its Consolidated Balance Sheets for those asset securitizations that qualify as sales in accordance with Statement of Financial Accounting Standard ("SFAS") No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities-a replacement of FASB Statement No. 125". The Company has determined that the WFN Trusts are qualifying special purpose entities as defined by SFAS No. 140, and that all current securitizations qualify as sales.

Goodwill and Other Intangible Assets — Goodwill and indefinite lived intangible assets are not amortized, but are reviewed at least annually for impairment or more frequently if circumstances indicate that an impairment may have occurred, using the market comparable and discounted cash flow methods. Separable intangible assets that have finite useful lives are amortized over those useful lives.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Earnings Per Share — Basic earnings per share is based only on the weighted average number of common shares outstanding, excluding any dilutive effects of options or other dilutive securities. Diluted earnings per share is based on the weighted average number of common and potentially dilutive common shares (dilutive stock options, unvested restricted stock and other dilutive securities outstanding during the year).

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

	Year Ended December 31,		
	2002	2003	2004
	(In thousands, except per share amounts)		
Numerator			
Net income available to common stockholders	$ 23,659	$ 67,298	$ 102,371
Denominator			
Weighted average shares, basic	74,422	78,003	80,614
Weighted average effect of dilutive securities:			
Net effect of dilutive stock options and unvested restricted stock	2,274	2,310	3,426
Denominator for diluted calculation	76,696	80,313	84,040
Basic			
Net income per share	$ 0.32	$ 0.86	$ 1.27
Diluted			
Net income per share	$ 0.31	$ 0.84	$ 1.22

Management Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Currency Translation — The assets and liabilities of the Company's subsidiaries outside the U.S., primarily Canada, are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates. Income and expense items are translated at the average exchange rates prevailing during the period. Gains and losses resulting from currency transactions are recognized currently in income, and those resulting from translation of financial statements are included in accumulated other comprehensive (loss) income.

Advertising Costs — The Company participates in various advertising and marketing programs. The cost of advertising and marketing programs are expensed in the period incurred. The Company has recognized advertising expenses of $21.2 million, $30.0 million and $30.2 million for the years ended 2002, 2003 and 2004.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Stock Compensation Expense and Unearned Compensation — At December 31, 2004, the Company had three stock-based employee compensation plans related to stock options and restricted stock. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income for stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	Year Ended December 31,		
	2002	2003	2004
	(In thousands, except per share amounts)		
Net income, as reported	$ 23,659	$ 67,298	$ 102,371
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,916	3,725	10,249
Deduct: Total stock-based employee compensation expense determined under fair value based method for all stock option awards, net of related tax effects	(14,642)	(15,057)	(19,756)
	$ 10,933	$ 55,966	$ 92,864
Net income per share:			
Basic-as reported	$ 0.32	$ 0.86	$ 1.27
Basic-pro forma	$ 0.15	$ 0.72	$ 1.15
Diluted-as reported	$ 0.31	$ 0.84	$ 1.22
Diluted-pro forma	$ 0.14	$ 0.70	$ 1.11

Income Taxes — Deferred income taxes are provided for differences arising in the timing of income and expenses for financial reporting and for income tax purposes using the asset/liability method of accounting. Under this method, deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statements' carrying amounts of existing assets and liabilities and their respective tax bases, using enacted tax rates.

Long-Lived Assets — Long-lived assets and other intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Derivative Instruments — Historically, the Company used interest rate swaps to hedge its exposure to interest and foreign exchange rate changes. The Company accounts for its derivative instruments in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities, as amended", which requires that all derivative instruments be reported on the balance sheet at fair value. If the derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative instrument are either recognized in net income or in other comprehensive (loss) income until the hedged item is recognized in net income. For derivatives that do not qualify as hedges under SFAS No. 133, the change in fair value is recorded as part of earnings. It is the policy of the Company to

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

execute such instruments with creditworthy banks and not to enter into derivative financial instruments for speculative purposes.

The Company utilizes certain derivative financial instruments to enhance its ability to manage risks that exist as part of ongoing business operations. The Company recognizes all derivatives on the balance sheet at their fair value. The estimated fair value of the derivatives is based primarily on dealer quotations. The Company presently uses derivatives to mitigate cash flow risks with respect to changes in interest rates. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction (cash flow hedge) or as a hedge of a change in fair value (fair value hedge). Changes in the fair value of a derivative that are designated and qualify as a cash flow hedge are recorded in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of a derivative that are designated and qualify as a fair value hedge are generally recorded immediately in earnings along with the corresponding change in fair value of the hedged item. Amounts on the balance sheet are recorded as a component of “Other liabilities.” Changes in the fair value of a derivative that is not designated as a hedge are recorded immediately in earnings. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes. The Company discontinues hedge accounting when the derivative expires or is sold, terminated or exercised.

The Company’s policy is to minimize its cash flow exposure to adverse changes in interest rates. The Company’s objective is to engage in risk management strategies that provide adequate downside protection. The Company does not have any outstanding derivatives at December 31, 2004.

Recently Issued Accounting Standards — In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment”, which replaces SFAS No. 123, “Accounting for Stock-Based Compensation” and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123(R) will cause unrecognized expense (based on the fair values determined for the pro forma footnote disclosure, adjusted for estimated forfeitures) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. The Company is required to adopt SFAS No. 123(R) in its third quarter of 2005, beginning July 1, 2005. Under SFAS No. 123(R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include the modified prospective or the modified retrospective adoption methods. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of SFAS No. 123(R), while the modified retrospective methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. The Company is evaluating the requirements of SFAS No. 123(R) and expects that the adoption of SFAS No. 123(R) will have a material impact on its statements of income and earnings per share. The Company has not determined the method of adoption or the effect of adopting SFAS No. 123(R) as a determination has not yet been made as to the selection of acceptable option-pricing model alternatives, as well as lack of precision around expected forfeitures.

In November 2004, the FASB issued SFAS No. 151 “Inventory Costs an amendment of ARB No. 43, Chapter 4”, which amends Chapter 4 of ARB No. 43 that deals with inventory pricing.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and spoilage. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, although earlier application is permitted for fiscal years beginning after the date of issuance. Retroactive application is not permitted. Management is analyzing the requirements of SFAS No. 151 and believes that its adoption will not have any significant impact on the Company's financial position, statements of income or cash flows.

In December 2004, the FASB issued SFAS No. 153 "Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29". SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. Management is analyzing the requirements of SFAS No. 153 and believes that its adoption will not have any significant impact on the Company's financial position, statements of income or cash flows.

Reclassifications — For purposes of comparability, certain prior period amounts have been reclassified to conform with the current year presentation.

3. ACQUISITIONS

During the past three years the Company completed the following acquisitions:

Business	Month Acquired	Consideration	Segment
2004:			
Epsilon Data Management, Inc.	October 2004	Cash for Common Stock	Marketing Services
Capstone Consulting Partners, Inc.	November 2004	Cash for Common Stock	Transaction Services
2003:			
ExoLink Corporation	January 2003	Cash for Assets	Transaction Services
Conservation Billing Services, Inc.	September 2003	Cash for Common Stock	Transaction Services
Orcom Solutions, Inc.	December 2003	Cash for Common Stock	Transaction Services
2002:			
Loyalty One, Inc.	January 2002	Cash for Common Stock	Transaction Services
Enlogix Group	September 2002	Cash for Equity	Transaction Services
Targeted Marketing Services	December 2002	Cash for Assets	Transaction Services

2004 Acquisitions:

In October, 2004, the Company completed the acquisition of Epsilon Data Management, Inc. ("Epsilon"). The results of operations have been included since of the date of acquisition. Epsilon has provided customer management and loyalty solutions for over 35 years. Epsilon utilizes database technologies and analytics to evaluate value, growth and loyalty of its clients' customers and assists clients in acquiring new customer relationships. As a result of this acquisition, the Company believes that it is in a position to continue to expand its North American presence in the loyalty market. The merger consideration consisted of approximately $310.0 million in cash. The base purchase price of $310.0 million

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. ACQUISITIONS — (Continued)

was adjusted to $314.5 million as a result of customary post-closing purchase price adjustments and closing costs. $2.0 million of the purchase price was placed into escrow pending calculation of the final net working capital adjustment, and $10.0 million of the purchase price was placed into escrow for a period of eighteen months to satisfy potential indemnification claims. Additional closing costs were also paid in 2004.

The following table summarized the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	As of October 29, 2004
Current assets	$ 31,450
Property, plant and equipment	11,341
Identifiable intangible assets	122,500
Goodwill	211,335
Other assets	12,000
Total assets acquired	388,626
Current liabilities	29,282
Deferred tax liability	39,405
Other long-term liabilities	4,089
Total liabilities assumed	72,776
Net assets acquired	$ 315,850

Supplemental Pro forma:

Supplemental pro forma information is presented below.

The following unaudited pro forma results of operations of the Company are presented as if the Epsilon transaction was completed as of the beginning of the periods being presented. The following unaudited pro forma financial information is not necessarily indicative of what actual results of operations of the Company would have been assuming the transaction had been completed as of January 1, 2003 or of any client losses, voluntary or involuntary, or wins during the periods presented.

	2003	2004
	(unaudited)	
Revenues	$ 1,189,322	$ 1,375,169
Net income	58,535	99,327
Basic net income per share	$ 0.75	$ 1.23
Diluted net income per share	$ 0.73	$ 1.18

In November 2004, the Company acquired Capstone Consulting Partners, Inc. (“Capstone”), a provider of management consulting and technical services to the energy industry. Total consideration paid in connection with the acquisition was approximately $11.4 million. Pro forma information is not presented as the impact was not material.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. ACQUISITIONS — (Continued)

2003 Acquisitions:

In January 2003, the Company purchased substantially all of the assets of Exolink Corporation, a provider of utility back office support services. In September 2003, the Company acquired Conservation Billing Services, a Florida-based submetering service provider. Through this acquisition, the Company now provides submetering services that include automated meter reading, billing and collecting for clients that manage commercial properties that house multiple tenants, such as malls and multi-family properties. In December 2003, we acquired Orcom Solutions, Inc., a leading provider of customer care and billing services to electric, gas, water and waste water utilities in North America, primarily in the mid-tier utility marketplace. Total consideration paid in connection with the acquisitions was approximately $51.7 million.

2002 Acquisitions:

In January 2002, the Company acquired Frequency Marketing, Inc., a small marketing services firm, adding new products for the Company's loyalty and one-to-one marketing offerings in the U.S. In September 2002, the Company acquired Enlogix Group, formerly wholly owned subsidiaries of Duke Energy Corporation, which provides customer information services to utilities in Canada. In December 2002, the Company purchased Targeted Marketing Services which offered frequent shopper card and paperless coupon solution to grocery retailers and consumer packaged good manufacturers. Total consideration paid in connection with the acquisitions was approximately $35.9 million.

Purchase Price Allocation:

The following table summarizes the purchase price for the acquisitions, and the allocation thereof:

	2002	2003	2004
		(In thousands)	
Identifiable intangible assets	$ 17,752	$ 28,896	$ 126,380
Goodwill	26,196	22,765	218,622
Other net liabilities acquired	(8,057)	(5)	(17,786)
Purchase price	$ 35,891	$ 51,656	$ 327,216

Of the $126.4 million of acquired intangible assets at December 31, 2004, $11.2 million was assigned to a tradename that is not subject to amortization. The remaining $115.2 million of acquired identifiable intangible assets is comprised of computer software of $12.4 million with an estimated life of 3 years and customer contracts of $98.9 million and $3.9 million with estimated lives of 7-10 years and approximately 2 years, respectively.

The $218.6 million of goodwill acquired during 2004 was assigned to the Marketing Services and Transaction Services segments in the amounts of $211.3 million and $7.3 million, respectively. Goodwill is not deductible for tax purposes, or amortized for book purposes. An independent valuation was conducted in the fourth quarter of 2004 to assign a fair market value to the intangible assets identified as part of the Epsilon acquisition.

The terms of certain of the Company's acquisition agreements provide for additional consideration to be paid if the acquired entity's results of operations exceed certain targeted levels, or if certain other conditions are met. Targeted levels are generally set substantially above the historical experience of the acquired entity at the time of acquisition. Such additional consideration is paid in cash.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of cash and cash equivalents and securities available-for-sale and are designated for settling redemptions by collectors of the AIR MILES Reward Program in Canada under certain contractual relationships with sponsors of the AIR MILES Reward Program. These assets are primarily denominated in Canadian dollars. Realized gains and losses from the sale of investment securities were not material. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	December 31, 2003				December 31, 2004			
		Unrealized				Unrealized		
	Cost	Gains	Losses	Fair value	Cost	Gains	Losses	Fair Value
	(In thousands)							
Cash and cash equivalents	$ 21,593	$ —	$ —	$ 21,593	$ 56,333	$ —	$ —	$ 56,333
Government bonds	40,383	475	—	40,858	40,132	710	—	40,842
Corporate bonds	152,950	—	(130)	152,820	145,745	572	—	146,317
Total	$ 214,926	$ 475	$ (130)	$ 215,271	$ 242,210	$ 1,282	$ —	$ 243,492

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2003	2004
	(In thousands)	
Software development and conversion costs	$ 123,114	$ 123,231
Computer equipment and purchased software	71,395	94,056
Furniture and fixtures	60,610	66,800
Leasehold improvements	48,592	53,683
Capital leases	8,034	16,125
Construction in progress	5,342	9,892
Total	317,087	363,787
Accumulated depreciation	(183,341)	(216,256)
Property and equipment, net	$ 133,746	$ 147,531

6. SECURITIZATION OF CREDIT CARD RECEIVABLES

The Company regularly securitizes its credit card receivables to the WFN Trusts. During the initial phase of a securitization reinvestment period, the Company generally retains principal collections in exchange for the transfer of additional credit card receivables into the securitized pool of assets. During the amortization or accumulation period of a securitization, the investors' share of principal collections (in certain cases, up to a maximum specified amount each month) is either distributed to the investors or held in an account until it accumulates to the total amount due, at which time it is paid to the investors in a lump sum. The Company's outstanding securitizations are scheduled to begin their amortization or accumulation periods at various times between 2005 and 2011.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. SECURITIZATION OF CREDIT CARD RECEIVABLES — (Continued)

The following table shows the maturities of borrowing commitments as of December 31, 2004 for the WFN Trusts by year:

	2005	2006	2007	2008	2009 & Thereafter	Total
			(In thousands)			
Public notes	$ —	$ 450,000	$ 600,000	$ 600,000	$ 950,000	$ 2,600,000
Private conduits(1)	1,157,143	—	—	—	—	1,157,143
Total	$ 1,157,143	$ 450,000	$ 600,000	$ 600,000	$ 950,000	$ 3,757,143

(1) Represents borrowing capacity, not outstanding borrowings.

“Due from securitizations” consists of:

	December 31, 2003	2004
	(In thousands)	
Spread deposits	$ 163,225	$ 118,205
I/ O strips	58,431	62,869
Residual interest in securitization trust	55,002	58,517
Excess funding deposits	4,120	4,700
	$ 280,778	$ 244,291

The Company is required to maintain minimum interests ranging from 4% to 8% of the securitized credit card receivables. This requirement is met through seller’s interest and is supplemented through the excess funding deposits. Excess funding deposits represent cash amounts deposited with the trustee of the securitizations. Residual interest in securitization represents a subordinated interest in the cash flows of the WFN Trusts.

The spread deposits and I/ O strips are initially recorded at their allocated carrying amount based on relative 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 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. I/ O strips, seller’s interest and other interests retained are periodically evaluated for impairment based on the fair value of those assets.

Fair values of I/ O 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, private label credit card receivables.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. SECURITIZATION OF CREDIT CARD RECEIVABLES — (Continued)

At December 31, 2004, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in the assumptions are as follows:

	Assumptions	Impact on Fair Value of 10% Change	Impact on Fair Value of 20% Change
		(In thousands)	
Fair value of I/ O strip	$ 62,869		
Weighted average life	7.5 months		
Discount rate	8.0%	$ (128)	$ (255)
Expected yield, net of dilution	15.2%	(21,481)	(41,126)
Interest expense	2.6%	(292)	(577)
Net charge-offs rate	7.3%	(6,991)	(13,992)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in an assumption to the change in fair value may not be linear. Also, in this table the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Spread deposits, carried at estimated fair value, represent deposits that are held by a trustee or agent and are used to absorb shortfalls in the available net cash flows related to securitized credit card receivables if those available net cash flows are insufficient to satisfy certain obligations of the WFN Trusts. The fair value of spread deposits is based on the weighted average life of the underlying securities and the discount rate. The discount rate is based on a risk adjusted rate paid on the series. The amount required to be deposited is approximately 3.8% of the investor's interest in the WFN Trusts. Spread deposits are generally released proportionately as investors are repaid, although some spread deposits are released only when investors have been paid in full. None of these spread deposits were required to be used to cover losses on securitized credit card receivables in the three-year period ended December 31, 2004.

The table below summarizes certain cash flows received from and paid to securitization trusts:

	Year Ended December 31,		
	2002	2003	2004
		(In millions)	
Proceeds from collections reinvested in previous credit card securitizations	$ 4,979.1	$ 5,801.0	$ 7,060.4
Proceeds from new securitizations	600.1	600.0	1,400.0
Servicing fees received	46.9	50.5	59.3
Other cash flows received on retained interests	192.0	286.4	317.9

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. SECURITIZATION OF CREDIT CARD RECEIVABLES — (Continued)

The tables below present quantitative information about the components of total credit card receivables managed, delinquencies and net charge-offs:

	December 31, 2003	December 31, 2004
	(In millions)	
Total principal of credit card receivables managed	$ 3,302.7	$ 3,430.4
Less credit card receivables securitized	3,186.8	3,377.3
Credit card receivables held	$ 115.9	$ 53.1
Principal amount of credit card receivables 90 days or more past due	$ 72.5	$ 70.6

	Year Ended December 31, 2002	2003	2004
		(In thousands)	
Net charge-offs including billed, unpaid finance charges and fees	$ 270,243	$ 299,295	$ 322,303

7. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

	December 31, 2004			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In thousands)		
Premium on purchased credit card portfolios	$ 43,137	$ (12,299)	$ 30,838	5-10 years — straight line
Tradename	11,200	—	11,200	Indefinite life
Customer contracts and lists	216,277	(45,236)	171,041	2-20 years — straight line
Noncompete agreements	1,500	(1,202)	298	1-5 years — straight line
Collector database	58,233	(37,831)	20,402	15% — declining balance
Total intangible assets	$ 330,347	$ (96,568)	$ 233,779	

	December 31, 2003			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In thousands)		
Premium on purchased credit card portfolios	$ 42,142	$ (6,774)	$ 35,368	5-10 years — straight line
Customer contracts and lists	131,487	(46,308)	85,179	3-20 years — straight line
Noncompete agreements	4,300	(3,399)	901	1-5 years — straight line
Collector database	53,991	(31,706)	22,285	15% — declining balance
Total intangible assets	$ 231,920	$ (88,187)	$ 143,733	

In connection with the acquisitions of Epsilon and Capstone in 2004, the Company acquired approximately $102.8 million in customer contracts and a tradename with a fair value of approximately $11.2 million.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. INTANGIBLE ASSETS AND GOODWILL — (Continued)

During the third quarter of 2003, the Company completed the acquisition and conversion of approximately $223.6 million of receivables associated with Stage Stores, Inc.'s portfolio of approximately 800,000 active private label credit card accounts, and has assumed overall operation of Stage Stores' private label credit card program. The Company paid approximately $236.1 million for this portfolio. The preliminary purchase price allocation resulted in identifiable intangible assets of $27.0 million that are being amortized over approximately 10 years. The Company capitalizes initial payments for contracts associated with customer processing relationships. In March 2003, the Company acquired the contract for utility processing with Centrica and American Electric Power.

The estimated amortization expense related to intangible assets for the next five years is as follows:

	For Years Ending December 31, (In thousands)
2005	$ 38,070
2006	37,295
2007	30,790
2008	29,009
2009	19,072

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2004 respectively, are as follows:

	Transaction Services	Credit Services	Marketing Services	Total
	(In thousands)			
December 31, 2002	$ 281,942	$ —	$ 147,778	$ 429,720
Goodwill acquired during year	22,765	—	—	22,765
Effects of foreign currency translation	—	—	32,031	32,031
Other, primarily final purchase price adjustments	(101)	—	—	(101)
December 31, 2003	304,606	—	179,809	484,415
Goodwill acquired during year	7,287	—	211,335	218,622
Goodwill disposed of during year	(380)	—	—	(380)
Effects of foreign currency translation	2,293	—	14,128	16,421
Recognition of deferred tax asset(1)	(13,371)	—	—	(13,371)
Other, primarily final purchase price adjustments	3,439	—	—	3,439
December 31, 2004	$ 303,874	$ —	$ 405,272	$ 709,146

(1) The Company determined the final value of certain deferred tax assets and liabilities related primarily to net operating losses acquired as part of the acquisition of Orcom Solutions, Inc. Such amounts have been reclassified from goodwill subsequent to the acquisition.

The Company completed annual impairment tests for goodwill on July 31, 2002, 2003 and 2004 and determined at each date that no impairment exists. No further testing of goodwill impairments will be performed until July 31, 2005, unless circumstances exist that indicate that an impairment may have occurred.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. DEFERRED REVENUE

A reconciliation of deferred revenue for the AIR MILES Reward Program is as follows:

	Year Ended December 31,	
	2003	2004
	(In thousands)	
Deferred Revenue — Service		
Beginning balance	$ 103,039	$ 132,741
Cash proceeds	69,800	86,998
Revenue recognized	(62,958)	(73,233)
Effects of foreign currency translation	22,860	11,520
Ending balance	$ 132,741	$ 158,026
Deferred Revenue — Redemption		
Beginning balance	$ 259,471	$ 343,646
Cash proceeds	137,310	159,724
Revenue recognized	(112,769)	(141,261)
Effects of foreign currency translation	59,634	26,988
Ending balance	$ 343,646	$ 389,097

9. DEBT

Debt consists of the following:

	December 31,	
	2003	2004
	(In thousands)	
Certificates of deposit	$ 200,400	$ 94,700
Credit facility	179,789	324,629
Other	9,962	18,194
	390,151	437,523
Less: current portion	(200,790)	(230,662)
Long term portion	$ 189,361	$ 206,861

Certificates of Deposit — Terms of the certificates of deposit range from three months to 24 months with annual interest rates ranging from 1.5% to 4.0% at December 31, 2003 and 2.0% to 2.7% at December 31, 2004. Interest is paid monthly and at maturity.

Credit Facilities — The Company amended its 364-day credit facility by and among the Company, the guarantors from time to time party thereto, the banks from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent, as of April 8, 2004, to extend for an additional 364 days the terms of the previous 364-day credit facility dated as of April 10, 2003, by and among the same parties.

On October 21, 2004, the Company entered into amendments to its three credit facilities. Collectively, the three amendments increased the aggregate amount of revolving commitments under the three credit facilities from $400.0 million to $435.0 million since adjusted to $455.0 million. The amendment to the 3-year credit facility increased the amount of revolving commitments thereunder from $150.0 million to $200.0 million. The amendment to the 364-day credit facility increased the amount of

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. DEBT — (Continued)

revolving commitments thereunder from $150.0 million to $185.0 million, which has since been adjusted to $205.0 million. The amendment to the Canadian credit facility decreased the amount of revolving commitments thereunder from $100.0 million to $50.0 million. In addition, the amendments increased the aggregate amount of commitments permitted under the three credit facilities from $450.0 million to $500.0 million. As a result, the Company has the right to obtain commitments under the three credit facilities for an additional $45.0 million in the aggregate without having to amend the credit facilities. Except as described above, the remaining terms of each credit facility remain unchanged.

Advances under the credit facilities are in the form of either base rate loans or eurodollar loans. The interest rate on base rate loans fluctuates based upon the higher of (1) the interest rate announced by the administrative agent as its “prime rate” and (2) the Federal funds rate plus 0.5%, in each case with no additional margin. The interest rate on eurodollar loans fluctuates based upon the rate at which eurodollar deposits in the London interbank market are quoted plus a margin of 1.0% to 1.5% based upon the ratio of total debt under the credit facilities to consolidated Operating EBITDA, as each term is defined in the credit facilities. The credit facilities are secured by pledges of stock of certain of the Company’s subsidiaries and pledges of certain intercompany promissory notes.

In addition, under the terms of the Company’s credit facilities, the Company cannot declare or pay dividends or return capital to its common stockholders, and the Company is restricted in the amount of any other distribution, payment or delivery of property or cash to its common stockholders.

At December 31, 2004, the Company had borrowings of $324.6 million outstanding under these credit facilities (with an average interest rate of 3.6%), the Company issued no letters of credit, and had available unused borrowing capacity of approximately $130.4 million. The credit facilities limit the Company’s aggregate outstanding letters of credit to $50.0 million. The Company can obtain an increase in the total commitment under the credit facilities of up to $45.0 million if it is not in default under the credit facilities, one or more lenders agrees to increase its commitment and the administrative agent consents.

Other — The Company has other minor borrowings, primarily capital leases, with varying interest rates.

Maturities — Debt at December 31, 2004 matures as follows (in thousands):

2005	$ 230,662
2006	199,367
2007	4,138
2008	3,236
2009	114
Thereafter	6
	$ 437,523

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. INCOME TAXES

The Company files a consolidated federal income tax return.

	Year Ended December 31,		
	2002	2003	2004
		(In thousands)	
Components of income before income taxes:			
Domestic	$ 22,095	$ 74,905	$ 117,040
Foreign	19,624	34,077	47,279
Total	$ 41,719	$ 108,982	$ 164,319
Components of income tax expense are as follows:			
Current			
Federal	$ (13,059)	$ 1,630	$ 4,348
State/provincial	7,342	10,770	11,545
Foreign	12,195	19,583	14,901
Total current	6,478	31,983	30,794
Deferred			
Federal	16,364	26,335	36,091
State/provincial	(1,161)	(4,534)	(1,528)
Foreign	(3,621)	(12,100)	(3,409)
Total deferred	11,582	9,701	31,154
Total provision for income taxes	$ 18,060	$ 41,684	$ 61,948

A reconciliation of recorded federal provision for income taxes to the expected amount computed by applying the federal statutory rate of 35% for all periods to income before income taxes is as follows:

	Year Ended December 31,		
	2002	2003	2004
		(In thousands)	
Expected expense at statutory rate	$ 14,602	$ 38,144	$ 57,511
Increase (decrease) in income taxes resulting from:			
State and foreign income taxes	3,361	4,404	8,492
Foreign tax less than domestic	(1,746)	(1,706)	(6,475)
Canadian rate reduction (increase) impact	4,094	(2,679)	—
Other, net	(2,251)	3,521	2,420
Total	$ 18,060	$ 41,684	$ 61,948

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. INCOME TAXES — (Continued)

Deferred tax assets and liabilities consist of the following:

	December 31, 2003	December 31, 2004
	(In thousands)	
Deferred tax assets		
Deferred revenue	$ 70,775	$ 84,935
Allowance for doubtful accounts	6,218	4,372
Net operating loss carryforwards	37,625	46,747
Depreciation	3,168	69
Derivatives	1,580	—
Accrued expenses	6,485	9,305
Other	2,864	140
Total deferred tax assets	128,715	145,568
Deferred tax liabilities		
Deferred income	$ 38,273	$ 32,961
Servicing rights	20,822	22,004
Intangible assets	12,248	60,982
Other	—	—
Total deferred tax liabilities	71,343	115,947
Net deferred tax asset before valuation allowance	57,372	29,621
Valuation allowance	(18,235)	(29,298)
Net deferred tax asset	$ 39,137	$ 323
Amounts recognized in the consolidated balance sheet:		
Current assets	$ 45,881	$ 49,606
Non-current liabilities	$ 6,744	$ 49,283

At December 31, 2004, the Company had approximately $58.1 million of federal net operating loss carryforwards (NOL's), which expire at various times through 2023. The utilization of the $58.1 million federal NOL's are subject to limitations under Section 382 of the Internal Revenue Code on account of changes in the equity ownership. In addition, the Company has approximately $500.6 million of state net operating loss carryforwards, which expire at various times through 2024. NOL's are subject to a valuation allowance established for the tax benefit associated with their respective unrealizable federal and state NOL's. The valuation allowance relates primarily to state NOL's and reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized and primarily increased as a result of the NOL's recorded related to Orcom, as discussed in Note 7.

The Company's income taxes payable have been reduced by the tax benefits associated with dispositions of employee stock options. The Company receives an income tax benefit calculated as the difference between the fair market value of the stock issued at the time of exercise and the option price, tax effected. These benefits were credited directly to shareholders' equity and totaled $0 million, $2.1 million and $11.2 million for calendar years 2002, 2003 and 2004, respectively.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. INCOME TAXES — (Continued)

The Canadian corporate income tax rate decreased for the 2002 year. The Company recorded $4.1 million of income tax expense in 2002, to reduce the deferred tax assets in Canada related to the lower income tax rate. In 2003 the Canadian corporate income tax rate was increased for the 2004 tax year. Therefore, in 2003, the Company recorded $2.7 million of income tax benefit to increase the deferred tax assets in Canada related to the higher income tax rates.

As a matter of course, the Company is regularly examined by federal, state and foreign tax authorities. Although the results of these examinations are uncertain, based on currently available information, the Company believes that the ultimate outcome will not have a material adverse effect on the Company's financial statements.

11. STOCKHOLDERS' EQUITY

In April 2003, the Company completed a public offering of 10,350,000 shares of common stock at $19.65 per share. Limited Commerce Corp. sold 7,000,000 of these shares and the remaining 3,350,000 shares were sold by the Company. The net proceeds to the Company from the offering were $61.9 million after deducting offering expenses and its pro-rata underwriting discounts and commissions. Concurrently with the closing of the public offering, the Company used $52.7 million of the net proceeds to repay in full $52.0 million of debt outstanding, plus accrued interest, under a 10% subordinated note that the Company had issued in September 1998 to an affiliated entity of Welsh Carson.

In November 2003, the Company facilitated a secondary public offering of 8,663,382 shares of the Company's common stock at $26.95 per share. 7,533,376 shares were sold by the Company's second largest stockholder, Limited Commerce Corp., a wholly-owned subsidiary of Limited Brands, which together with its retail affiliates is our largest customer, and the remaining 1,130,006 shares were sold by the Company's largest stockholder, Welsh Carson, through two of its affiliated entities. The Company sold no stock and received none of the proceeds from the secondary offering. In connection with the secondary offering, the Company incurred approximately $450,000 in registration costs, which were expensed in the fourth quarter. As a result of the secondary offering, Limited Commerce Corp. is no longer a stockholder of the Company.

12. STOCK COMPENSATION PLANS

The Company has adopted equity compensation plans to advance the interests of the Company by rewarding certain employees for their contributions to the financial success of the Company and thereby motivating them to continue to make such contributions in the future.

Certain of the Company's employees have been granted stock options under the Company's Stock Option and Restricted Stock Plan, as amended and restated (the "Plan"). The stock options generally vest over three to four years and expire 10 years after the date of grant. The Plan also provides for the granting of performance-based restricted stock awards to certain officers of the Company. The performance-based restricted shares subject to these grants do not vest unless specified performance measures, tied to either EBITDA or return on stockholders' equity, are met. If these performance targets are met, some of the performance-based restricted shares vest over a five-year period. However, some of the performance-based restricted shares may vest on a more accelerated basis if certain annual EBITDA performance targets are met.

During 2004, 199,120 shares vested in accordance with the Plan. As of December 31, 2004, performance-based restricted stock awards representing an aggregate of 526,600 shares had been granted under the Plan and are no longer subject to restrictions.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. STOCK COMPENSATION PLANS — (Continued)

On April 4, 2003, the Board of Directors of the Company adopted the 2003 Long Term Incentive Plan ("LTIP") and the stockholders approved it at the Company's 2003 annual meeting of stockholders on June 10, 2003. The LTIP reserves 6,000,000 shares of common stock for grants of incentive stock options, nonqualified stock options, restricted stock awards and performance shares to officers, employees, non-employee directors and consultants performing services for the Company or its affiliates.

During 2004, 121,778 shares of performance based restricted stock had been granted under the LTIP. As of December 31, 2004, 441,637 shares had been granted under the LTIP of which 312,778 were still outstanding and subject to vesting restrictions. The restrictions on the shares subject to these grants do not lapse unless specified performance measures tied to either cash earnings per share or return on stockholders' equity are met. If these performance targets are met, the restrictions on some of these shares lapse at the end of a three-year period. However the Company's Board of Directors may accelerate the lapsing of such restrictions if certain annual cash earnings per share performance targets are met.

Additionally, during 2004, the Company awarded 191,000 shares of time-based restricted stock with vesting periods of one to four years. The Company recorded $8.2 million (the aggregate value of the common stock based on the market price at the date of award) as unearned stock compensation related to this grant and related amortization expense of $0.4 million.

Terms of all awards are determined by the Board of Directors or the compensation committee of the Board of Directors or its designee at the time of award.

During 2002, 2003 and 2004, the Company recognized total stock compensation expense of $2.9 million, $5.9 million and $15.8 million, respectively.

The fair value of each option grant utilized for required disclosures is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2002	2003	2004
Expected dividend yield	—	—	—
Risk-free interest rate	3.5%	3.2%	3.4%
Expected life of options (years)	4.0	4.0	4.0
Assumed volatility	48.0%	33.9%	38.0%
Weighted average fair value	$ 7.28	$ 7.54	$ 11.94

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. STOCK COMPENSATION PLANS — (Continued)

The following table summarizes stock option activity under the Company's equity compensation plans:

	Outstanding		Exercisable	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	(In thousands, except per share amounts)			
Balance at January 1, 2002	6,519	$ 12.34		
Granted	1,485	17.59		
Exercised	(664)	11.73		
Cancelled	(319)	13.25		
Balance at December 31, 2002	7,021	$ 13.48	3,418	$ 12.04
Granted	1,733	24.05		
Exercised	(1,393)	12.54		
Cancelled	(289)	14.65		
Balance at December 31, 2003	7,072	$ 16.20	4,109	$ 16.20
Granted	2,001	$ 32.93		
Exercised	(2,131)	14.80		
Cancelled	(327)	23.00		
Balance at December 31, 2004	6,615	$ 21.33	3,261	$ 14.08

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2004:

	Outstanding			Exercisable	
Range of Exercise Prices	Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
			(In thousands, except per share amounts)		
$9.00 to $12.00	1,519	4.8	$ 10.74	1,519	$ 10.74
$12.01 to $15.00	1,565	6.3	$ 14.93	1,321	$ 14.96
$15.01 to $22.00	155	7.0	$ 16.50	62	$ 15.71
$22.01 to $29.00	1,478	8.4	$ 24.25	359	$ 24.21
$29.01 to $39.00	1,606	9.1	$ 31.43	—	$ —
$39.01 to $47.00	292	9.7	$ 41.77	—	$ —
	6,615			3,261	

13. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) retirement savings plan, which covers all eligible U.S. employees. Participants can, in accordance with Internal Revenue Service ("IRS") guidelines, set aside both pre and post tax savings in this account. In addition to associate's savings, the Company contributes to plan participants' accounts. The Alliance 401(k) and Retirement Savings Plan was amended effective January 1, 2004 to better benefit the majority of Company associates. The plan is an IRS approved safe harbor plan design that eliminates the need for most discrimination testing. Eligible associates can participate in the plan immediately upon joining the Company and after six months of employment begin receiving Company matching contributions. On the first three percent of savings, the Company matches dollar-for-dollar. An additional fifty cents for each dollar an associate contributes is matched for savings between four percent and five percent of pay. All Company matching contributions are immediately vested.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. EMPLOYEE BENEFIT PLANS — (Continued)

In addition to the Company match, the Company annually may make an additional contribution based on the profitability of the Company. This contribution, subject to Board of Directors approval, is based on a percentage of pay and is subject to a five year vesting schedule. The participants in the plan can direct their contributions and the Company's matching contribution to nine investment options, including the Company's common stock. Company contributions for associates age 65 or older vest immediately. Contributions for the years ended December 31, 2002, 2003 and 2004 were $8.3 million, $9.3 million and $11.3 million, respectively.

The Company also provides a Deferred Profit Sharing Plan for its Canadian employees after one year of service. Company contributions range from one to four percent of earnings, based on years of service.

In February 2001, the Company adopted an Employee Stock Purchase Plan and reserved 1,500,000 shares of common stock for issuance under the plan. In accordance with IRS regulations, the plan permits our eligible employees and those of our designated subsidiaries to purchase the common stock of the Company at a 15% discount to the fair market value through payroll deductions. No employee may purchase more than $25,000 in stock under the plan in any calendar year. The fair market value is determined each quarter as the lesser of the closing price on the first business day of the quarter or the last business day of the quarter. Approximately 413,575 shares of common stock have been purchased under the plan since its adoption, with approximately 146,867 shares purchased in 2004.

The Company also maintains a Supplemental Executive Retirement Plan ("SERP"). The SERP provides an opportunity for a select group of management and highly compensated employees to defer on a pre-tax basis a portion of their regular compensation and bonuses payable for services rendered and to receive certain employer contributions. As of December 31, 2004, effective January 1, 2005, the Company amended the SERP consistent with recent legislation, made no material changes otherwise and renamed the SERP the Executive Deferred Compensation Plan.

14. COMMITMENTS AND CONTINGENCIES

AIR MILES Reward Program

The Company has entered into certain contractual arrangements that result in a fee being billed to sponsors upon redemption of AIR MILES reward miles. The Company has obtained revolving letters of credit and other assurances from certain of these sponsors for the Company's benefit that expire at various dates. These letters of credit total $98.6 million at December 31, 2004, which exceeds the estimated amount of the obligation to provide travel and other rewards.

The Company currently has an obligation to fund redemption of AIR MILES reward miles as they are redeemed by collectors. The Company believes that the redemption settlement assets are sufficient to meet that obligation.

The Company has entered into certain long-term arrangements to purchase tickets from airlines and other suppliers in connection with redemptions under the AIR MILES Reward Program. These long-term arrangements allow the Company to make purchases at set prices. Under these agreements, the Company is required to pay annual minimums of approximately $18.6 million.

Leases

The Company leases certain office facilities and equipment under noncancellable operating leases and is generally responsible for property taxes and insurance related to such facilities. Lease expense was $47.3 million, $48.2 million and $43.7 million for the years ended December 31, 2002, 2003 and 2004 respectively.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. COMMITMENTS AND CONTINGENCIES — (Continued)

Future annual minimum rental payments required under noncancellable operating and capital leases, some of which contain renewal options, as of December 31, 2004 are (in thousands):

Year:	Operating Leases	Capital Leases
2005	$ 37,121	$ 7,458
2006	31,264	5,787
2007	24,094	4,779
2008	13,969	3,475
2009	10,355	118
Thereafter	15,267	7
Total	$ 132,070	21,624
Less amount representing interest		(3,430)
Total present value of minimum lease payments		$ 18,194

Regulatory Matters

WFNNB is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, WFNNB must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Before WFNNB can pay dividends to ADSC, it must obtain prior regulatory approval if all dividends declared in any calendar year would exceed its net profits for that year plus its retained net profits for the preceding two calendar years, less any transfers to surplus. In addition, WFNNB may only pay dividends to the extent that retained net profits, including the portion transferred to surplus, exceed bad debts. Moreover, to pay any dividend, WFNNB must maintain adequate capital above regulatory guidelines. Further, if a regulatory authority believes that WFNNB is engaged in or is about to engage in an unsafe or unsound banking practice, which, depending on its financial condition, could include the payment of dividends, the authority may require, after notice and hearing, that WFNNB cease and desist from the unsafe practice.

Quantitative measures established by regulation to ensure capital adequacy require WFNNB to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined) and of Tier 1 capital to average assets (as defined) ("total capital ratio", "Tier 1 capital ratio" and "leverage ratio", respectively). Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases. Under these guidelines, WFNNB is considered well capitalized. As of December 31, 2004, WFNNB's Tier 1 capital ratio was 32.7%, total capital ratio was 33.9% and leverage ratio was 48.3%, and WFNNB was not subject to a capital directive order.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. COMMITMENTS AND CONTINGENCIES — (Continued)

Cardholders

The Company's Credit Services segment is active in originating private label credit cards in the United States. The Company reviews each potential customer's credit application and evaluates the applicant's financial history and ability and perceived willingness to repay. Credit card loans are made primarily on an unsecured basis. Cardholders reside throughout the United States and are not significantly concentrated in any one area.

Holders of credit cards issued by the Company have available lines of credit, which vary by cardholders that can be used for purchases of merchandise offered for sale by clients of the Company. These lines of credit represent elements of risk in excess of the amount recognized in the financial statements. The lines of credit are subject to change or cancellation by the Company. As of December 31, 2004, WFNNB had approximately 26.8 million cardholders, having unused lines of credit averaging $836 per account.

15. FINANCIAL INSTRUMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit through charge cards. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

Fair Value of Financial Instruments — The estimated fair values of the Company's financial instruments were as follows:

	December 31,			
	2003		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets				
Cash and cash equivalents	$ 67,745	$ 67,745	$ 84,409	$ 84,409
Due from card associations	7,855	7,855	10,995	10,995
Trade receivables, net	124,377	124,377	158,236	158,236
Seller's interest and credit card receivables, net	271,396	271,396	248,074	248,074
Redemption settlement assets, restricted	215,271	215,271	243,492	243,492
Due from securitizations	280,778	280,778	244,291	244,291
Financial liabilities				
Accounts payable	63,466	63,466	56,214	56,214
Merchant settlement obligations	56,904	56,904	77,980	77,980
Derivatives	4,887	4,887	—	—
Debt	390,151	390,151	437,523	437,523

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents, due from card associations, trade receivables, net, accounts payable, and merchant settlement obligations — The carrying amount approximates fair value due to the short maturity.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. FINANCIAL INSTRUMENTS — (Continued)

Seller's interest and credit card receivables, net — The carrying amount of credit card receivables approximates fair value due to the short maturity, and the average interest rates approximate current market origination rates.

Redemption settlement assets — Fair value for securities are based on quoted market prices.

Due from securitizations — The spread deposits and I/ O strips are recorded at their fair value. The carrying amount of excess funding deposits approximates its fair value due to the relatively short maturity period and average interest rates, which approximate current market rates.

Derivatives — The fair value was estimated based on the cost to the Company to terminate the agreements.

Debt — The fair value was estimated based on the current rates available to the Company for debt with similar remaining maturities.

16. DERIVATIVES

As of December 31, 2004, the Company had no outstanding derivatives. Upon adoption of SFAS No. 133, as amended, the Company recorded a transition adjustment to other comprehensive income of $4.0 million, net of tax, to recognize the fair value loss for derivatives that existed at that time. The Company recognized approximately $10.2 million, $1.1 million, and $0.1 million, before tax, in additional fair value losses related to this agreement for the years ended December 31, 2002, 2003 and 2004, respectively.

17. PARENT-ONLY FINANCIAL STATEMENTS

ADSC provides guarantees under the credit facilities on behalf of certain of its subsidiaries. The stand alone parent-only financial statements are presented below.

Balance Sheets

	December 31,	
	2003	2004
	(In thousands)	
Assets:		
Cash and cash equivalents	$ 502	$ 551
Investment in subsidiaries	341,378	652,819
Intercompany receivables	463,346	692,088
Other assets	12,236	469
Total assets	$ 817,462	$ 1,345,927
Liabilities:		
Current debt	$ —	$ 130,000
Long-term and subordinated debt	115,000	173,000
Other liabilities	131	172,407
Total liabilities	115,131	475,407
Stockholders' equity	702,331	870,520
Total liabilities and stockholders' equity	$ 817,462	$ 1,345,927

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. PARENT-ONLY FINANCIAL STATEMENTS — (Continued)

Statements of Income

	Year Ended December 31,		
	2002	2003	2004
		(In thousands)	
Interest from loans to subsidiaries	$ 30,517	$ 15,790	$ 20,049
Dividends from subsidiaries	56,400	1,700	100,900
Total revenue	86,917	17,490	120,949
Interest expense, net	10,263	6,017	4,429
Other expenses	1,564	4,505	239
Total expenses	11,827	10,522	4,668
Income before income taxes and equity in undistributed net income of subsidiaries	75,090	6,968	116,281
Provision for income taxes	3,313	4,583	4,567
Income before equity in undistributed net income of subsidiaries	71,777	2,385	111,714
Equity in undistributed net income of subsidiaries	(48,118)	64,913	(9,343)
Net income	$ 23,659	$ 67,298	$ 102,371

Statements of Cash Flows

	Year Ended December 31,		
	2002	2003	2004
		(In thousands)	
Net cash provided by (used in) operating activities	$ 8,153	$ 110,922	$ (8,926)
Investing activities:			
Net cash paid for corporate acquisitions	1,321	(59,987)	(314,453)
Loans to subsidiaries	(25,000)	(140,250)	—
Net cash used in investing activities	(23,679)	(200,237)	(314,453)
Financing activities:			
Credit facility and subordinated debt	446,000	543,000	765,000
Repayment of credit facility and subordinated debt	(440,000)	(536,000)	(577,000)
Net proceeds from issuances of common stock	9,529	81,438	34,528
Dividends paid	—	1,376	100,900
Net cash provided by financing activities	15,529	89,814	323,428
Increase (decrease) in cash and cash equivalents	3	499	49
Cash and cash equivalents at beginning of year	—	3	502
Cash and cash equivalents at end of year	$ 3	$ 502	$ 551

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18. SEGMENT INFORMATION

Operating segments are defined by SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information" as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group is the Executive Committee, which consists of the Chairman of the Board and Chief Executive Officer, Presidents of the divisions, and Executive Vice Presidents. The operating segments are reviewed separately because each operating segment represents a strategic business unit that generally offers different products and serves different markets.

The Company operates in three reportable segments: Transaction Services, Credit Services and Marketing Services.

- Transaction Services encompasses card processing, billing and payment processing and customer care for specialty and petroleum retailers (issuer services), customer information system hosting, customer care and billing and payment processing for regulated and de-regulated municipal utilities (utility services) and point-of-sale services (merchant services).
- Credit Services provides private label credit card receivables financing. Credit Services generally securitizes the credit card receivables that it underwrites from its private label credit card programs.
- Marketing Services provides loyalty and database marketing programs such as the AIR MILES Reward Program and database marketing services.

The Transaction Services segment performs card processing and servicing activities related to the Credit Services segment. For this, the Transaction Services segment receives a fee equal to its direct costs before corporate overhead plus a margin. The margin is based on current market rates for similar services. This fee represents an operating cost to the Credit Services segment and a corresponding revenue for the Transaction Services segment. Inter-segment sales are eliminated upon consolidation. Revenues earned by the Transaction Services segment from servicing the Credit Services segment, and consequently paid by the Credit Services segment to the Transaction Services segment, are set forth opposite "Other and eliminations" in the tables below.

The accounting policies of the operating segments are generally the same as those described in the summary of significant accounting policies. Corporate overhead is allocated across the segments.

Interest expense, net and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes. Total assets are not allocated to the segments.

Year Ended December 31, 2002	Transaction Services	Credit Services	Marketing Services	Other/ Elimination	Total
			(In thousands)		
Revenues	$ 538,240	$ 341,229	$ 231,454	$ (245,626)	$ 865,297
Adjusted EBITDA(1)	78,125	37,893	27,899	—	143,917
Depreciation and amortization	44,627	6,724	15,124	—	66,475
Stock compensation expense	1,474	884	590	—	2,948
Operating income	32,024	30,285	12,185	—	74,494
Other expenses	—	—	—	834	834
Fair value loss on interest rate derivative	—	(12,017)	—	—	(12,017)
Interest expense, net	—	—	—	19,924	19,924
Income before income taxes	$ 32,024	$ 18,268	$ 12,185	$ (20,758)	$ 41,719
Capital expenditures	$ 25,334	$ 2,195	$ 14,850	$ —	$ 42,379

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18. SEGMENT INFORMATION — (Continued)

Year Ended December 31, 2003	Transaction Services	Credit Services	Marketing Services	Other/ Elimination	Total
			(In thousands)		
Revenues	$ 614,454	$ 433,701	$ 289,764	$ (291,375)	$ 1,046,544
Adjusted EBITDA(1)	88,001	76,957	46,281	—	211,239
Depreciation and amortization	51,508	5,581	17,472	—	74,561
Stock compensation expense	1,963	1,963	1,963	—	5,889
Operating income	34,530	69,413	26,846	—	130,789
Other expenses	—	—	—	4,275	4,275
Fair value loss on interest rate derivative	—	(2,851)	—	—	(2,851)
Interest expense, net	—	—	—	14,681	14,681
Income before income taxes	$ 34,530	$ 66,562	$ 26,846	$ (18,956)	$ 108,982
Capital expenditures	$ 30,367	$ 4,252	$ 12,336	$ —	$ 46,955

Year Ended December 31, 2004	Transaction Services	Credit Services	Marketing Services	Other/ Elimination	Total
			(In thousands)		
Revenues	$ 681,736	$ 513,988	$ 375,630	$ (313,916)	$ 1,257,438
Adjusted EBITDA(1)	97,465	125,718	56,081	—	279,264
Depreciation and amortization	61,786	7,938	21,674	—	91,398
Stock compensation expense	5,255	5,256	5,256	—	15,767
Operating income	30,424	112,524	29,151	—	172,099
Fair value loss on interest rate derivative	—	(808)	—	—	(808)
Interest expense, net	—	—	—	6,972	6,972
Income before income taxes	$ 30,424	$ 111,716	$ 29,151	$ (6,972)	$ 164,319
Capital expenditures	$ 29,691	$ 1,375	$ 17,263	$ —	$ 48,329

(1) Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, fair value loss on interest rate derivative, other expenses, depreciation and amortization. The adjusted EBITDA is presented in accordance with SFAS No. 131 as it is the primary performance metric for which senior management is evaluated.

Information concerning principal geographic areas is as follows:

	United States	Rest of World(1)	Total
		(In thousands)	
Revenues			
Year Ended December 31, 2002	$ 648,036	$ 217,261	$ 865,297
Year Ended December 31, 2003	762,004	284,540	1,046,544
Year Ended December 31, 2004	913,378	344,060	1,257,438
Total assets			
December 31, 2003	$ 1,315,047	$ 552,377	$ 1,867,424
December 31, 2004	1,623,430	615,650	2,239,080

(1) Primarily Canada.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19. RELATED PARTY TRANSACTIONS

One of the Company's stockholders, Welsh, Carson, Anderson & Stowe and related affiliates ("WCAS"), has provided significant financing to the Company.

- During 2003, the Company repaid $52.0 million of 10% subordinated notes to WCAS.
- During 2002, the Company repaid $50.0 million of 10% subordinated notes to WCAS and Limited Commerce Corp.

Limited Brands (through its retail affiliates) is a significant customer, representing 14.8% of total revenue for the year ended December 31, 2004. Limited Brands revenue is derived from all segments but primarily from Transaction Services and Credit Services. The majority of revenue comes from the Company's cardholders who are customers of Limited Brands. The Company has entered into credit card processing agreements and a database marketing agreement with several retail affiliates of Limited Brands. The Company has received database and merchant discount fees directly from Limited Brands and its retail affiliates of $44.4 million and $48.8 million 2002 and 2003, respectively. During 2003, Limited Brands sold its entire equity position in the Company through two secondary transactions. No Limited Brands officers were on the Company's Board of Directors as of December 31, 2004.

20. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Unaudited quarterly results of operations for the years ended December 31, 2003 and 2004 are presented below.

	Quarter Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
	(In thousands, except per share amounts)			
Revenues	$ 239,340	$ 250,225	$ 259,087	$ 297,892
Operating expenses	214,559	216,034	222,328	262,834
Fair value loss on interest rate derivative	1,148	797	462	444
Interest expense, net	3,707	6,298	2,105	2,571
Other expenses	—	4,275	—	—
Income before income taxes	19,926	22,821	34,192	32,043
Provision for income taxes	7,612	8,732	13,112	12,228
Net income	$ 12,314	$ 14,089	$ 21,080	$ 19,815
Net income per share — basic	$ 0.16	$ 0.18	$ 0.27	$ 0.25
Net income per share — diluted	$ 0.16	$ 0.18	$ 0.26	$ 0.24

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Quarter Ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
	(In thousands, except per share amounts)			
Revenues	$ 312,023	$ 299,709	$ 298,872	$ 346,834
Operating expenses	256,874	253,469	256,114	318,882
Fair value loss on interest rate derivative	509	299	—	—
Interest expense, net	2,729	971	1,029	2,243
Income before income taxes	51,911	44,970	41,729	25,709
Provision for income taxes	19,570	16,954	15,732	9,692
Net income	$ 32,341	$ 28,016	$ 25,997	$ 16,017
Net income per share — basic	$ 0.40	$ 0.35	$ 0.32	$ 0.20
Net income per share — diluted	$ 0.39	$ 0.33	$ 0.31	$ 0.19

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Alliance Data Systems Corporation has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ J. Michael Parks

J. Michael Parks
Chairman of the Board, Chief Executive Officer and Director

DATE: MARCH 3, 2005

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of Alliance Data Systems Corporation and in the capacities and on the dates indicated.

Name	Title	Date
/s/ J. MICHAEL PARKS J. Michael Parks	Chairman of the Board, Chief Executive Officer and Director	March 3, 2005
/s/ EDWARD J. HEFFERNAN Edward J. Heffernan	Executive Vice President and Chief Financial Officer	March 3, 2005
/s/ MICHAEL D. KUBIC Michael D. Kubic	Senior Vice President, Corporate Controller, and Chief Accounting Officer	March 3, 2005
/s/ BRUCE K. ANDERSON Bruce K. Anderson	Director	March 3, 2005
/s/ ROGER H. BALLOU Roger H. Ballou	Director	March 3, 2005
/s/ LAWRENCE M. BENVENISTE, PH.D. Lawrence M. Benveniste, Ph.D.	Director	March 3, 2005
/s/ D. KEITH COBB D. Keith Cobb	Director	March 3, 2005
/s/ E. LINN DRAPER, JR., PH.D. E. Linn Draper, Jr., Ph.D.	Director	March 3, 2005
/s/ KENNETH R. JENSEN Kenneth R. Jensen	Director	March 3, 2005
/s/ ROBERT A. MINICUCCI Robert A. Minicucci	Director	March 3, 2005

SCHEDULE II

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Increases	Deductions	Balance at End of Period
		(In thousands)		
Allowance for Doubtful Accounts — Trade receivables:				
Year Ended December 31, 2002	$ 1,423	$ 3,238	$ (2,406)	$ 2,255
Year Ended December 31, 2003	2,255	2,138	(3,077)	1,316
Year Ended December 31, 2004	1,316	1,166	(1,024)	1,458
Allowance for Doubtful Accounts — Credit Card receivables:				
Year Ended December 31, 2002	4,766	14,824	(13,678)	5,912
Year Ended December 31, 2003	5,912	37,783	(26,544)	17,151
Year Ended December 31, 2004	17,151	12,765	(18,243)	11,673

Exhibit 10.17

EDGEWATER OFFICE PARK
601 Edgewater Drive
Wakefield, MA 01880

OFFICE LEASE

EPSILON DATA MANAGEMENT, INC. as Tenant

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INDEX OF DEFINED TERMS

EDGEWATER OFFICE PARK
601 Edgewater Drive
Wakefield, MA 01880

LEASE dated July 30, 2002
ARTICLE I

REFERENCE DATA

1.1 SUBJECTS REFERRED TO

Each reference in this Lease to any of the following subjects shall be construed to incorporate the data stated for that subject in this **Article I.**

LANDLORD:	601 Edgewater LLC
LANDLORD'S ADDRESS:	P. O. Box 54929 225 Wyman Street Waltham, Massachusetts 02454-9249 Attention: Real Estate Manager
TENANT:	EPSILON DATA MANAGEMENT, INC., a Delaware corporation
TENANT'S NOTICE ADDRESS:	*Prior to Term Commencement Date:* The Relizon Company 2200 East Monument Street Dayton, Ohio 45402 Attention: Timothy Smiley *With a copy to:* CRESA Partners 700 SW Taylor Street Suite 222 Portland, OR 97205 Attention: Craig Reinhart *After Term Commencement Date:* The Premises Address (set forth below) *With copies to:* The Relizon Company

2200 East Monument Street
Dayton, Ohio 45402
Attention: Timothy Smiley

CRESA Partners
700 SW Taylor Street
Suite 222
Portland, OR 97205
Attention: Craig Reinhart

PREMISES ADDRESS: 601 Edgewater Drive
Wakefield, Massachusetts 01880

ESTIMATED TERM COMMENCEMENT DATE: May 1, 2003

TERM COMMENCEMENT DATE: As defined in Section 2.4

RENT COMMENCEMENT DATE: The date one (1) month following the Term Commencement Date.

TERM EXPIRATION DATE: The last day of the 10th Lease Year subject to extension as set forth in Section 2.4.1.

LEASE YEAR: Each Lease Year shall consist of twelve (12) calendar months beginning with the Term Commencement Date, except that if the Term Commencement Date is not the first day of a calendar month, then Lease Year 1 shall include the partial month at the beginning of the Term in addition to the following twelve (12) calendar months, and the Annual Rent for Lease Year 1 shall be proportionately increased.

ANNUAL FIXED RENT:

Lease Year	Annual Fixed Rent	Monthly Fixed Rent	Rent Per Square Foot of Premises Rentable Floor Area
1-3	$ 2,079,609.00	$ 173,300.75	$ 21.50
4-7	$ 2,127,972.00	$ 177,331.00	$ 22.00
8-10	$ 2,418,150.00	$ 201,512.50	$ 25.00

BASE OPERATING EXPENSES PER SQUARE FOOT OF RENTABLE FLOOR AREA:	Annual Operating Expenses per square foot of Rentable Floor Area for the calendar year 2004, adjusted to reflect the fully assessed tax value at 95% occupancy.
BASE TAXES PER SQUARE FOOT OF RENTABLE FLOOR AREA:	Landlord's Taxes per square foot of Rentable Floor Area for the fiscal year 2004 (July 1, 2003 – June 30, 2004), adjusted to reflect 95% occupancy.
IMPROVEMENT ALLOWANCE	$40.00 per square foot of Rentable Floor Area of the Premises ($3,939,480) plus (x) the cost of a concrete pad for Tenant's Emergency Generator up to a maximum amount of $5,000 and (y) the cost of seven (7) security card readers to be installed for the Premises.
PRIOR LEASE REIMBURSEMENT:	$500,000.00
LAND:	The land upon which the Building is situated including parking areas, garages, drives, walks, landscaped areas and other common areas serving the Building.
COMPLEX:	A two-building project comprised of the Building and a proposed building to be constructed at 701 Edgewater Drive, Wakefield, Massachusetts.
BUILDING:	The entire building known and numbered as 601 Edgewater Drive, Wakefield, MA 01880 and all other improvements on the Land.
RENTABLE FLOOR AREA OF BUILDING	Conclusively agreed to be 154,010 square feet. In the event of any material change to the Building, the change in Rentable Floor Area shall be reasonably agreed upon by the parties using the ANSI/BOMA Z65.1 – 1966 method of measurement, except that only one-half of the area of the cafeteria shall be included in the calculation of Rentable Floor Area.

PREMISES:	The space delineated on Exhibit A-1.
RENTABLE FLOOR AREA OF PREMISES:	Conclusively agreed to be 96,726 square feet located on Floors 1 and 3-5 (excluding Fitness Center). In the event of any changes to the dimensions of the Premises, the change in Rentable Floor Area shall be reasonably agreed upon by the parties using the ANSI/BOMA Z65.1 – 1966 method of measurement, except that only one-half of the area of the cafeteria shall be included in the calculation of Rental Floor Area.
PERMITTED USES:	General Office Uses
GUARANTOR:	The Relizon Company, a Delaware corporation
PUBLIC LIABILITY INSURANCE:	$ 5,000,000.00
BROKER:	CRESA Partners, Trammell Crow Company, and R.M. Bradley & Co., Inc.
TENANT'S AUTHORIZED REPRESENTATIVE:	Mr. Timothy Smiley

1.2 EXHIBITS
The following is a list of Exhibits attached to this Lease.

Exhibit A-1:	Plan of Premises
Exhibit A-2:	Plan of First Offer Space
Exhibit A-3:	Plan showing Walkway
Exhibit B:	Initial Construction
Exhibit C-1:	Landlord's Cleaning Specifications
Exhibit C-2:	Heat and Air Conditioning Specification
Exhibit D:	Rules and Regulations
Exhibit E:	(Intentionally Omitted)
Exhibit F:	Confirmation of Lease Commencement
Exhibit G:	Guaranty

Exhibit H. Data Room and Fitness Room Fixtures

ARTICLE II

PREMISES; TERM; RENT

2.1 PREMISES AND EXCLUSIONS

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises. The Premises exclude parking areas, common areas and facilities of the Building, including without limitation exterior faces of exterior walls, the common stairways and stairwells, entranceways and any lobby and courtyard areas, elevators and elevator wells, fan rooms, electric and telephone closets, janitor closets, freight elevator vestibules, and pipes, ducts, conduits, wires and appurtenant fixtures serving other parts of the Building (exclusively or in common) and other common areas and facilities. If the Premises include less than the entire rentable area of any floor, then the Premises also exclude the common corridors, elevator lobby and toilets located on such floor. The Premises shall include the area shown as "Fitness Center" on Exhibit A-I, which shall be used on an exclusive basis by Tenant as a fitness area and for no other purpose. Landlord shall provide, at its expense, mirrors and appropriate heating, ventilation, and air-conditioning for the Fitness Center. Tenant shall provide, at its expense, all other equipment and facilities for the Fitness Center and shall be responsible for the use and operation of the Fitness Center. The area of the Fitness Center shall not be included in the Rentable Floor Area of the Premises for purposes of calculating Annual Fixed Rent or Additional Rent for Landlord's Operating Expenses and Taxes, but Tenant shall pay any other charges under this Lease which are applicable to the Fitness Center (such as electricity). If at any time Tenant (due to modifications of this Lease, the exercise of rights of recapture by Landlord, or otherwise) no longer leases at least one-half of the Building, Landlord after notice to Tenant shall have the right to exclude the Fitness Center from the Premises and operate the Fitness Center as a common amenity for Tenant and others, and if at any time Tenant no longer leases at least one-third of the Building then Landlord after notice to Tenant may exclude the Fitness Center from the Premises and shall have no obligation to provide this amenity for Tenant. Notwithstanding the foregoing, Tenant shall have the right, by notice to Landlord no later than thirty (30) days after receipt of Landlord's notice, to elect to supersede Landlord's decision to exclude the Fitness Center from the Premises or to convert the Fitness Center to a common amenity, but if Tenant exercises this election, the rentable area of the Fitness Center shall be added to the Rentable Square Footage of the Premises and appropriate adjustments shall be made to the Annual Fixed Rent and Additional Rent in order that the Fitness Center shall be included in the Premises in determining the amounts owed by Tenant from that point forward. If Landlord exercises its right set forth above and Tenant does not elect to supersede the exercise of that right, Tenant shall be relieved from any further responsibility for the use and operation of the Fitness Center and shall have the right to remove all equipment and fixtures that it has placed or installed in the Fitness Center.

This Lease is subject to all easements, restrictions, agreements, and encumbrances of record to the extent in force and applicable. Landlord represents that such title matters do not and will not materially affect Tenant's use of the Premises as permitted under this Lease.

2.1.1 RIGHT OF FIRST OFFER FOR CONTIGUOUS SPACE

Simultaneously with any offer to lease or any portion of certain premises, as shown on Exhibit A-2 (the" First Offer Space"), to any third party, Landlord shall offer to lease such space (the "Offered Space") to Tenant at the Expansion Market Rent (defined below) and except as otherwise specified herein on the same terms and conditions as this Lease, provided however, that (a) if there are less than three (3) Lease Years left in the Term at the time Landlord is offering to lease the Offered Space, Tenant may lease the Offered Space only if Tenant has, and irrevocably exercises, an Extension Option set forth in Section 2.4.1 for the Premises so that the Offered Space shall be leased by Tenant for more than a three (3) year term, (b) the Offered Space shall be leased by Tenant in its "as is" condition with such tenant improvement allowances, free rent, or other concessions as are then being offered generally for comparable space in comparable properties in the "Metro-North" area, (c) the figures for Base Operating Expenses and Base Taxes applicable to the Offered Space shall be the actual amounts (adjusted to 95% occupancy) for the calendar year and fiscal year, respectively, in which the Offered Space is to be delivered to Tenant, and (d) Tenant may elect to lease either the Offered Space or, at Tenant's option, the entire First Offer Space to the extent that the same is not then under lease to other tenants or the subject of active lease negotiations following an offer to Tenant under this Section 2.1.1. Any tenant or occupant of the Offered Space from time to time, any affiliate thereof, or Thomas Gregory Associates to the extent of its rights to lease a portion (approximately 3,000 square feet) of such space as of the date hereof shall not be considered a "third-party" for purposes of this Section 2.1.1, and Landlord shall be free to lease the Offered Space to any of the foregoing without offering the same to Tenant.

Any offer by Landlord under this Section 2.1.1 may be accepted by Tenant by written notice given within ten (10) Business Days, as defined in Section 8.19, of delivery of Landlord's offer. If Tenant does not timely accept Landlord's offer, then Tenant's rights under this Section 2.1.1 shall be deemed conclusively waived by Tenant with respect to the next lease of the Offered Space provided that the next such lease of the Offered Space is entered into within twelve (12) months after Tenant's failure to accept Landlord's offer, and Landlord shall have no further obligation to offer the Offered Space to Tenant before next leasing the same to a third party occurring within such twelve (12) month period, but this Section 2.1.1 shall apply to any other lease of First Offer Space. The first lease of each portion of the First Offer Space entered into by Landlord with another tenant shall include a right of Landlord, at Landlord's expense, to relocate the Tenant's Premises to other comparable space in the Building or the Complex, provided (i) after the initial lease of each portion of the First Offer Space, Landlord shall have no obligation to include a relocation right in subsequent leases of the same space, and (ii) Landlord shall have no obligation to Tenant to relocate any other tenant from the First Offer Space (any such relocation to be negotiated in the discretion of the parties if relocation space is available). In the event that Tenant accepts any offer by Landlord under this section, the leasing of such Offered Space and the rent therefor shall be documented by an Amendment to this Lease. Tenant's rights under this Section 2.1.1 shall be rendered void, at Landlord's election, if Tenant is in default beyond any applicable notice or grace period at the time Landlord offers any space to a third party or at the time Tenant's lease of any Offered Space under this Section 2.1.1 would otherwise commence.

"Expansion Market Rent" shall mean the then prevailing market rate for a five (5) year lease of office space in the greater "Metro-North" area comparable to the Offered Space in terms of location within a building, finish, age, building quality and amenities for a tenant of equal size and financial strength as Tenant, under terms and conditions substantially the same as those on which Tenant shall have the right to lease the Offered Space. If Landlord and Tenant have not agreed, in writing, on the Expansion Market Rent for the Offered Space within fourteen (14) days after Tenant accepts Landlord's offer, then at the request of either party Expansion Market Rent for the Offered Space shall be determined in accordance with the arbitration procedure set forth in Section 2.4.1 for the determination of Fair Market Rent.

If Tenant exercises its rights under this Section 2.1.1, Landlord shall use reasonable efforts to deliver the Offered Space as set forth in Landlord's offer. Landlord's failure to deliver, or delay in delivering, all or any part of the Offered Space by reason of Force Majeure, as such term is defined in Section 4.2, and including continued occupancy of any such Offered Space by any occupant thereof shall not give rise to any liability of Landlord, shall not alter Tenant's obligation to accept such Offered Space when delivered, shall not constitute a default of Landlord, and shall not affect the validity of the Lease.

This Section 2.1.1 shall not be construed to grant to Tenant any rights or interest in any space in the Building and any claims by Tenant alleging a failure of Landlord to comply herewith shall be limited to claims for monetary damages and Tenant may not assert any rights in any space nor file any lis pendens or similar notice with respect thereto.

2.2 APPURTENANT RIGHTS

Tenant shall have, as appurtenant to the Premises, rights to use in common (subject to reasonable rules of general applicability to tenants and other users of the Building from time to time made by Landlord of which Tenant is given written notice): (a) the common lobbies, corridors, stairways, elevators and loading platform, and the pipes, ducts, conduits, wires and appurtenant meters and equipment serving the Premises in common with others; (b) common driveways and walkways necessary for access to the Building; (c) if the Premises include less than the entire rentable floor area of any floor, the common toilets, corridors and elevator lobby on such floor and serving the Premises; (d) the roof of the Building for telecommunications antennae; (e) a location on the ground reasonably designated by Landlord adjacent to the Building for a generator; and (f) all other areas or facilities in the Building from time to time intended for general use by Tenant, other Building tenants, and Landlord, subject to reasonable rules from time to time made by Landlord of which Tenant is given notice. Tenant shall have the right, in common with all other tenants of the Building, to use the parking areas serving the Building without charge, on a first-come, first-served basis as set forth in Article 11 hereof. Nothing contained in the Lease shall prohibit or otherwise restrict Landlord from changing, from time to time, without notice to Tenant, the location, layout or type of such parking areas, provided that Landlord shall not substantially reduce the number of parking spaces available for use of tenants of the Building, and provided that any changes shall be consistent with the requirements of Article 11 hereof.

2.3 RESERVATIONS

Landlord reserves the right from time to time, with telephonic notice and without unreasonable (except in emergency) interruption of Tenant's use: (a) to install, use, maintain, repair, replace and relocate for service to the Premises and other parts of the Building, or either, pipes, ducts, conduits, wires and appurtenant fixtures, wherever located in the Premises or the Building and (b) to alter or relocate any other common facility, including without limitation any lobby and courtyard areas. Installations, replacements and relocations referred to in clause (a) above shall be located as far as practicable in the central core area of the Building, above ceiling surfaces, below floor surfaces or within perimeter walls of the Premises.

2.4 TERM

(a) If the Term Commencement Date is a date certain agreed upon by the parties at the time of execution of this Lease, the Term Commencement Date shall be as set forth in Section 1.1 and the Term shall begin at 12:01 a.m. on such date and shall end at 12:00 midnight on the Term Expiration Date set forth in Section 1.1 or on such earlier date pursuant to the provisions of this Lease; otherwise, the following provisions shall govern.

(b) If the Term Commencement Date is not a date certain, the Term shall begin at 12:01 a.m. on the earlier to occur of the following (i) or (ii), which date shall be the "Term Commencement Date," and shall end at 12:00 midnight on the Term Expiration Date set forth in Section 1.1 or on such earlier date pursuant to the provisions of this Lease.

(i) The date Tenant enters into possession of all or any portion of the Premises for the conduct of its business. (The event described in the prior sentence shall not be deemed to occur by virtue of the installation or testing of computers or other equipment or the installation of other property of Tenant in the Premises.)

(ii) May 1, 2003, or if later, the date of substantial completion of Tenant's Initial Construction, provided, however, that the extension of the Term Commencement Date beyond May 1, 2003, shall be applicable only if and to the extent that the completion of Tenant's Initial Construction is delayed beyond May 1, 2003, as a result of Force Majeure, as such term is defined in Section 4.2, and/or delays caused by the action or inaction of Landlord and provided that as a condition of such extension Tenant shall give notice to Landlord upon learning of the event of Force Majeure or Landlord delay and Tenant shall use all commercially reasonable efforts to substantially complete Tenant's Initial Construction as soon as possible. The May 1, 2003 date in this clause (ii) shall also be extended one day for each day, if any, more than 60 days after the date of this Lease until Landlord has completed construction of the demising walls for the Premises.

Upon request by Landlord, Tenant shall execute a memorandum or other documentation setting forth the Term Commencement Date, as determined hereunder by Landlord.

(c) Subject to delay caused by Force Majeure, as such term in defined in Section 4.2, or caused by action or inaction of Landlord, Tenant shall endeavor, in good faith, to have the Premises ready for Tenant's occupancy on the Estimated Term Commencement Date. Tenant's failure to have the Premises ready for Tenant's occupancy on the Estimated Term Commencement Date, for any reason, shall not give rise to any liability of Tenant hereunder, shall not constitute Tenant's default, shall not affect the validity of this Lease, and shall have no effect on the beginning or end of the Term as otherwise determined hereunder or on Tenant's obligations associated therewith except to the extent that the Term Commencement Date may be delayed pursuant to Section 2.4(b)(ii).

2.4.1 EXTENSION OPTION. Tenant shall have the option to extend the Term for two (2) additional five (5) year extension terms (each an "Extension Term") by notice given to Landlord at least nine (9) months before the Term Expiration Date. Tenant's election shall be exercised, and Annual Fixed Rent for the Extension Term determined, as set forth below. If Tenant fails timely to exercise its option for any Extension Term, Tenant shall have no further extension rights hereunder.

Tenant's option so to extend the Term shall be void, at Landlord's election, if Tenant is in default beyond any applicable notice or grace period at the time Tenant elects to extend the Term or at

the time the Term would expire but for such extension. The extension of the Term shall be applicable to the entire Premises and Tenant shall have no right to extend the Term for only a portion of the Premises. During the Extension Term, if any, all provisions of this Lease shall apply except that Tenant shall have no further option to extend the Term after the last Extension Term.

During the Extension Term, Tenant shall pay Annual Fixed Rent equal to ninety five percent (95%) of the then prevailing market rate (the "Fair Market Rent") for a five (5) year lease of office space in the greater "Metro-North" area comparable to the Premises in terms of location within a building, finish, age, building quality and amenities for a tenant of equal size and financial strength as Tenant, under terms and conditions substantially the same as those of this Lease as though then available for single occupancy for the Permitted Uses (or any higher and better use then being made by Tenant) in "as-is" condition or such better condition in which Tenant is required to maintain the Premises.

Landlord shall notify Tenant of its estimate of the Fair Market Rent within ten (10) days after Tenant exercises the applicable extension option. Tenant shall have the option to accept or reject by written notice Landlord's estimate, or to withdraw its exercise of the extension option, in any case within fourteen (14) days following delivery of Landlord's estimate. Tenant's failure to respond within such period shall be deemed to constitute rejection of Landlord's estimate. In the event Tenant rejects Landlord's estimate then the Fair Market Rent shall be arbitrated in accordance with the following procedure.

Each of Landlord and Tenant, within twenty (20) days after notice by Tenant disputing Landlord's estimate of the Fair Market Rent, shall appoint as an arbitrator an MAl appraiser with at least ten (10) years experience as an appraiser of office buildings in the Greater Boston area, including first class suburban office buildings, and shall give notice of such appointment to the other party. If either Landlord or Tenant shall fail timely to appoint an arbitrator, the other may apply to the Boston office of the American Arbitration Association (lfAAAIf) for appointment of such an arbitrator five (5) Business Days, as such term is defined in Section 8.19, after notice of such failure to the delinquent party if such arbitrator has not then been appointed. The two arbitrators shall, within five (5) Business Days after appointment of the second arbitrator, appoint a third arbitrator who shall be similarly qualified. If the two arbitrators are unable to agree timely on the selection of the third arbitrator, then either arbitrator on behalf of both may request such appointment from the Boston office of the AAA. The arbitration shall be conducted in accordance with the commercial arbitration rules of the AAA insofar as such rules are not inconsistent with the provisions of this Lease (in which case the provisions of this Lease shall govern). The arbitrators shall be charged to reach a majority written decision in accordance with the standards for the Fair Market Rent as provided in this Section 2.4.1, within twenty (20) days after the third arbitrator is appointed, by selecting either of the final estimates of the Fair Market Rent provided by Landlord and Tenant at the commencement of the hearing. The arbitrators shall have no authority or jurisdiction to make any other determination of such amount. The cost of the arbitration (exclusive of each party's witness and attorneys fees, which shall be paid by such party) shall be borne equally by the parties. If the AAA shall cease to provide arbitration for commercial disputes in Boston, the second or third arbitrator, as the case may be, shall be appointed by any successor organization providing substantially the same services, and in the absence of such an organization, by a court of competent jurisdiction under the arbitration act of The Commonwealth of Massachusetts.

If Landlord should delay in giving the notice which begins the valuation procedures of this Section 2.4.1, or if the process should otherwise be delayed for any reason, then such procedures shall nevertheless remain in effect and be applicable when and as invoked with respect to Annual Fixed Rent

payable during the Extension Term; but until such procedures are completed, Tenant shall pay on account of Annual Fixed Rent at the rate established for Annual Fixed Rent for the last twelve (12) months of the Term (and upon Fair Market Rent being established, Tenant shall pay the same within ten (10) days of such determination, retroactively to the beginning of the Extension Term). Each party shall bear the costs of the arbitrator selected by it and shall share equally in the costs of the third arbitrator selected in accordance herewith. The parties shall adjust for over or under payments within twenty (20) days after the decision of the arbitrators is announced.

Promptly after the Annual Fixed Rent is determined for the Extension Term, Landlord and Tenant shall enter into an amendment of this Lease confirming the extension of the Term and the new rate for Annual Fixed Rent.

2.5 ANNUAL FIXED RENT

Tenant covenants and agrees to pay the Annual Fixed Rent in Section 1.1 to Landlord in advance in equal monthly installments on the Rent Commencement Date (if not the first day of a month) and thereafter on the first day of each calendar month during the Term. All payments shall be due without billing or demand and without deduction, setoff or counterclaim except as otherwise provided in this Lease. Tenant shall make payment for any portion of a month at the beginning or end of the Term. All payments shall be payable to Landlord at Landlord's address, as specified in Section 1.1, or to such other entities at such other places as Landlord may from time to time designate.

Without limiting the foregoing, except as expressly set forth in this Lease Tenant's obligation so to pay Rent (as hereinafter defined) shall not be discharged or otherwise affected by any law or regulation now or hereafter applicable to the Premises, or any other restriction on Tenant's use, or any casualty or taking, or any failure by Landlord to perform any covenant contained herein, or any other occurrence except as otherwise provided expressly in this Lease; and except as expressly set forth in this Lease, Tenant waives all rights now or hereafter existing to terminate or cancel this Lease or quit or surrender the Premises or any part thereof, or to assert any defense in the nature of constructive eviction to any action seeking to recover Rent.

2.6 ADDITIONAL RENT — OPERATING EXPENSES AND TAXES

2.6.1 ADDITIONAL RENT — GENERAL COVENANT. Commencing on the first anniversary of the Term Commencement Date, Tenant covenants and agrees to pay to Landlord, as "Additional Rent", (i) an amount equal to the product of (a) the Rentable Floor Area of the Premises and (b) the excess (if any) of Landlord's Operating Expenses per square foot of Rentable Floor Area of the Building over Base Operating Expenses per square foot of Rentable Floor Area of the Building, (ii) an amount equal to the product of (a) the Rentable Floor Area of the Premises and (b) the excess (if any) of Landlord's Taxes per square foot of Rentable Floor Area of the Building over Base Taxes per square foot of Rentable Floor Area of the Building, provided that if less than the Total Rentable Floor Area of the Building is occupied at any time during such period, Landlord may extrapolate those variable components of Landlord's Operating Expenses (i.e., those components that vary based on the level of occupancy of the Building) and Landlord's Taxes as though the Total Rentable Floor Area of the Building had been ninety-five percent (95%) occupied at all times during such period, and (iii) any other charges payable by Tenant to Landlord under this Lease. The term "Rent" as used in this Lease shall mean Annual Fixed Rent and Additional Rent as set forth in this Lease. Appropriate adjustments shall be made for any portion of a year at the beginning or end of the Term.

2.6.2 PAYMENT. Additional Rent for Operating Expenses and Taxes under this Section 2.6 shall be paid for any portion of a month following the first anniversary of the Term Commencement Date and thereafter in monthly installments on the first day of each calendar month in amounts reasonably estimated by Landlord for the then current calendar year. Landlord may from time to time revise such estimates based on available information relating to Landlord's Operating Expenses and Taxes or otherwise affecting the calculation hereunder. Within ninety (90) days after the end of each calendar year, Landlord will provide Tenant with an accounting of Landlord's Operating Expenses and Taxes and other data necessary to calculate Additional Rent hereunder for such calendar year prepared in reasonable "line item" detail, and consistently maintained from year to year in accordance with generally accepted accounting principles. Upon issuance thereof, there shall be an adjustment between Landlord and Tenant for the calendar year covered by such accounting to the end that Landlord shall have received the exact amount of Additional Rent due hereunder. Any overpayments by Tenant hereunder shall be (a) credited against the next payments of Annual Fixed Rent and Additional Rent due under this Section 2.6 or (b) refunded in cash to Tenant if the overpayment relates to the calendar year in which the Term ends, provided there are no outstanding amounts due Landlord under this Lease at such time. Any underpayments by Tenant shall be due and payable within thirty (30) days of delivery of Landlord's statement. With respect to the calendar year in which the Term ends, the adjustment shall be pro rated for the portion of the year included in the Term, but shall take place nevertheless at the times provided in the preceding sentences. Landlord may revise its accounting of Landlord's Operating Expenses and Taxes until, but not after, the last day of the next calendar year after the calendar year covered by the accounting and in such event there shall be a further credit or payment as set forth above. In the event of any such revision after Tenant's audit rights under Section 2.6.6 have expired, Tenant shall have the right, for 30 days, following receipt of the revised accounting, to review Landlord's books and records relevant to the revision and dispute the revision in accordance with Section 2.6.6.

2.6.3 "LANDLORD'S OPERATING EXPENSES" — DEFINITION. "Landlord's Operating Expenses" means all customary costs of Landlord in owning, servicing, operating, managing, maintaining, and repairing the Building, Land, and all improvements thereon and providing services to tenants including, without limitation, the costs of the following: (i) supplies, materials and equipment purchased or rented that are not considered capital items, total wage and salary costs paid to, and all contract payments made on account of, all persons (excluding management personnel above the level of property manager) engaged in the operation, maintenance, security, cleaning and repair of the Building and Land, including Social Security, old age and unemployment taxes and reasonable so-called "fringe benefits"; (ii) building services furnished to tenants of the Building at Landlord's expense (including the types of services provided to Tenant pursuant to Section 4.1 hereof) and maintenance and repair of and services provided to or on behalf of the Building performed by Landlord's employees or by other persons under contract with Landlord; (iii) utilities consumed and expenses incurred in the operation, maintenance and repair of the Building including, without limitation, oil, gas, electricity to the extent not directly reimbursed by Tenant or other tenants (and excluding all electricity to tenants in their premises if Tenant is directly responsible for payment under this Lease on account of electricity consumed by Tenant), water, sewer and snow removal; (iv) casualty, liability and other insurance of types customarily carried by institutional owners of comparable properties or required by any mortgagee, and unreimbursed costs incurred by Landlord without fault by Landlord or any tenant which are subject to a reasonable insurance deductible; (v) costs of operating any cafeteria, other food service facility, or physical fitness facility for use of tenants generally (net of all income derived therefrom); and (vi) management fees not to exceed 3.5% of gross rental income. If Landlord, acting reasonably, installs a new or replacement capital item for the purpose of complying with any building code or other law, regulation, or legal requirement (but only to the extent not in effect or generally enforced as of the

date of this Lease), complying with requirements of any insurer, or reducing costs for the operation of the Building, the cost of such item amortized on a straight line basis over a reasonable period (with interest at the rate equal to the Prime Rate as published in The Wall Street Journal or comparable financial publication reasonably selected by Landlord) shall be included in Landlord's Operating Expenses (but if the item is for the purpose of reducing costs of operations, no more than the estimated savings).

Landlord's Operating Expenses shall not include any costs or expenses incurred by Landlord in the construction and development of the Building or other buildings in the Complex including construction for tenants; payments of principal, interest or other charges on mortgages; salaries of executives or principals of Landlord (except as the same may be reflected in the management fee for the Building or attributable to actual Building operations); costs incurred in connection with the making of repairs or replacements which are the obligation of another tenant or occupant of the Building or relate to the maintenance or repair of unoccupied tenant space; advertising, marketing, promotional, public relations or brokerage fees, commissions or expenditures; interest or penalties for any or failed payments by Landlord under any contract or agreement; costs (including, within limitation, attorneys' fees and disbursements) incurred in connection with any judgment, settlement or arbitration award resulting from any negligence or willful misconduct of Landlord or its agents; costs of electricity or utilities furnished directly to any premises of other tenants of the Building where such utility is separately metered to the Premises or Tenant pays a separate charge therefor; costs incurred in connection with Landlord's preparation, negotiation, dispute resolution and/or enforcement of leases, including court costs and attorneys' fees and disbursements in connection with any summary proceeding to dispossess any other tenant, or incurred in connection with disputes with prospective tenants, leasing agents, purchasers or mortgagees; costs of repairs, restoration or replacements occasioned by fire or other casualty (in excess of reasonable insurance deductible amounts but deductible amounts shall be excluded also if the fire or casualty is the fault of Landlord or any tenant), or caused by the exercise of the right of eminent domain; legal and other professional fees relating to matters which are excluded from Operating Expenses for the Building; the cost to make improvements, alterations and additions to the Building which are required in order to render the same in compliance with laws, rules, orders, regulations and/or directives as in effect and generally enforced as of the date of this Lease; the cost of environmental monitoring, compliance, testing and remediation performed in, on, about and around the Building or the Land except as provided in Section 5.2 hereof; depreciation; amounts other than the management fee specified above paid to subsidiaries or affiliates of Landlord for services rendered to the Building to the extent such amounts exceed the competitive costs for delivery of such services were they not provided by such related parties; management, administrative or similar costs of any association of which the Building or the Complex is a part other than reasonable costs for actual services provided by third parties not affiliated with Landlord for office park common expenses such as landscaping and maintenance and repair of roadways and signage; and expenditures for new or replacement capital items other than those which are permitted above. Landlord's Operating Expenses shall also exclude 50% of the unreimbursed costs incurred by Landlord in operating a cafeteria or other food service facility in the Complex. Also, in no event shall the total amount of all "Controllable Operating Expenses" for any calendar year after 2003 (adjusted to 95% occupancy) exceed 106% of the total amount of Controllable Operating Expenses for the prior calendar year, adjusted to 95% occupancy, and further no new cost items shall be included in Operating Expenses subsequent to December 31,2004 unless (i) the cost item is approved by Tenant, (ii) Base Operating Expenses are adjusted to include a reasonable estimate of the cost of the item as if it was provided during calendar year 2004, or (iii) the item is required to comply with any building code, or other law, regulation or legal requirement to the extent not in effect or generally enforced on the date of this Lease. Landlord

shall have no obligation to provide any new service or facility not provided in calendar year 2004 under this Lease unless the cost thereof is approved by Tenant under (i) or is described in (iii) above.

"Controllable Operating Expenses" shall mean utilities, taxes, insurance, snow removal, and costs approved by Tenant (such approval not to be unreasonably withheld, conditioned or delayed) to comply with any building code or other law, regulation, or legal requirement to the extent not in effect or generally enforced on the date of this Lease.

2.6.4 "LANDLORD'S TAXES" — DEFINITION. "Landlord's Taxes" means all taxes, assessments and similar charges assessed or imposed on the Land for the then current fiscal year by any governmental authority attributable to the Building and the parking garage (including personal property associated therewith). The amount of any special taxes, special assessments and agreed or governmentally imposed "in lieu of tax" or similar charges shall be included in Landlord's Taxes for any year but shall be limited to the amount of the installment of such special tax, special assessment or such charge required to be paid during or with respect to the year in question. Landlord's Taxes include expenses, including fees of attorneys, appraisers and other consultants, incurred in connection with any efforts to obtain abatements or reduction or to avoid increases in Landlord's Taxes for any year wholly or partially included in the Term, whether or not successful and whether or not such efforts involved filing of actual abatement applications or initiation of formal proceedings. Landlord's Taxes exclude income taxes of general application and all estate, succession, inheritance and transfer taxes. If at any time during the Term there shall be assessed on Landlord, in addition to or lieu of the whole or any part of the ad valorem tax on real or personal property, a capital levy or other tax on the gross rents or other measures of building operations, or a governmental income, franchise, excise or similar tax, assessment, levy, charge or fee measured by or based, in whole or in part, upon building valuation, gross rents or other measures of building operations or benefits of governmental services furnished to the Building, then any and all of such taxes, assessments, levies, charges and fees, to the extent so measured or based, shall be included within the term Landlord's Taxes, but only to the extent that the same would be payable if the Building and Land were the only property of Landlord.

2.6.5 COMPLEX OPERATING EXPENSES. If and to the extent Landlord incurs Landlord's Operating Expenses and Taxes with respect to the entire complex ("Landlord's Complex Operating Expenses"), Landlord may, but shall not be obligated to, calculate Landlord's Complex Operating Expenses separately from other Landlord's Operating Expenses and, in any case, Tenant shall pay as Additional Rent in the manner prescribed below, Tenant's pro rata share of any increase in Landlord's Complex Operating Expenses over the "Base Complex Operating Expenses", which are defined as Landlord's actual Operating Expenses for the Complex for the first full calendar year in which the Complex is fully constructed. "Tenant's Pro Rata Share of Landlord's Complex Operating Expenses" is calculated by dividing the Rentable Floor Area of the Premises by the rentable square foot area of the Complex. The separate calculation of Landlord's Complex Operating Expenses and Tenant's Pro Rata Share thereof shall not cause those expenses to be excluded from the determination of Tenant's maximum liability for increases in Controllable Operating Expenses pursuant to Section 2.6.3 nor prevent adjustment of the base year figure for new cost items after December 31,2004 to the extent provided above in Section 2.6.3.

If at any time during the Term, Landlord provides special services (i.e., services not made available to tenants generally) only with respect to portions of the Building or portions of the Complex or incurs other Operating Expenses allocable to portions of the Building or Complex alone, then such Operating Expenses (to the extent in excess of a base year amount reasonably applicable to those expenses) shall be charged entirely to those tenants, including Tenant, of such portions, notwithstanding

the provisions hereof referring to Tenant's Pro Rata Share. If, during any period for which Landlord's Operating Expenses are being computed, less than all of the Building or the Complex is occupied by tenants, or if Landlord is not supplying all tenants with the services being supplied hereunder, Operating Expenses (as well as the applicable base year amounts) shall be reasonably estimated and extrapolated by Landlord to determine the Operating Expenses that would have been incurred if the Building (or the Complex, with respect to Landlord's Complex Operating Expenses) were ninety-five percent (95%) occupied for such year and such services were being supplied to all tenants, and such estimated and extrapolated amount shall be deemed to be Landlord's Operating Expenses for such period. This paragraph shall not be construed to obligate Tenant for increases in Controllable Operating Expenses above the maximum established in Section 2.6.3.

2.6.6 AUDIT RIGHTS. At the request of Tenant at any time within three (3) years after Landlord delivers Landlord's accounting statement of Landlord's Operating Expenses and Taxes to Tenant, Tenant (at Tenant's expense) shall have the right to have an independent certified public accountant (an "examiner") examine Landlord's books and records applicable to Landlord's Operating Expenses and Taxes and that may include an examination of the books and records applicable to Base Operating Expenses for the calendar year 2004. Such right to examine the records shall be exercisable: (a) upon reasonable advance notice to Landlord and at reasonable times during Landlord's business hours; (b) only during the three (3) year period following Tenant's receipt of Landlord's statement of the actual amount of Landlord's Operating Expenses and Taxes for the applicable calendar year; (c) not more than once each calendar year; and (d) as concerns the Base Operating Expenses, not more than once during the Term, and only until December 31,2007. Landlord's statement of Operating Expenses and Taxes shall be deemed conclusive except as to items specifically disputed in writing by notice from Landlord to Tenant given with three (3) years after Landlord delivers the statement to Tenant. Tenant shall pay all costs of the audit unless Tenant is found to have overpaid Additional Rent for Operating Expenses and Taxes by more than 3% for the year in question. In no event shall Tenant propose, nor shall Landlord ever be required to approve, any examiner of Tenant who is being paid on a contingent fee basis.

As a condition precedent to performing any such examination of Landlord's books and records, Tenant and its examiners shall be required to execute and deliver to Landlord an agreement in form acceptable to Landlord agreeing to keep confidential any information that they discover about Landlord or the Building in connection with such examination. Without limiting the foregoing, such examiners shall also be required to agree that they will not represent any other tenant in the Building in connection with examinations of Landlord's books and records for the Building unless said tenant(s) have retained said examiners prior to the date of the first examination of Landlord's books and records conducted by Tenant pursuant to this Section 2.6.6 and have been continuously represented by such examiners since that time. Notwithstanding any prior approval of any examiners by Landlord, Landlord shall have the right to rescind such approval at any time if in Landlord's reasonable judgment the examiners have breached any confidentiality undertaking to Landlord or any other landlord or cannot provide acceptable assurances and procedures to maintain confidentiality.

2.7 ELECTRICITY

Landlord shall furnish to Tenant throughout the Term electricity for the operation of lighting fixtures, and 120 volt current for the operation of normal office fixtures and equipment to an average design load of seven (7) watts per sf, but excluding any high energy consumption equipment. Landlord shall furnish building power, for the operations of tenant equipment and data centers to a minimum load of 850KV A. Tenant covenants and agrees to pay as Additional Rent the cost of such electricity, which

shall be separately metered and billed to Tenant monthly. The "powering" of the Building HV AC system shall be included as part of Landlord's Operating Expenses.

Tenant covenants and agrees that Landlord shall in no event be liable or responsible to Tenant for any loss, damage or expense which Tenant may sustain or incur if either the quality or character of electrical service is changed by the utility provider or is no longer suitable for Tenant's requirements. Tenant covenants and agrees that at all times its use of electric current shall never exceed the capacity of existing feeders to the Building or the risers or wiring or installation of the Building.

ARTICLE III

CONSTRUCTION

3.1 LANDLORD WORK

3.1.1 GENERAL. The Premises are being leased in their broom-clean, "as- is" condition without representation or warranty by Landlord except as expressly set forth in this Lease, and Landlord shall not be required to perform any work in connection with Tenant's occupancy of the Premises. Notwithstanding the foregoing, Landlord shall construct a walkway and entrance to the Building ("Landlord Work") as shown on Exhibit A-3 attached to this Lease prior to the Term Commencement Date. The cost of the Landlord Work and the demising of the Premises shall be a Landlord expense and not charged against the Improvement Allowance set forth in Section 1.1. By not later than 120 days after the date of this Lease, Landlord at its expense shall cause its architect to prepare the proposed plans and specifications for the Landlord Work. Such plans shall comply with all applicable laws and codes and shall include sufficient detail to properly coordinate the Landlord Work with Tenant's Initial Construction and shall be subject to Tenant's prior approval (which shall not be unreasonably withheld, conditioned or delayed). Landlord also agrees to complete the demising of the Premises within sixty (60) days after the date of this Lease.

3.2 TENANT WORK

3.2.1 GENERAL. All work, including demolition, additions, alterations, installations or improvements to be made by Tenant ("Tenant Work") in, to or about the Premises shall be made only in accordance with the requirements of Landlord's construction manual ("Construction Manual"), a copy of which shall be provided to Tenant on request and may be modified by Landlord from time to time.

3.2.2 PAYMENT FOR TENANT WORK. Subject to the payment of the Improvement Allowance by Landlord, Tenant shall pay, within ten (10) days after request, the entire cost of all Tenant Work so that the Premises shall always be free of liens for labor or materials. If any mechanic's lien (which term shall include all similar liens relating to the furnishing of labor and materials) is filed against the Premises or the Building or any part thereof which is claimed to be attributable to Tenant, its agents, employees or contractors, Tenant shall promptly discharge the same by payment or filing any necessary bond within ten (10) days after Tenant has notice (from any source) of such mechanic's lien.

3.2.3 TENANT'S INITIAL CONSTRUCTION. Tenant at Tenant's expense subject to payment of the Improvement Allowance by Landlord shall perform all Tenant Work considered

necessary or desirable by Tenant to make the Premises ready for Tenant's occupancy ("Tenant's Initial Construction") in accordance with the provisions of Exhibit B.

3.3 ENTRY BY TENANT PRIOR TO TERM COMMENCEMENT DATE

At appropriate times throughout the construction of Tenant's Initial Construction, Tenant or any agent, employee or independent contractor of Tenant shall have the right to enter the Premises prior to the Term Commencement Date to perform such work or decoration as is to be performed by, or under the direction or control of, Tenant. In addition to access during construction, Tenant shall be granted a forty- five (45) day period of access to the Premises, commencing forty-five (45) days prior to the Term Commencement Date or such earlier date with Landlord's consent, at no charge to provide installation of furniture systems, wiring, cabling, telephones and other personal property and trade fixtures in preparation for Tenant's occupancy. Such rights of entry shall be deemed a license from Landlord to Tenant, and entry thereunder shall be at the sole risk of Tenant and subject to all the terms of this Lease, including but not limited to Section 5.6, except for the obligation to pay Rent.

ARTICLE IV

LANDLORD'S COVENANTS

4.1 LANDLORD'S COVENANTS

4.1.1 BUILDING SERVICES. Landlord shall furnish services, utilities, facilities and supplies set forth in this Section 4.1.1 and in Exhibits C-l and C-2. Exhibits C-l and C-2 are intended to add detail to the provisions of the main body of the Lease, and in case of conflict, the provisions of the main body of the Lease shall control. Landlord's obligations include without limitation, the maintenance, repair and replacement of the base building HVAC, sprinkler, smoke detection and fire alarm systems and other equipment and facilities necessary to supply the services contemplated in this Section 4.1.1 and Exhibits C-l and C-2. Tenant may obtain additional services, utilities, facilities and supplies from time to time upon reasonable advance request or Landlord may furnish the same without request if Landlord reasonably determines and notifies the Tenant that Tenant's use or occupancy of the Premises necessitates the same (for example where the condition of the Premises necessitates additional cleaning services), and, in either case, the cost of the same at reasonable rates from time to time established by Landlord shall constitute Additional Rent, payable upon demand.

4.1. I.1 WATER CHARGES. Landlord shall furnish hot and cold water for ordinary office cleaning, toilet, lavatory and drinking purposes. If Tenant requires, uses or consumes water for any other purpose, Landlord may assess Tenant reasonable charges for additional water.

4.1.1.2 ACCESS AND ELEVATOR SERVICE. Tenant shall have access to its Premises 24 hours per day, 7 days per week, subject to Landlord's reasonable security requirements. Landlord shall provide necessary non-exclusive elevator facilities on Mondays through Fridays excepting legal holidays in the state in which the Building is located from 7:00 a.m. to 6:00 p.m. and on Saturdays from 8:00 a.m. to 1:00 p.m. (such hours on such days being referred to as "Hours of Operation") and have at least one (1) elevator serving the Premises in operation available for Tenant's non-exclusive use at all other times.

4.1.1.3 CLEANING. Landlord shall cause the common areas and the office areas of the Premises to be kept reasonably clean provided the same are maintained and kept in good order by Tenant. Landlord shall provide trash removal services in accordance with Exhibit D. Cleaning standards shall be in accordance with Exhibit C-1.

4.1.1.4 HEAT AND AIR-CONDITIONING. Landlord shall, through the Building heating and air-conditioning system, furnish to and distribute in the Premises reasonable levels of heat during the Hours of Operation of the normal heating season and reasonable levels of air conditioning during the Hours of Operation of the normal cooling season when air conditioning may reasonably be required for the comfortable occupancy of the Premises by Tenant. Notwithstanding the foregoing, Landlord shall not be required to furnish heat and air-conditioning in the Premises in excess of the capacity of the equipment installed in the Building, provided that such equipment shall be sufficient to meet the Heat and Air Conditioning Specification attached as Exhibit C-2. If Tenant requests Landlord to provide heat or air conditioning beyond the Hours of Operation, Tenant shall pay Landlord therefor at rates reasonably established by Landlord from time to time to reimburse Landlord's costs (as of the date hereof such rate is estimated to be $35 per floor per hour). If Tenant requires additional air-conditioning for business machines, meeting rooms or other purposes, or because of occupancy or unusual electrical loads, any additional air-conditioning units, chillers, condensers, compressors, ducts, piping and other equipment and facilities will be installed and maintained by Landlord at Tenant's sole cost, but only to the extent that the same are compatible with the Building and its mechanical systems.

4.1.1.5 ENERGY CONSERVATION. Tenant agrees to cooperate with Landlord and to abide by all Building regulations which Landlord may, from time to time, prescribe for the proper functioning and protection of the heating and air-conditioning systems and in order to maximize the effect thereof and to conserve heat and air-conditioning. Notwithstanding anything to the contrary in this Section 4.1.1 or otherwise in this Lease, Landlord may institute such policies, programs and measures as may be in Landlord's reasonable judgment necessary, required or expedient for the conservation or preservation of energy or energy services, or as may be necessary to comply with applicable codes, rules, regulations or standards.

4.1.1.6 IDENTIFICATION CARDS. Landlord may, in its sole discretion, require that identification cards be utilized and/or displayed at such times as Landlord determines necessary for the security of the Building and tenants and occupants thereof and may establish or change the form of such cards at any time and from time to time, including requiring photographic or other identification of all parties utilizing the Building. Landlord shall provide Tenant any such identification cards. Tenant shall take reasonable steps to safeguard the security of said cards and shall, if the loss or theft of any such card shall be brought to its attention, promptly notify Landlord thereof. Card replacements or any additional cards requested by Tenant shall be furnished to Tenant at the Tenant's cost. Landlord reserves the right, in its sole discretion acting in good faith, to deny access to all or any portion of the Building to any person who fails to produce proper identification or otherwise presents a safety hazard to the Building or any tenant or occupant thereof and Landlord shall have no liability to Tenant or any other party as a result thereof so long as Landlord acted in good faith.

4.1.1.7 CAFETERIA. Landlord shall provide a cafeteria in the Complex serving breakfast and lunch for employees and visitors of Tenant and other occupants. As provided in Section 2.6.3, Landlord's Operating Expenses shall exclude 50% of the unreimbursed costs incurred by Landlord in operating the cafeteria.

4.1.2 REPAIRS. Except as otherwise provided in this Lease, and except for repairs to items referred to below necessitated by Tenant's act or neglect (which shall be Tenant's repair obligation under Section 5.1), Landlord shall make such repairs to the roofs, exterior walls, exterior windows (except if such damage or repair is necessitated by the Tenant's negligence or willful misconduct), floor slabs, core walls, and common areas and facilities in the Building as may be necessary to keep them in good condition comparable to office buildings of similar type in the area. All repairs to the roof, foundation and structure of the Building shall be performed at Landlord's sole expense (and shall not be considered Landlord's Operating Expenses). Landlord shall also maintain the parking areas, grounds, landscaping, drives, sidewalks and other exterior elements of the Land, Building and Complex in good condition, comparable to other office complexes of similar type in the area.

4.1.3 QUIET ENJOYMENT. Landlord covenants that Tenant, on paying the Rent and performing the tenant obligations in this Lease, shall peacefully and quietly have, hold and enjoy the Premises, free from any claim by Landlord or persons claiming under Landlord, but subject to all of the terms and provisions hereof, provisions of law and rights of record to which this Lease is or may become subordinate. This covenant is in lieu of any other so-called quiet enjoyment covenant, either express or implied.

4.2 INTERRUPTION

Landlord shall not be liable to Tenant for any compensation or reduction of Rent by reason of inconvenience or annoyance or for loss of business arising from the necessity of Landlord or its agents entering the Premises for any of the purposes authorized in this Lease or for repairing the Premises or from repairs by Landlord of any portion of the Building however the necessity may occur. In case Landlord is prevented or delayed from diligent construction of improvements, making any repairs, alterations or improvements, or furnishing any services or performing any other covenant or duty to be performed on Landlord's part, by reason of strike or other labor trouble, fire or other casualty, governmental preemption of priorities or other controls in connection with a national or other public emergency, or inability to obtain fuel, supplies, or labor despite reasonable efforts, or unusually adverse weather conditions, or unforeseen subsurface conditions, or acts of God war or terrorism, or delays in the making of repairs which are due to government regulation or delays in obtaining insurance, or any other cause whether similar or dissimilar beyond Landlord's reasonable control collectively and individually ("Force Majeure" which term shall have the same meaning in relation to the performance of Tenant Work by Tenant, except that "Tenant" shall be substituted for "Landlord"), Landlord shall not be liable to Tenant therefor, nor, except as otherwise provided in Section 6.1, shall Tenant be entitled to any abatement or reduction of Rent by reason thereof, nor shall the same give rise to a claim in Tenant's favor that such failure constitutes actual or constructive, total or partial, eviction from the Premises. In no event shall Landlord be liable for indirect or consequential damages arising out of any default by Landlord. Notwithstanding the foregoing, Landlord shall use reasonable efforts to prevent or minimize the effect of any interruption of Tenant's business caused by any of the foregoing.

Landlord reserves the right to stop any service or utility system, when necessary by reason of accident or emergency, or until necessary repairs have been completed; provided, however, that in each instance of stoppage, Landlord shall exercise reasonable diligence to eliminate the cause thereof. Except in case of emergency repairs, Landlord will give Tenant reasonable advance notice of any contemplated stoppage and will use reasonable efforts to avoid unnecessary interruption of Tenant's use of the Premises by reason thereof.

The foregoing notwithstanding, if Landlord fails for any reason within Landlord's control to provide any service to be supplied by (or perform any obligation to be performed by) Landlord under the Lease which is necessary for Tenant's reasonable use of the Premises (such as HVAC, elevator service, electricity, water, or structural repairs, including repairs of leaks from outside the Premises) ("Landlord Failure"), and Tenant is unable to use the Premises on account of such failure, Tenant shall be entitled to a proportional abatement of Annual Fixed Rent and Additional Rent based on the portion of the Premises which cannot be used by Tenant. This abatement shall begin on the fifth (5^{th}) consecutive Business Day from Tenant's written notice to Landlord of Landlord Failure. The abatement shall end when the services are restored sufficiently to permit use of the Premises. Furthermore, if due to Landlord Failure Tenant is unable to use more than twenty percent (20%) of the Premises and such Landlord Failure continues thirty (30) days from Tenant's written notice to Landlord of Landlord Failure, Tenant may elect to terminate this Lease by written notice to Landlord.

4.3. INSURANCE AND INDEMNIFICATION

4.3.1 PROPERTY INSURANCE. Landlord agrees to maintain throughout the Term, with companies licensed and approved to write insurance in the state in which the Building is located, property insurance against direct physical loss or damage to the Building on an "all risks," agreed amount basis in an amount equal to the physical replacement cost of the Building. Landlord shall not be required to carry insurance with respect to any property that Tenant is required to insure pursuant to Section 5.6. Landlord shall have the right to obtain such insurance coverage from Factory Mutual Insurance Company or any successor thereto.

4.3.2 LIABILITY INSURANCE. Throughout the Term, Landlord agrees to maintain in a responsible company or companies liability insurance against claims, demands or actions for injury, death, and property damage in amounts not less than Three Million Dollars ($3,000,000) in the aggregate. Certificates of insurance under this Section 4.3.2 shall be provided upon Tenant's reasonable request.

4.3.3 INDEMNIFICATION. Landlord shall save Tenant, its mortgagees, managers, directors, officers, members, trustees, agents, employees, property management companies, attorneys, independent contractors, invitees, and any other parties designated by Tenant from time to time (collectively, the "Tenant Indemnitees") harmless and indemnified (and shall defend the Indemnitees with counsel reasonably approved by the Indemnitees) against any claim, loss or cost, whether in law or equity, and/or arising in whole or in part out of any injury, loss, theft or damage to any person or property (x) while on, in or about the parking areas and facilities of the Building available for use by Tenant and other tenants ("Common Areas"), or out of any condition within the Common Areas, except to the extent due to the negligence or willful misconduct of the Tenant Indemnitees or (y) anywhere if occasioned by any negligence or willful misconduct of Landlord or of employees, agents, managers, officers, directors, members, trustees or independent contractors of Landlord.

ARTICLE V

TENANT'S ADDITIONAL COVENANTS

5.1 MAINTENANCE AND REPAIR

Except for damage by fire or casualty and reasonable wear and tear, Tenant shall at all times keep the Premises clean, neat and in as good repair, order and condition as the same are at the beginning of the Term or may be put in thereafter. The foregoing shall include without limitation Tenant's obligation to maintain floors and floor coverings, to paint and repair walls and doors, to replace and repair ceiling tiles, interior glass (and exterior glass if such damage or repair is necessitated by the Tenant's negligence or willful misconduct), lights and light fixtures, drains and the like, and clean the Premises to the extent such cleaning is not to be performed by Landlord pursuant to Exhibit C-l.

5.2 USE, WASTE AND NUISANCE

Throughout the Term, Tenant shall use the Premises for the Permitted Uses only, and shall not use the Premises for any other purpose. Tenant shall not injure, overload, deface or commit waste in the Premises or any part of the improvement on the Land, nor permit the emission therefrom of any objectionable noise, light or odor, nor use or permit any use of the Premises which is improper, offensive, contrary to law or ordinance or which is liable to invalidate or increase the premium for any insurance on the.Building or its contents or which is liable to render necessary any alterations or additions in the Building, nor obstruct in any manner any portion of the Building. If Tenant's use of the Premises results in an increase in the premium for any insurance on the Building or the contents thereof (or would result in such an increase if the Landlord were not self-insuring), Landlord shall notify Tenant of such increase and Tenant shall pay same as Additional Rent. Tenant may not without Landlord's consent install in the Premises any pay telephones, vending machines, water fountains, refrigerators, sinks or cooking equipment provided that Landlord's consent will not be unreasonably withheld with respect to items designed for the convenience of Tenant's employees which are customary for office employees if Landlord determines that special venting or other material renovations are not required in connection therewith.

Tenant shall not without Landlord's prior written consent keep, cause or permit the escape, disposal or release of any substances or materials designated as, or containing components now or hereafter designated as, hazardous, dangerous, toxic or harmful and/or subject to regulation under any federal, state or local law, regulation or ordinance ("Hazardous Substances") on or about the Premises or Building or Complex except for ordinary cleaning and office supplies used and stored in accordance with applicable law. With respect to any Hazardous Substance stored with Landlord's consent, Tenant shall: (i) promptly, timely and completely comply with all federal, state or local governmental requirements for reporting and record keeping, (ii) within five (5) Business Days of Landlord's request, provide evidence satisfactory to Landlord of Tenant's compliance with all applicable federal, state or local laws, regulations or ordinances and comply with all federal, state and local laws, regulations or ordinances regarding the proper and lawful use, sale, transportation, generation, treatment and disposal of Hazardous Substances. Without limitation, Hazardous Substances shall include those described in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §9601 et seq., the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §6901 et seq., the Massachusetts Hazardous Waste Management Act, as amended, M.G.L. Chapter 21C, and

the Massachusetts Oil and Hazardous Material Release Prevention Act, as amended, M.G.L. Chapter 2IE, any other applicable state or local laws governing the use, storage, transportation or disposal of hazardous materials and the regulations adopted under these acts. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief regarding the presence of Hazardous Substances on the Premises.

If any lender or governmental agency shall ever require testing to ascertain whether or not there has been any release of Hazardous Substances, then the reasonable costs thereof shall be reimbursed by Tenant to Landlord upon demand as Additional Rent if such requirement is imposed because of Tenant's particular use or activities in the Premises. Any and all reasonable costs incurred by Landlord and associated with Landlord's inspections of the Premises and Landlord's monitoring of Tenant's compliance with this Section 5.2, including Landlord's attorneys' fees and costs, shall be Additional Rent and shall be due and payable to Landlord within ten (10) days of Landlord's demand. Tenant shall be fully and completely liable to Landlord (either with or without negligence) for any and all cleanup costs and expenses and any and all other charges, expenses, fees, fines, penalties (both civil and criminal) and costs imposed with respect to Tenant's use, disposal, transportation, generation and/or sale of, or Tenant's causing or permitting the escape, disposal or release, of any biologically or chemically active or other Hazardous Substance. In all events, Tenant shall indemnify Landlord as provided in Section 5.6 from any release of hazardous materials on the Premises occurring while Tenant is in possession, or elsewhere if caused by Tenant or persons acting under Tenant. The provisions of this Section 5.2 shall survive the expiration or earlier termination of this Lease. In the event of a release of Hazardous Substances or a requirement for testing to ascertain whether or not there has been a release of Hazardous Substances that is caused by Landlord, and for which Tenant is not responsible as provided above, then Landlord shall hold Tenant harmless from any cost, loss or liability relating thereto, including without limitation attorneys' fees and costs of defense, and the costs so incurred by Landlord shall not be considered Landlord's Operating Expenses.

5.3 COMPLIANCE WITH LAW

Tenant shall use the Premises only as permitted under federal, state, and local laws, regulations and orders applicable from time to time, including without limitation municipal by-laws, land use and zoning laws, environmental laws and regulations (as set forth in Section 5.2 above) and occupational health and safety laws, and shall procure all approvals, licenses and permits necessary therefor, in each case giving Landlord true and complete copies of the same and all applications therefor. Tenant shall promptly comply with all present and future laws applicable to Tenant's particular use of the Premises (as opposed to office uses generally) or Tenant's signs thereon, foreseen or unforeseen, and whether or not the same necessitate structural or other changes or improvements to the Premises or interfere with its particular use and enjoyment of the Premises, and shall comply with all requirements reasonable in light of the use Tenant is making of the Premises of insurance inspection or rating bureaus having jurisdiction. Notwithstanding the foregoing, the responsibility for compliance with any present law or laws pertaining to office uses and/or the Building generally that require structural or other changes or improvements to the Premises or the Building shall be borne solely by Landlord, and shall not be considered Landlord's Operating Expenses. If Tenant's use of the Premises results in any increase in the premium for any insurance carried by Landlord, then upon Landlord's notice to Tenant of such increase Tenant shall pay the same to Landlord within sixty (60) days after demand as Additional Rent. Tenant shall, in any event, indemnify, save Landlord harmless, and defend from all loss, claim, damage, cost or expense (including reasonable attorneys' fees of counsel of Landlord's choice against whom Tenant makes no reasonable objection) on account of Tenant's failure so to comply with the obligations of this Section 5.3 (paying the same to Landlord upon demand as Additional Rent). Tenant shall bear

the sole risk of all present or future laws affecting its particular use of the Premises or appurtenances thereto (as opposed to office uses generally), and Landlord shall not be liable for (nor suffer any reduction in any rent on account of) any interruption, impairment or prohibition affecting the Premises or Tenant's use thereof resulting from the enforcement of such laws.

To Landlord's actual knowledge, as of the Term Commencement Date the Land and the portions of the Building other than Tenant's Initial Construction, if used for general office purposes, will comply in all material respects with applicable zoning, fire codes, and other federal, state, and local rules, regulations, law statutes, and ordinances, including, but not limited to, the Americans with Disabilities Act, and in the event Landlord is notified of any violation, Landlord will take all measures necessary to comply or cause the compliance. The foregoing shall exclude Tenant's Initial Construction, which shall be Tenant's responsibility to design and construct.

5.4 RULES AND REGULATIONS

Tenant shall conform to all reasonable non-discriminatory rules and regulations now or hereafter promulgated from time to time by Landlord for the care and use of the Premises and the Building, including but not limited to the initial Rules and Regulations set forth in Exhibit D. In the event of any conflict between this Lease and the Rules and Regulations, the Lease shall govern.

5.5 SAFETY APPLIANCES

Tenant shall keep the Premises equipped with all safety appliances and permits which, as a result of Tenant's particular activities, are required by law or ordinance or any order or regulation of any public authority, shall keep the Premises equipped at all times with adequate fire extinguishers and other such equipment reasonably required by Landlord, and, subject to Section 5.10, shall make all repairs, alterations, replacements, or additions so required as a result of Tenant's particular activities. Notwithstanding the foregoing, Landlord shall provide and be responsible for the maintenance and repair of the base building, sprinkler, smoke detection, and fire alarm systems.

5.6 INDEMNIFICATION AND INSURANCE

5.6.1 INDEMNIFICATION. Tenant shall save Landlord, its mortgagees, managers, directors, officers, members, trustees, agents, employees, property management companies, attorneys, independent contractors, invitees, and any other parties designated by Landlord from time to time (collectively, the "Indemnitees") harmless and indemnified (and shall defend the Indemnitees with counsel reasonably approved by the Indemnitees) against any claim, loss or cost, whether in law or equity, and/or arising in whole or in part out of any injury, loss, theft or damage to any person or property while on, in or about the Premises, or out of any condition within the Premises, except to the extent due to the negligence or willful misconduct of the Indemnitees, and to any person or property anywhere occasioned by any negligence or willful misconduct of Tenant or of employees, agents, managers, officers, directors, members, trustees, or independent contractors of Tenant or any person acting under Tenant. In addition to the foregoing, if any person not a party to this Lease shall institute any other types of action against Tenant in which any of the Indemnitees shall involuntarily and/or without cause, shall be made a party defendant(s), then Tenant shall indemnify, hold harmless and defend such Indemnitees (with counsel reasonably approved by Indemnitees) from all liabilities by reason thereof. This indemnity shall not require payment as a condition precedent to recovery. Tenant shall pay all costs and expenses including reasonable attorneys' fees associated with enforcement of the provisions of this Section 5.6.1. Landlord may make all repairs and replacements to the improvements

on the Land resulting from acts or omissions of Ten ant's employees, agents, managers, officers, directors, members, trustees, or independent contractors or any other persons acting under Tenant (including damage and breakage occurring as a result of work performed by or for Tenant and when Tenant's property is being moved into or out of the Building) and subject to Section 8.11 Landlord may recover all costs and expenses thereof from Tenant as Additional Rent. The provisions of this Section 5.6.1 shall survive the expiration or earlier termination of this Lease.

5.6.2 INSURANCE Throughout the Term (and such further time as Tenant or any person claiming through Tenant occupies any part of the Premises) Tenant shall maintain in a responsible company or companies licensed in the state in which the Building is located and approved by Landlord, liability insurance in form reasonably satisfactory to Landlord, written on an occurrence basis, insuring Tenant and naming as additional insureds the Indemnitees and other parties as designated by Landlord or as may be so designated from time to time, as their respective interests may appear, against all claims, demands or actions for injury, death, and property damage in amounts not less than. those specified in Section 1.1 (as such amounts may, from time to time, be reasonably increased by Landlord). All insurance to be maintained by Tenant under this Section 5.6.2 shall provide that it will not be subject to cancellation, termination, or change except after at least thirty (30) days' prior written notice to the Indemnitees and other parties designated by Landlord. The policy or policies or a duly executed Evidence of Insurance (ACCORD Form 27) for the same (together with satisfactory evidence of the payment of the premium thereon if requested by Landlord) shall be deposited with Landlord and other parties designated by Landlord at the beginning of the Term and, upon renewals of such policies, not less than thirty (30) days prior to the expiration of the term of such coverage. If Tenant fails to comply with any of the foregoing requirements, Landlord may obtain such insurance on behalf of Tenant and may keep the same in effect, and Tenant shall pay Landlord, as Additional Rent, the premium cost thereof upon demand. The provisions of this Section 5.6.2 shall survive the expiration of the Term or earlier termination of this Lease.

5.7 TENANT'S PROPERTY

All furnishings, fixtures, equipment, effects and property of Tenant and of all persons claiming through Tenant which from time to time may be on the Premises or elsewhere in the Building or in transit thereto or therefrom shall be at the sole risk of Tenant and shall be kept insured by Tenant throughout the term at Tenant's expense and in prudent amounts, and if the whole or any part thereof shall be destroyed or damaged by fire, explosion, falling plaster, water or rain which may leak from any part of the Building or otherwise, or by the leakage, rupture or bursting of water pipes, steam pipes, or other pipes, appliances, or plumbing works therein or from the roof, street or sub-surface, or from any other place, or resulting from dampness, or by theft or from any other cause whatsoever in the Building, no part of said loss or damage is to be charged to or be borne by Landlord. The parties acknowledge that damage or destruction may result from acts of cleaning personnel and employees of other independent contractors of Landlord working in and around the Premises and that Tenant shall bear the risk and cost thereof unless Landlord or any of Indemnitees has been grossly negligent.

5.8 ENTRY FOR REPAIRS AND INSPECTIONS

Tenant shall permit Landlord and its agents to enter and examine the Premises at reasonable times and, if Landlord shall so elect, to make any repairs or replacements Landlord may deem necessary or desirable, to remove at Tenant's expense any alterations, additions, signs, curtains, blinds, shades, awnings, aerials, flagpoles, or the like not consented to in writing, and following advance notice to Tenant, to show the Premises to prospective tenants during the nine (9) months preceding expiration of

the Term or second Extension Term if in effect and to prospective purchasers and mortgagees at all times. In case of an emergency in the Premises or in the Building, Landlord or its representative may enter the Premises (forcibly, if necessary) at any time to take such measures as may be needed to deal with such emergency.

5.9 ASSIGNMENT, SUBLETTING

Tenant, voluntary or involuntarily, shall not assign this Lease, or sublet, license, or convey the Premises or any portion thereof, or permit the occupancy of all or any portion of the Premises other than by the Tenant (all or any of the foregoing actions are referred to as "Transfers") and all or any of assignees, transferees, licensees, and other such parties are referred to as "Transferees") without obtaining, on each occasion, the prior written consent of the Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant also shall not voluntarily or involuntarily mortgage or encumber the Premises or Tenant's leasehold interest therein (an "Encumbrance") without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed so long as the Encumbrance is being made in connection with a bona fide institution as financing for Tenant's business. Any Transfer or Encumbrance without such consent shall be null and void and of no effect whatsoever. Notwithstanding the provisions of this Section 5.9, this Lease may be assigned, or the Premises may be sublet, in whole or in part, after prior notice to Landlord but without consent of the Landlord and without any termination right of the Landlord being applicable thereto, (a) to any corporation or other entity into or with which Tenant may be merged or consolidated or to any corporation or entity to which all or substantially all of the Tenant's assets will be transferred, or (b) to any corporation which is an affiliate, subsidiary, parent or successor of Tenant, provided in all such cases the surviving corporation or entity shall provide reasonable evidence that it, along with any guarantor or other party remaining liable under this Lease, has a creditworthiness at least equal to the net worth of Tenant and the guarantor or any other liable party as of the date of such corporate transaction, and (ii) as of the date of this Lease and shall agree in writing with the Landlord to be bound by all of the terms and conditions of this Lease (all of the foregoing being referred to as a "Permitted Transfer"). Tenant shall notify Landlord prior to marketing the Premises or any part thereof for a Transfer. Tenant's request for consent to a Transfer shall include a copy of the proposed Transfer instrument together with a statement of the proposed Transfer in detail satisfactory to Landlord, together with reasonably detailed financial, business and other information about the proposed Transferee. Except in the case of a Permitted Transfer pursuant to clause (a) or (b) above, Landlord shall have the option (but not the obligation) to terminate the Lease as to the affected portions of the Premises at no cost to Tenant, with respect to a Transfer of at least 67% of the Rentable Area of the Premises which Tenant proposes effective upon the date of the proposed Transfer and continuing for the proposed term thereof by giving Tenant notice of such termination within thirty (30) days after Landlord's receipt of Tenant's request. Tenant, however, shall have the right to withdraw such request if Landlord gives Tenant notice of its right to recapture the Premises. Upon the effective date of Landlord's recapture, Tenant shall be released from all subsequently accruing obligations under this Lease with respect to the portion of the Premises recaptured by Landlord. If Tenant does make a Transfer (other than a Permitted Transfer under clause (a) or (b) above) hereunder, and if the aggregate rent and other charges payable to Tenant under and in connection with such Transfer (including without limitation any amounts paid for leasehold improvements or on account of Tenant's costs associated with such Transfer) exceed the sum if the Rent and other charges payable hereunder with respect to the space in question and all third party costs of the Transfer (such as brokerage, legal, and leasehold improvement costs), Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of the amount of such excess. Such excess shall be paid on a monthly basis, and all non-recurring costs and payments incurred or collected by Tenant shall be amortized on a straight line basis over the term of the Transfer in calculating the amount of each

monthly payment. If the amount of rent and other charges payable under a Transfer is not readily ascertainable, such amount may, at Landlord's option, be deemed to equal the fair market rent then obtainable for the space in question.

Tenant shall pay to Landlord, as Additional Rent, Landlord's reasonable legal fees (not to exceed $750 without the approval of Tenant, provided such figure shall be reasonably adjusted for inflation and for unusually complex transactions) and other third-party expenses incurred in connection with any proposed Transfer or Encumbrance, including fees for review of documents and investigations of proposed Transferees. Notwithstanding any such Transfer, the original Tenant named herein shall remain directly and primarily obligated under this Lease.

If Tenant enters into any Transfer including a Permitted Transfer with respect to the Premises (or any part thereof), such Transferee shall be liable, jointly and severally, with Tenant, to the extent of the obligation undertaken by or attributable to such Transferee, for the performance of Tenant's agreements under this Lease (including payment of Rent under the Transfer), and every Transfer shall so provide, without relieving or modifying Tenant's liability hereunder. The foregoing provision shall be self-operative, but in confirmation thereof, such Transferee shall execute and deliver such instruments as may be reasonably required by Landlord to acknowledge such liability, and if such Transferee shall fail to do so within ten (10) days after demand, Tenant shall be in default hereunder. Landlord may collect Rent from the Transferee and apply the net amount collected to the Rent and other charges hereunder, but no such assignment or collection shall be deemed a waiver of the provisions of this Section 5.9, or the acceptance of the Transferee as a tenant, or a release of Tenant from direct and primary liability for the further performance of Tenant's covenants hereunder. The consent by Landlord to a particular Transfer shall not relieve Tenant from the requirement of obtaining the consent of Landlord to any further Transfer.

5.10 ALTERATIONS

Tenant shall make no alterations, additions or improvements to the Premises without the prior written consent of Landlord and only in accordance with the requirements of Landlord's Construction Manual. Notwithstanding the foregoing, after notice to Landlord but without any requirement for Landlord's consent, Tenant may perform cosmetic alterations in the Premises which do not affect the Building's structure or base building systems and cost no more than Fifty Thousand and 00/100 Dollars ($50,000.00) in the aggregate for a single project, provided such alterations are made in accordance with Landlord's Construction Manual. Tenant shall obtain all state, local and other necessary permits before undertaking any such alterations, additions or improvements. Tenant shall carry such insurance as Landlord shall reasonably require. Any alterations, additions and improvements to the Premises, except movable furniture and trade fixtures, shall belong to Landlord. All alterations, additions and improvements to the Premises shall be at Tenant's sole cost. If any mechanic's lien (which term shall include all similar liens relating to the furnishing of labor and materials) is filed against the Building which is claimed to be attributable to Tenant, its agents, employees, contractors, or persons working under Tenant's direction or control, then Tenant shall give Landlord immediate notice of such lien and shall discharge the same by payment or filing any necessary bond within ten (10) days after Tenant has notice (from any source) of such lien. Landlord's approval of the construction documents shall signify Landlord's consent to the work shown thereon only and Tenant shall be solely responsible for any errors or omissions contained therein. Landlord's approvals under this Section 5.10 shall not be unreasonably withheld, conditioned or delayed.

5.11 SURRENDER

At the expiration of the Term or earlier termination of this Lease, without the requirement of any notice, Tenant shall peaceably surrender the Premises including all alterations and additions thereto and all replacements thereof, including carpeting, any water or electricity meters, and all fixtures and partitions, in any way bolted or otherwise attached to the Premises (which shall become the property of Landlord) except such alterations and additions as Landlord shall direct Tenant to remove including cabling (provided, however, that Tenant shall not be directed to remove Tenant's Initial Construction or any subsequent Tenant Work installed with Landlord's approval unless, at the time of Landlord's approval of such Tenant Work, Landlord specifically notified Tenant that Tenant would be directed to remove that Tenant Work from the Premises at the expiration of the Term), and Tenant shall leave the Premises and improvements in the condition in which the same are required to be maintained under Section 5.1. In no event shall Tenant be required to remove the data room and fitness room fixtures identified in Exhibit H. Tenant shall, at the time of termination, remove the goods, effects and fixtures which Tenant is directed or permitted to remove in accordance with the provisions of this Section 5.11, making any repairs to the Premises and other areas necessitated by such removal and leaving the Premises clean and tenantable. Should Tenant fail to remove any of such goods, effects, and fixtures, Landlord may, after notice, have them removed forcibly, if necessary, and store any of Tenant's property in a public warehouse at the risk of Tenant. If such items are not removed from storage within thirty (30) days, such items may be sold by any customary methods in order to pay storage costs and other expenses of Landlord. The expense of such removal, storage and reasonable repairs necessitated by such removal shall be borne solely by Tenant or at Landlord's election reimbursed by Tenant to Landlord.

5.12 PERSONAL PROPERTY TAXES

Tenant shall pay promptly when due all taxes (and charges in lieu thereof) imposed upon Tenant's personal property in the Premises, (including, without limitation, fixtures and equipment), no matter to whom assessed.

5.13 SIGNS

No sign, name, placard, advertisement or notice visible from the exterior of the Premises shall be inscribed, painted or affixed by Tenant on any part of the Building without the prior written approval of Landlord. All signs or letterings on doors, or otherwise, approved by Landlord, shall be inscribed, painted or affixed by a person reasonably approved by Landlord and at the sole cost and expense of Tenant. Notwithstanding the foregoing; (a) Tenant shall have the right to install one sign on the exterior of the Building and a monument sign in front of the Building, all at Tenant's expense, subject to Landlord's prior reasonable approval of the design and location and subject to compliance with all applicable legal requirements, and (b) Landlord will provide initial main lobby, building directory, multi-tenant elevator lobby, and entry signage in Building standard size and location at Landlord's expense. Subject to applicable legal requirements, the monument sign shall be approximately 12 feet long by 4.5 feet high. Tenant shall keep its sign on the Building exterior and the monument sign in good condition and repair at Tenant's expense. So long as Tenant is occupying at least one-half of the Building, no signage for any other tenant shall be placed on or around the Building, and if Tenant at any time ceases to occupy at least one-third of the Building then Landlord may terminate Tenant's signage rights for the Building exterior and monument sign and remove Tenant's exterior and monument signage at Tenant's expense.

ARTICLE VI

CASUALTY AND TAKING

6.1 DAMAGE BY FIRE OR CASUALTY

If the Premises or any part thereof shall be damaged by fire or other casualty required to be insured by Landlord under this Lease, then, subject to the last paragraph of this Section 6.1, Landlord shall proceed with diligence, subject to then applicable statutes, building codes, zoning ordinances and regulations of any governmental authority, and at the expense of Landlord to repair or cause to be repaired such damage. All such repairs made necessary by any act or omission of Tenant shall be made at the Tenant's expense to the extent that the cost of such repairs does not exceed the deductible amount in Landlord's insurance policy (such deductible not to exceed the deductible amount generally carried at the time by comparable buildings). All repairs to and replacements of property which Tenant is entitled to remove shall be made by and at the expense of Tenant. If the Premises or any part thereof shall have been rendered unfit for use and occupation hereunder by reason of such damage the Rent or a just and proportionate part thereof, according to the nature and extent to which the Premises shall have been so rendered unfit, shall be abated until the Premises (except as to the property which is to be repaired by or at the expense of Tenant) shall have been restored as nearly as practicable to the condition in which they were immediately prior to such fire or other casualty. Landlord shall not be liable for delays in the making of any such repairs which are due to Force Majeure, nor shall Landlord be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting from delays in repairing such damage.

Between thirty (30) and sixty (60) days after any casualty, Tenant may inquire of Landlord as to Landlord's estimate of the time period necessary to complete repair of the Premises. Within thirty (30) days after such inquiry, Landlord shall provide Tenant with Landlord's architect's good faith estimate of the time to complete such repairs and if such estimate (which shall be non-binding) shall be more than one year from the date of the casualty, then Tenant may terminate this Lease by notice given to Landlord within thirty (30) days after Tenant's delivery of Landlord's architect's estimate.

If Landlord fails to commence repairs as soon as is reasonably practicable after such damage, and such failure is not due to Force Majeure, and in any event if Landlord does not commence repairs within ninety (90) days of the casualty, Tenant may elect to terminate this Lease by notice to Landlord. If Landlord, having commenced such repair, has not completed the repair of such damage by the later of (i) one year from the occurrence of such damage, or (ii) the date given in any Landlord's architect's repair period estimate under the prior paragraph (the later of such dates is referred to below as the "Outside Restoration Date"), Tenant may elect to terminate this Lease by notice to Landlord within twenty (20) days of the Outside Restoration Date, the termination to be effective not less than thirty (30) days after the date on which such termination notice is received by Landlord. The Outside Restoration Date shall be extended for up to ninety (90) days on account of delays caused by Force Majeure. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting from delays in repairing the damage, however if the delays continue more than ninety (90) days beyond the initial Outside Restoration Date, Tenant may elect to terminate this Lease in the manner provided above.

If (i) the Premises are so damaged by fire or other casualty (whether or not insured) at any time during the last thirty (30) months of the Term that the cost to repair such damage is reasonably

estimated to exceed one-third of the total Annual Fixed Rent payable hereunder for the period from the estimated completion date of repair until the end of the Term, or (ii) at any time the Building (or any portion thereof, whether or not including any portion of the Premises) is so damaged by fire or other casualty (whether or not insured) that substantial alteration or reconstruction or demolition of the Building (or a portion thereof) shall in Landlord's judgment be required ("substantial" damage meaning damage to the extent that the cost of repair will exceed 50% of the value of the Building prior to the occurrence of the fire or other casualty), then and in any of such events, this Lease and the Term hereof may be terminated at the election of Landlord by a notice from Landlord to Tenant within sixty (60) days, or such longer period as is required to complete arrangements with any mortgagee regarding such situation, following such fire or other casualty; provided, however, that in the event Landlord elects to terminate the Lease pursuant to clause (i) above, such election shall be null and void if, within thirty (30) days after receipt of Landlord's notification, Tenant exercises the right (if available) to extend the Term for an Extension Term, in which case the time periods under this Section 6.1 for Landlord to commence and complete repairs shall be continued by thirty (30) days. The effective termination date pursuant to such notice shall be not less than thirty (30) days after the day on which such termination notice is delivered to Tenant. In the event of any termination, the Term shall expire as though such effective termination date were the date originally stipulated in Section 1.1 for the end of the Term and the Annual Fixed Rent and Additional Rent for Operating Expenses and Taxes shall be apportioned as of such date."

6.2 CONDEMNATION — EMINENT DOMAIN

In case during the Term all or any substantial part of the Premises or the Building are taken by eminent domain or Landlord receives compensable damage by reason of anything lawfully done in pursuance of public or other authority affecting all or a substantial part of the Premises or Building, this Lease shall terminate at Landlord's election, which may be made (notwithstanding that Landlord's entire interest may have been divested) by notice given to Tenant within ninety (90) days after the election to terminate arises, specifying the effective date of termination. The effective date of termination specified by Landlord shall not be less than fifteen (15) nor more than thirty (30) days after the date of notice of such termination. Unless terminated pursuant to the foregoing provisions, this Lease shall remain in full force and effect following any such taking, subject, however, to the following provisions. If in any such case the Premises are rendered unfit for use and occupation and this Lease is not terminated, Landlord shall use reasonable diligence (following the expiration of the period in which Landlord may terminate this Lease pursuant to the foregoing provisions of this Section 6.2) to put the Premises, or what may remain thereof (excluding any items installed or paid for by Tenant which Tenant may be required to remove pursuant to Section 5.11), into proper condition for use and occupation and adjust proportion of the Annual Fixed Rent and Additional Rent for Operating Expenses according to the nature and extent of the injury shall be abated until the Premises or such remainder shall have been put by Landlord in such condition; and in case of a taking which permanently reduces the area of the Premises, adjust proportion of the Annual Fixed Rent and Additional Rent for Operating Expenses shall be abated for the remainder of the Term.

If the taking of a part of the Premises substantially and adversely interferes with Tenant's ability to continue its business operations then Tenant may terminate this Lease on written notice to Landlord given not more than thirty (30) days after such taking and effective on the earlier of: (i) the date when title vests; (ii) the date Tenant is dispossessed by the condemning authority; or (iii) sixty (60) days following notice to Tenant of the date when vesting or dispossession is to occur.

6.3 EMINENT DOMAIN AWARD

Except for Tenant's relocation expenses or other awards available to Tenant that do not reduce Landlord's award (specifically so designated by the court or authority having jurisdiction over the matter) Landlord reserves to itself any and all rights to receive awards made for damages to the Premises, the Building or the leasehold hereby created, or anyone or more of them, accruing by reason of exercise of eminent domain or by reason of anything lawfully done in pursuance of public or other authority. Tenant hereby releases and assigns to Landlord all Tenant's rights to such awards, and covenants to deliver such further assignments and assurances thereof as Landlord may from time to time request, hereby irrevocably designating and appointing Landlord as its attorney-in-fact to execute and deliver in Tenant's name and behalf all such further assignments thereof.

ARTICLE VII

DEFAULT

7.1 TERMINATION FOR DEFAULT OR INSOLVENCY

This Lease is upon the condition that:

(1) if Tenant shall fail to perform or observe any of Tenant's covenants, and if such failure shall continue, (a) in the case of Rent or any sum due Landlord hereunder, for more than five (5) Business Days after notice, or (b) in any other case, after notice, for more than thirty (30) days (provided that if correction of any such matter reasonably requires longer than thirty (30) days and Tenant so notifies Landlord within twenty (20) days after Landlord's notice is given together with an estimate of time required for such cure, Tenant shall be allowed such longer period, but only if cure is begun and diligently pursued within such thirty (30) day period and such delay does not cause increased risk of damage to person or property), or

(2) if two (2) or more notices under clause (1) hereof are given in any twelve month period (failure to pay Rent or any other sum for more than five (5) Business Days after the particular due date shall have the same effect under this clause (2) as such a notice), or

(3) if the leasehold hereby created shall be taken on execution, or by other process of law, or if any assignment shall be made of Tenant's property or the property of any guarantor of Tenant's obligations hereunder ("Guarantor") for the benefit of creditors, or

(4) if a receiver, guardian, conservator, trustee in bankruptcy or similar officer shall be appointed by a court of competent jurisdiction to take charge of all or any part of Tenant's or the Guarantor's property and such appointment is not discharged within sixty (60) days thereafter or if a petition including, without limitation, a petition for reorganization or arrangement is filed by Tenant or the Guarantor under any bankruptcy law or is filed against Tenant or the Guarantor and, in the case of a filing against Tenant only, the same shall not be dismissed within sixty (60) days from the date upon which it is filed, then, and in any of said cases, Landlord may, immediately or at any time thereafter, elect to terminate this Lease by notice of termination, by entry, or by any

other means available under law and may recover possession of the Premises as provided herein.

Upon termination by notice, by entry, or by any other means available under law, Landlord shall be entitled immediately, in the case of termination by notice or entry, and otherwise in accordance with the provisions of law to recover possession of the Premises from Tenant and those claiming through or under the Tenant. Such termination of this Lease and repossession of the Premises shall be without prejudice to any remedies which Landlord might otherwise have for arrears of Rent or for a prior breach, violation or default of the provisions of this Lease.

Tenant waives any statutory notice to quit and equitable rights in the nature of further cure or redemption, and Tenant agrees that upon Landlord's termination of this Lease Landlord shall be entitled to re-entry and possession in accordance with the terms hereof. Landlord may, without notice, store Tenant's personal property (and those of any person claiming under Tenant) at the expense and risk of Tenant or, if Landlord so elects, Landlord may sell such personal property in accordance with Section 5.11 and apply the net proceeds to the earliest of installments of Rent or other charges owing Landlord. LANDLORD AND TENANT WAIVE TRIAL BY JURY IN ANY ACTION TO WHICH THEY ARE PARTIES. Tenant further agrees that it shall not interpose any counterclaim (other than a mandatory counterclaim which would otherwise be waived) or set-off in any summary proceeding or in any action based in whole or in part on non-payment of Rent. Nothing herein shall preclude Tenant from asserting a right to abatement under the express terms of this Lease as a defense to a claim of default by Landlord for non-payment of Rent.

7.2 REIMBURSEMENT OF LANDLORD'S EXPENSES

In the case of termination of this Lease pursuant to Section 7.1, Tenant shall reimburse Landlord for all expenses arising out of such termination, including without limitation, all costs incurred in collecting amounts due from Tenant under this Lease (including attorneys' fees, costs of litigation and the like); all expenses incurred by Landlord in attempting to relet the Premises or parts thereof (including advertisements, brokerage commissions, Tenant's allowances, costs of preparing space, maintaining or preserving the Premises after Tenant default, and the like); and all Landlord's other reasonable expenditures necessitated by the termination. The reimbursement from Tenant shall be due and payable immediately from time to time upon notice from Landlord that an expense has been incurred, without regard to whether the expense was incurred before or after the termination. The provisions of this Section 7.2 shall survive the expiration or earlier termination of this Lease.

7.3 DAMAGES

In the event of the termination of this Lease by Landlord, Landlord may elect by written notice to Tenant within one year following such termination to be indemnified for loss of Rent by a lump sum payment representing the then present value of the amount of Rent which would have been paid in accordance with this Lease for the remainder of the Term minus the then present value of the aggregate fair market rent and Additional Rent payable for the Premises for the remainder of the Term (if less than the Rent payable hereunder), estimated as of the date of the termination, and taking into account reasonable projections of vacancy and time required to re-lease the Premises. (For the purposes of calculating the Rent which would have been paid hereunder for the lump sum payment calculation described herein, the last full year's Additional Rent under Section 2.6 is to be deemed constant for each year thereafter. The then-current yield on US Treasury Bonds with a ten (10) year maturity shall be used in calculating present values.) Should the parties be unable to agree on a fair market rent, the

matter shall be submitted, upon the demand of either party, to the Boston, Massachusetts office of the American Arbitration Association, with a request for arbitration in accordance with the rules of the Association by a single arbitrator who shall be an MAl appraiser with at least ten years experience as an appraiser of major office buildings in the Greater Boston area. The parties agree that a decision of the arbitrator shall be conclusive and binding upon them. Should Landlord fail to make the election provided for in this Section 7.3, Tenant shall indemnify Landlord for the loss of Rent by a payment at the end of each month which would have been included in the Term, representing the difference between the Rent which would have been paid in accordance with this Lease (Annual Fixed Rent under Section 2.5, and Additional Rent which would have been payable under Section 2.6 to be ascertained monthly) and the Rent actually derived from the Premises by Landlord for such month (the amount of Rent deemed derived shall be the actual amount less any portion thereof attributable to Landlord's reletting expenses described in Section 7.2 which have not been reimbursed by Tenant thereunder).

All rights and remedies of Landlord under this Section 7.3 and elsewhere in this Lease shall be distinct, separate and cumulative, and none shall exclude any other right or remedy of Landlord set forth in this Lease or allowed by law or in equity. Tenant's obligations under this Section 7.3 shall survive the expiration or earlier termination of the Term.

7.4 MITIGATION

In the event the Lease is terminated pursuant to Section 7.1 and Tenant vacates the Premises, Landlord shall, subject to the provisions of this Section 7.4, use reasonable efforts to relet the Premises and collect the sums due to Landlord as a result of such reletting; provided, however, that any obligation imposed by law upon Landlord to relet the Premises shall be subject to the reasonable requirements of Landlord to lease other available space in the Complex prior to reletting the Premises, to high quality tenants and to lease the Building in a harmonious manner with an appropriate mix of uses, tenants, floor areas and terms of tenancies, and the like.

7.5 CLAIMS IN BANKRUPTCY

Nothing herein shall limit or prejudice the right of Landlord to prove and obtain in a proceeding for bankruptcy, insolvency, arrangement or reorganization, by reason of the termination, an amount equal to the maximum allowed by a statute or law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount is greater to, equal to, or less than the amount of the loss or damage which Landlord has suffered.

7.6 INTEREST ON UNPAID AMOUNTS

If any payment of Annual Fixed Rent, Additional Rent, or other payment due from Tenant to Landlord is not paid when due, then without notice and in addition to all other remedies hereunder, Tenant shall pay to Landlord interest on such unpaid amount equal to one and one-half percent (1.5%) of the amount in question for each month and for each part thereof during which said delinquency continues; provided, however, in no event shall such interest exceed the maximum amount permitted to be charged by applicable law.

7.7 LATE FEE

If any payment of Annual Fixed Rent, Additional Rent, or other payment due from Tenant to Landlord is not paid when due, then Landlord may, at its option, in addition to all other remedies

hereunder, impose a late charge on Tenant equal to five percent (5%) of the amount in question, which late charge will be due within five (5) Business Days after notice as Additional Rent.

7.8 VACANCY DURING LAST TWO MONTHS

If Tenant vacates substantially all of the Premises (or substantially all of any major portion of the Premises, including a floor thereof) at any time within the last two (2) months of the Term, Landlord at its sole risk may enter the Premises (or such portion) and commence demolition work or construction of leasehold improvements for future tenants and the amount of Rent due from and after such entry shall be reduced by one-half. The exercise of such right by Landlord will not affect Tenant's obligations to pay Annual Fixed Rent or Additional Rent with respect to the Premises (or such portion), which obligations shall continue without abatement until the end of the Term. If Landlord elects to enter the Premises for these purposes, Landlord shall indemnify Tenant against personal injury or property damage arising from its activities and shall provide insurance coverages for such injury or damage reasonably acceptable to Tenant, with Tenant named as an additional insured.

7.9 WAIVER OF TRIAL BY JURY

Landlord and Tenant agree that to extent permitted by law, each shall and hereby does waive trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Premises and/or emergency or statutory remedy.

ARTICLE VIII

MISCELLANEOUS

8.1 HOLDOVER

If Tenant remains in the Premises after the termination or expiration of the Term, such holding over shall be as a tenant at sufferance at a rent equal to (x) for the first ninety (90) days after the termination or expiration of the Term, one and one-halftimes the Annual Fixed Rent due hereunder for the last month of the Term and (y) thereafter the greater of (i) one and one-half times the Annual Fixed Rent due hereunder for the last month of the Term and (ii) the fair market rent for the Premises, and otherwise subject to all the covenants and conditions (including obligations to pay Additional Rent under Section 2.6) of this Lease. Notwithstanding the foregoing, if Landlord desires to regain possession of the Premises after the termination or expiration hereof, Landlord may, at its option, re-enter and take possession of the Premises or any part thereof at any time thereafter or by any legal process in force in the state in which the Premises are located. If the Tenant renegotiates a new term with the Landlord of this Lease whether in the Premises or at another location in the Building within 120 days after the expiration of this Lease, all rents in excess of the new rate, paid during the hold over period, will be applied as a credit to the new lease.

Notwithstanding the establishment of any tenancy at sufferance following the expiration or earlier termination of the Term, if Tenant fails promptly to vacate the Premises upon the expiration or earlier termination of the Term, and such failure continues for thirty (30) days after notice from Landlord to Tenant to vacate the Premises, Tenant shall save Landlord harmless, indemnify and defend Landlord against any claim, loss, cost or expense (including reasonable attorneys' fees by counsel of

Landlord's choice and consequential damages) arising out of Tenant's failure promptly to vacate the Premises (or any portion thereof) prior to the expiration of such thirty (30) day period.

8.2 ESTOPPEL CERTIFICATES

At either party's request, from time to time, the other party agrees to execute and deliver to the requesting party within ten (10) days after delivery of such request, a certificate which acknowledges the dates on which the Term begins and ends, tenancy and possession of the Premises and recites such other facts concerning any provision of the Lease or payments made under the Lease which the requesting party or a mortgagee or lender or a purchaser or prospective purchaser of the Building or any interest therein or any other party may from time to time reasonably request. Tenant acknowledges that the execution and delivery of such certificates in connection with a financing or sale in a prompt manner constitute requirements of Landlord's financing and/or property dispositions. Without limitation of the foregoing, Tenant agrees to execute whatever other instruments may be reasonably required by the first mortgagee or junior mortgagee to acknowledge such tenancy in recordable form, within ten (10) days after Landlord's request, correcting as appropriate any representations which are not then correct.

8.3 NOTICE

Any notice, approval, consent and other like communication hereunder from Landlord to Tenant or from Tenant to Landlord shall be effective only if given in writing and shall be deemed duly delivered if (i) hand delivered, (ii) mailed by prepaid certified or registered mail, return receipt requested, or (iii) delivered by a national overnight delivery service, receipt confirmed. If requested, Tenant shall send copies of all such notices in like manner to Landlord's mortgagees and any other persons having an interest in the Premises and designated by Landlord. Any notice so addressed shall be deemed duly delivered on the third Business Day following the day of mailing if so mailed by registered or certified mail, return receipt requested, whether or not accepted, or on the date of delivery if hand delivered or sent by overnight delivery service. Communications to Tenant shall be addressed to Tenant's Authorized Representative at the Notice Address of Tenant set forth in Section 1.1. Communications to Landlord shall be addressed to the Landlord's Address, and a copy of all notices shall be sent to Landlord's attorneys, General Counsel, Hobbs Brook Management LLC, P.O. Box 54929, Waltham, Massachusetts 02454-9249 and Richard D. Rudman, Esq., Hill & Barlow, One International Place, Boston, Massachusetts 02110. Either party may from time to time designate other addresses within the continental United States by notice to the other.

8.4 LANDLORD'S RIGHT TO CURE

At any time and without notice, Landlord may, but need not, cure any failure by Tenant to perform its obligations under this Lease. Whenever Landlord chooses to do so, Tenant shall pay all costs and expenses incurred by Landlord in curing any such failure, including, without limitation, reasonable attorneys' fees together with an administrative charge equal to five percent (5%) of such costs and expenses and interest as provided in Section 7.6.

8.5 SUCCESSORS AND ASSIGNS

This Lease and the covenants and conditions herein contained shall inure to the benefit of and be binding upon Landlord, its successors and assigns, and shall be binding upon Tenant, its successors and assigns, and shall inure to the benefit of Tenant and only such Transferees of Tenant as are permitted hereunder. The term "Landlord" means the original Landlord named herein, its successors

and assigns. The term "Tenant" means the original Tenant named herein and its permitted successors and assigns.

8.6 BROKERAGE

Each party warrants that it has had no dealings with any broker or agent in connection with this Lease or any other space in the Building or office park of which the Building is a part, except for any brokers designated in Section 1.1. Each party covenants to pay, hold harmless, indemnify and defend the other from and against any and all claims, costs, expense or liability (including reasonable attorneys' fees for any compensation, commissions and charges claimed by any broker or agent other than any such broker designated in Section 1.1 with respect to this Lease or the negotiation thereof arising from a breach of the foregoing warranty. Landlord shall be responsible for payment of any brokerage commission to any broker designated in Section 1.1.

8.7 WAIVER

The failure of Landlord or of Tenant to seek redress for violation of, or to insist upon strict performance of, any covenant or condition of this Lease, or, with respect to such failure of Landlord, any of the Rules and Regulations referred to in Section 5.4, whether heretofore or hereafter adopted by Landlord, shall not be deemed a waiver of such violation nor prevent a subsequent act, which would have originally constituted a violation, from having all the effect of an original violation, nor shall the failure of Landlord to enforce any of said Rules and Regulations against any other tenant of the Building be deemed a waiver of any such Rules or Regulations. The receipt by Landlord of Annual Fixed Rent or Additional Rent with knowledge of the breach of any covenant of this Lease shall not be deemed waiver of such breach. No provision of this Lease shall be deemed to have been waived by Landlord, or by Tenant, unless such waiver be in writing signed by the party to be charged. No consent or waiver, express or implied, by Landlord or Tenant to or of any breach of any agreement or duty shall be construed as a waiver or consent to or of any other breach of the same or any other agreement or duty.

8.8 ACCORD AND SATISFACTION

No acceptance by Landlord of a lesser sum than the Annual Fixed Rent and Additional Rent then due shall be deemed to be other than on account of the earliest installment of such Rent due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such installment or pursue any other remedy provided in this Lease. The delivery of keys to Landlord shall not operate as a termination of this Lease or a surrender of the Premises.

8.9 REMEDIES CUMULATIVE

The specific remedies to which Landlord may resort under the terms of this Lease are cumulative and are not intended to be exclusive of any other remedies to which it may be lawfully entitled in case of any breach or threatened breach by Tenant of any provisions of this Lease. In addition to the other remedies provided in this Lease, Landlord shall be entitled to the restraint by injunction of the violation or attempted or threatened violation of any of the covenants or conditions of this Lease or to a decree compelling specific performance of any such covenants or conditions.

8.10 PARTIAL INVALIDITY

If any term of this Lease, or the application thereof to any person or circumstance, shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such term to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term of this Lease shall be valid and enforceable to the fullest extent permitted by law.

8.11 WAIVERS OF LIABILITY AND SUBROGATION

Any property or casualty insurance carried by either party with respect to the Premises, the Building, or property therein or occurrences thereon shall, include a clause or endorsement denying to the insurer rights of subrogation and/or recovery against the other party for any injury or loss due to hazards which are the subject of insurance under the Lease. Each party, notwithstanding any provisions of this Lease to the contrary, hereby waives any rights of recovery against the other for injury or loss due to hazards which are the subject of insurance under the Lease regardless of the fault or negligence of the other party or persons claiming by, through, or under that party. Each party shall be responsible, regardless of the fault of the other, for any deductible, co-insurance or self-insurance with respect to the property or casualty coverage maintained by that party except as provided in Section 2.6.3 and Section 6.1. Insomuch as said waivers will preclude the assignment of any aforesaid claim by way of subrogation (or otherwise) to an insurance company (or any other person) each party agrees, if not previously arranged with its insurance company, immediately to give to each insurance company which has issued to it policies of property insurance for injury or loss due to hazards required to be covered under the Lease written notice of the terms of said mutual waivers, and to have such insurance policies properly endorsed, if necessary to prevent the invalidation of said insurance coverage by reason of said waivers. The mutual waivers of liability and subrogation contained in this Section 8.11 shall override any inconsistent provision of this Lease. For the purposes of this Section 8.11, “Landlord” or “Tenant” shall include the respective mortgagees, agents, employees, managers and/or management companies, officers, directors, attorneys, trustees, and independent contractors.

8.12 ENTIRE AGREEMENT

This Lease contains all of the agreements between Landlord and Tenant with respect to the Premises and supersedes all prior writings and dealings between them with respect thereto.

8.13 NO AGREEMENT UNTIL SIGNED

The submission of this Lease or a summary of some or all of its provisions for examination does not constitute a reservation of or option for the Premises or an offer to lease and no legal obligations shall arise with respect to the Premises or other matters herein until this Lease is executed and delivered by Landlord and Tenant.

8.14 TENANT’S AUTHORIZED REPRESENTATIVE

Tenant designates the person named from time to time as Tenant’s Authorized Representative to take all acts of Tenant hereunder. Landlord may rely on the acts of such Authorized Representative without further inquiry or evidence of authority. Tenant’s Authorized Representative shall be the person so designated in Section 1.1 and such successors as may be named from time to time by the then

current Tenant's Authorized Representative or by Tenant's president, vice president, secretary or general counsel.

8.15 NOTICE OF LEASE

Landlord and Tenant agree not to record this Lease. If appropriate, both parties will, at the request of either, execute, acknowledge and deliver a Notice of Lease and a Notice of Termination of Lease Term, each in recordable form. Such notices shall contain only the information required by law for recording. Tenant hereby irrevocably appoints Landlord as Tenant's attorney-in-fact (which appointment shall survive the expiration of the Term or earlier termination of the Term) with full power of substitution to execute, acknowledge and deliver a notice of termination of lease on Tenant's name if Tenant fails to do so within ten (10) days after request therefor.

8.16 TENANT AS BUSINESS ENTITY

Tenant warrants and represents that (a) Tenant is duly organized, validly existing and in good standing under the laws of the jurisdiction in which such entity was organized; (b) Tenant has the authority to own its property and to carry on its business as contemplated under this Lease; (c) to the best of its knowledge, Tenant is in compliance in all material respects with all laws and orders of public authorities applicable to Tenant; (d) Tenant has duly executed and delivered this lease; (e) the execution, delivery and performance by Tenant of this Lease (i) are within the powers of Tenant, (ii) have been duly authorized by all requisite action, (Hi) will not violate any provision of law or any order of any court or agency of government, or any agreement or other instrument to which Tenant is a party or by which it or any of its property is bound, and (iv) will not result in the imposition of any lien or charge on any of Tenant's property, except by the provisions of this Lease; and (f) the Lease is a valid and binding obligation of Tenant in accordance with its terms. Tenant agrees that breach of the foregoing warranty and representation shall at Landlord's election be a default under this Lease for which there shall be no cure. This warranty and representation shall survive the expiration or earlier termination of the Term.

8.17 [INTENTIONALLY OMITTED]

8.18 FINANCIAL STATEMENTS

Tenant shall furnish to Landlord within one hundred twenty (120) days after each of Tenant's fiscal years during the Term an accurate, up-to-date, audited if available, financial statement of Tenant and Guarantor showing Tenant's, and each Guarantor's, financial condition for the preceding fiscal year. If not so furnished, Tenant shall furnish the same to Landlord within fifteen (15) days of Landlord's request therefor. If no audited financial statement is prepared, such statement will be certified by the CFO or Treasurer of Tenant or Guarantor, as applicable. Unless public by other means, Landlord will maintain confidential such statements, except as required by as applicable law or court order; however Landlord may provide such statements to Landlord's prospective and actual lenders and purchasers, and its and their accountants, attorneys and partners, as long as Landlord advises the recipients of the existence of Landlord's confidentiality obligation.

8.19 MISCELLANEOUS PROVISIONS

This Lease may be executed in counterparts and shall constitute the agreement of Landlord and Tenant whether or not their signatures appear in a single copy hereof. This Lease shall be construed as

a sealed instrument and shall be governed exclusively by the provisions hereof and by the laws of The Commonwealth of Massachusetts as the same may from time to time exist. The titles are for convenience only and shall not be considered a part of the Lease. Where the phrases "persons acting under Tenant" or "persons claiming under Tenant" or similar phrases are used, the persons included shall be all employees, agents, independent contractors and invitees of Tenant or of any Transferee of Tenant. The enumeration of specific examples of or inclusions in a general provision shall not be construed as a limitation of the general provision. If Tenant is granted any extension option, expansion option or other right or option, the exercise of such right or option (and notice thereof) must be unconditional to be effective, time always being of the essence to the exercise of such right or option; and if Tenant purports to condition the exercise of any option or to vary its terms in any manner, then the option granted shall be void and the purported exercise shall be ineffective. Unless otherwise stated herein, any consent or approval required hereunder may be given or withheld in the sole absolute discretion of the party whose consent or approval is required. Nothing herein shall be construed as creating the relationship between Landlord and Tenant of principal and agent, or of partners or joint venturers or any relationship other than landlord and tenant. This Lease and all consents, notices, approvals and all other documents relating hereto may be reproduced by any party by photographic, microfilm, microfiche or other reproduction process and the originals thereof may be destroyed; and each party agrees that any reproductions shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not reproduction was made in the regular course of business) and that any further reproduction of such reproduction shall likewise be admissible in evidence. This Lease may be amended only by a writing signed by all of the parties hereto. Any reference in this Agreement to the time for the performance of obligations or elapsed time shall mean consecutive calendar days, months, or years, as applicable. "Business Day" shall mean any day of the week other than Saturday, Sunday, or a day on which banking institutions in Boston, Massachusetts are obligated or authorized by law or executive action to be closed to the transaction of normal banking business. In the event the time for performance of any obligation hereunder expires on any day other than a Business Day the time for performance shall be extended to the next Business Day. Upon request by Landlord Tenant agrees to execute a confirmation of lease commencement in the form attached as Exhibit F.

8.20 PRIOR LEASE REIMBURSEMENT

Within seven (7) days following the execution of this Lease, Landlord shall pay to Tenant the amount of the Prior Lease Reimbursement as set forth in Section 1.1 as reimbursement for the fee paid by tenant to terminate its prior lease.

8.21 GUARANTY

All of Tenant's obligations under this Lease shall be guaranteed jointly and severally by Tenant's parent, The Relizon Company, a Delaware corporation ("Guarantor"), in accordance with the Guaranty attached as Exhibit G.

ARTICLE IX

LANDLORD'S LIABILITY AND ASSIGNMENT FOR FINANCING

9.1 LANDLORD'S LIABILITY

Tenant agrees to look only to Landlord's interest in the Land and Building (and to the proceeds of any available insurance) for satisfaction of any claim against Landlord hereunder or under any other instrument related to the Lease (including any separate agreements among the parties and any notices or certificates delivered by Landlord) and not to any other property-or assets of Landlord. If Landlord from time to time transfers its interest in the Land and Building (or part thereof which includes the Premises), then from and after each such transfer Tenant shall look solely to the interests in the Land and Building of each of Landlord's transferees for the performance of all of the obligations of Landlord hereunder (or under any related instrument). The obligations of Landlord shall not be binding on any partners, mortgagees, members, managers, directors, officers, trustees, or beneficiaries of Landlord or of any successor, individually, but only upon Landlord's or such successor's interest described above.

Except for the negligence or willful misconduct of Landlord or any of the Indemnitees (as such term is defined in Section 5.6.1) and any liability of Landlord without fault under Sections 4.3.3 or 5.2 of this Lease, Landlord shall not be liable to Tenant and Tenant hereby waives all claims against Landlord for any injury or damage to any person or property whatsoever. In no event shall Landlord ever be liable for any indirect or consequential damages. Except for liability under Sections 5.2 and 8.1 of this Lease, in no event shall Tenant be liable for any indirect or consequential damages. It is expressly agreed by Landlord and Tenant that business interruption costs and expenses are indirect and consequential damages under the terms of this Lease.

9.2 ASSIGNMENT OF RENTS

If, at any time and from time to time, Landlord assigns this Lease or the Rents payable hereunder to the holder of any mortgage on the Building, or to any other party for the purpose of securing financing (the holder of any such mortgage and any other such financing party are referred to herein as the "Financing Party"), whether such assignment is conditional in nature or otherwise, the following provisions shall apply:

(i) Such assignment to the Financing Party shall not be deemed an assumption by the Financing Party of any obligations of Landlord hereunder unless such Financing Party shall, by written notice to Tenant, specifically otherwise elect;

(ii) Except as provided in (i) above and (iii) below, the Financing Party shall be treated as having assumed Landlord's obligations hereunder (subject to Section 9.1) only upon foreclosure of its mortgage (or voluntary conveyance by deed in lieu thereof) and the taking of possession of the Premises from and after foreclosure;

(iii) Subject to Section 9.1, the Financing Party shall be responsible for only such breaches under the Lease by Landlord which occur during the period of ownership by the Financing Party after such foreclosure (or voluntary conveyance by deed in lieu thereof) and taking of possession, as aforesaid; provided, however, that nothing contained herein shall be deemed to restrict the right of Tenant to pursue all applicable remedies, including, if necessary, the termination of this Lease, if a

default of a continuing nature (for example, an unrepaired defect in the roof or HVAC system) is not cured after notice and a reasonable opportunity to cure the default;

(iv) In the event Tenant alleges that Landlord is in default under any of Landlord's obligations under this Lease, Tenant agrees to give the holder of any mortgage, by registered mail, a copy of any notice of default which is served upon the Landlord, provided that prior to such notice, Tenant has been notified, in writing, (whether by way of notice of an assignment of lease, request to execute an estoppel letter, or otherwise) of the address of any such holder. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided by law or such additional time as may be provided in such notice to Landlord, such holder shall have sixty (60) days after the last date on which Landlord could have cured such default within which such holder will be permitted to cure such default. If such default cannot be cured within such sixty (60) day period, then such holder shall have such additional time as may be necessary to cure such default, if within such sixty (60) day period such holder has commenced and is diligently pursuing the remedies necessary to effect such cure (including, but not limited to, commencement of foreclosure proceedings, if necessary, to effect such cure), in which event Tenant shall have no right with respect to such default while such remedies are being diligently pursued by such holder.

In all events, any liability of a Financing Party shall be limited to the interest of such Financing Party in the Land and Building, and in no event shall a Financing Party ever be liable for any indirect or consequential damages.

Tenant hereby agrees to enter into such agreements or instruments as may be requested from time to time in confirmation of the foregoing.

ARTICLE X

SUBORDINATION AND NON-DISTURBANCE

This Lease shall be subject and subordinate to any first mortgage and to any junior mortgage that has been approved by the first mortgagee that may now or hereafter be placed upon the Building and/or the Land and to any and all advances to be made under such mortgages and to the interest thereon, and all renewals, extensions and consolidations thereof, provided that the mortgagee agrees not to disturb Tenant's right of possession or its other rights under this Lease (so long as Tenant is not in default hereunder beyond any applicable notice or cure period) in accordance with a Subordination and Non-Disturbance Agreement in the mortgagee's standard form (provided that such form is commercially reasonable). Any mortgagee may elect to give this Lease priority to its mortgage, except that the Lease shall not have priority to (i) the prior right, claim and lien of such mortgagees in, to and upon any insurance proceeds and the disposition thereof under the mortgage; (ii) the prior right, claim and lien of such mortgagees in, to and upon any award or compensation heretofore or hereafter to be made for any taking by eminent domain of any part of the Premises, and to the right of disposition thereof under the mortgage; and (iii) any lien, right, power or interest, if any, which may have arisen or intervened in the period between the recording of the mortgages and the execution of this Lease, or any lien or judgment which may arise any time under the terms of this Lease. In the event of such election and upon notification by such mortgagee, this Lease shall be deemed prior in lien to the said mortgage. This Article X shall be self-operative, but in confirmation thereof, Tenant shall execute and deliver a Subordination and Non-Disturbance Agreement in the mortgagee's standard form (provided that such form is commercially reasonable) or whatever other instruments may be reasonably required by the first

mortgagee or junior mortgagee to acknowledge such subordination or priority in a recordable form. Any mortgagee's standard processing fee and any Landlord's reasonable attorneys' fees associated with the execution of the Subordination and Non-Disturbance Agreement shall be payable as Additional Rent.

Landlord represents that as of the date of this Lease, Landlord is the fee owner of the Building and Land and there is no mortgage encumbering the Building and/or Land.

ARTICLE XI

PARKING

11.1 GENERAL

Landlord agrees to provide four and one-half (4.5) parking spaces per 1,000 square feet of rentable area in the Premises on a non-reserved basis in the Automobile Parking Area during the term of this Lease for the benefit and use of the customers and employees of Ten ant, and other tenants and occupants of the Building at no additional charge. Notwithstanding the foregoing, ten (10) of the aforementioned parking spaces shall be reserved spaces for Tenant's executives at a location in the parking structure nearest to the Building entrance, taking into account requirements for handicapped accessible parking spaces, no more than thirty (30) of the other spaces in the Automobile Parking Area shall be reserved spaces for other tenants, and Tenant shall have the benefit and use of any unreserved parking spaces in the parking structure as so designated by Landlord from time to time on a "first come first served" basis. To the extent that any system is implemented that assigns parking spaces or areas (other than for handicapped parking and up to 40 reserved spaces as set forth above, Tenant and its employees shall be given preference over other tenants of the Building in the use of spaces within the parking structure proportional to Tenant's percentage of the Building. (The number of reserved parking spaces for Tenant and for others shall be proportionately adjusted if the area of the Premises is reduced.) Wherever the words "Automobile Parking Area" are used in this Lease, it is intended that the same shall include, whether in a surface parking area or a parking structure, the automobile parking stalls, driveways, entrances, exits, sidewalks, landscaped areas, pedestrian passageways in conjunction therewith and other areas designated for parking. Nothing contained herein shall be deemed to create liability upon Landlord for any damage to motor vehicles of customers, suppliers, employees or other third parties or from loss of property from within such motor vehicles, unless caused by the gross negligence or willful misconduct of Landlord, its agents, servants and employees. Landlord shall have the right to establish and enforce against all users of the Automobile Parking Area, such reasonable rules and regulations as may be deemed necessary and advisable for the proper and efficient operation and maintenance of the Automobile Parking Area, including the hours during which the Automobile Parking Area shall be open for use.

Landlord may establish for the Automobile Parking Area, a system or systems of validation or other operation including, but not limited to, a system of charges against nonvalidated parking checks of users. Tenant shall comply with such system, and all rules and regulations established by Landlord in conjunction with such system, and shall cause its customers and employees to comply therewith; provided, however, that such system and such rules and regulations shall apply equally and without discrimination to all persons entitled to the use of the Automobile Parking Area and shall allow employees and visitors of Tenant to park without charge.

Landlord shall at all times during the Term hereof have the sole and exclusive control of the Automobile Parking Area, may change the exact location of the parking area from time to time subject to the required ratio of parking spaces set forth above and may at any time during the Term hereof exclude and restrain any person from use thereof; excepting, however, Tenant and its employees, bona fide customers, patrons and service suppliers of Tenant and other tenants of Landlord who make use of said area in accordance with any rules and regulations established by Landlord from time to time with respect thereto. Landlord shall also have the right to designate certain automobile parking areas as being for the exclusive use of one or more of the tenants of Landlord. The rights of Tenant referred to in this Article XI shall at all times be subject to the rights of Landlord and the other tenants of Landlord to use the same in common with Tenant, and it shall be the duty of Tenant to keep all of said area free and clear of any obstructions created or permitted by Tenant or resulting from Tenant's operations and
to permit the use of any of said area only for normal parking and ingress and egress by said customers, patrons and service suppliers to and from the Building.

Landlord reserves the right, in its sole discretion and acting in good faith, to require that identification cards which permit ingress to and egress from the Automobile Parking Area be utilized and/or displayed for the security of tenants and occupants of the Building, may change the form of such cards at any time and from time to time, and may require photographic identification of all parties utilizing the Automobile Parking Area. Furthermore, Landlord may limit access to the Automobile Parking Area to those parties appearing on an employee, guest and vendor list which Landlord may prepare and maintain from time to time with input from tenants and occupants of the Building; may search and tow vehicles from the Automobile Parking Area; and may close the Automobile Parking Area, all for the security of the tenants and occupants of the Building.

Landlord shall at all times have the sole right and privilege of determining the nature and extent of the Automobile Parking Area, whether the same shall be surface, underground or other structure, and of making such changes therein from time to time which in its opinion are deemed to be desirable and for the best interests of all persons using the Automobile Parking Area. Parking is on a first-come, first served basis except as otherwise provided herein. Landlord shall not be liable to Tenant, and the Lease shall not be affected, if any parking rights of Tenant hereunder are impaired by any law, ordinance or other governmental regulation imposed after the Date of Lease.

11.2 EMPLOYEE PARKING

It is understood and agreed that the employees of Tenant and the other tenants of Landlord within the Building shall not be permitted to park their automobiles in the portions of the Automobile Parking Area which may from time to time be designated for patrons of the Building and that Landlord shall at all times have the right to establish rules and regulations for employee parking.

11.3 PATRON PARKING

Landlord may provide within the automobile parking area parking spaces for the patrons of Tenant and other tenants in the Building in sufficient number as from time to time Landlord shall deem appropriate.

ARTICLE XII

ROOF SPACE

12.1 GPS ANTENNA

(a) Effective as of the Term Commencement Date, Landlord agrees to grant to Tenant a license to use a portion of the roof of the Building and enjoy 24-hour access thereto (the 'Rooftop License") at a technologically sufficient location to be proposed by Tenant and approved by Landlord (which approval shall not be unreasonably withheld or delayed provided the installation of the GPS Antenna in the location proposed by Tenant does not materially and adversely affect (i) the structural integrity of the Building or (ii) any electrical, mechanical, or other system of the Building) consisting of approximately no more than four (4) square horizontal feet (the 'Rooftop Installation Area"), with any guide wires to be located therein or within the immediate vicinity. The Rooftop Installation Area is to be used by Tenant solely for the installation, operation, maintenance, repair and replacement during the Term of this Lease of a GPS antenna eighteen (18") inches in diameter and other related communications equipment, including one two-inch (2") conduit connecting the antenna to the Premises, to be located in a vertical chase mutually designated by Landlord and Tenant (collectively, the 'GPS Antenna"). Tenant's installation and operation of the GPS Antenna and its obligations with respect thereto shall be all in accordance with the terms, provisions, conditions and agreements contained in this Lease.

(b) Tenant shall install the GPS Antenna in the Rooftop Installation. Area at its sole cost and expense, at such times and in such manner as Landlord may reasonably designate and in accordance with all of the applicable provisions of this Lease (including, without limitation, Section 3.3). Landlord shall not be obligated to perform any work or incur any expense to prepare the Rooftop Installation Area for Tenant's use thereof.

(c) Tenant shall not install or operate the GPS Antenna until it receives prior written approval from Landlord, which approval Landlord agrees shall not be unreasonably withheld, conditioned, or delayed provided, and on the condition that Tenant complies with all of the requirements of this Lease (including, without limitation, Section 3.3 and this Article XII). Prior to commencing such installation, Tenant shall provide Landlord with (i) copies of all required permits, licenses and authorizations which Tenant will obtain at its own expense and which Tenant will maintain at all times during the operation of the GPS Antenna; and (ii) a certificate of insurance evidencing insurance coverage as required by this Lease and any other insurance reasonably required by Landlord for the installation and operation of the GPS Antenna. Landlord may withhold approval if the installation or operation of the GPS Antenna reasonably would be expected to damage the structural integrity of the Building.

(d) Tenant covenants that (i) Tenant shall repair any damage to the roof of the Building caused by the installation or operation of the GPS Antenna, (ii)the installation and operation of the GPS Antenna on the roof shall not cause interference with any telecommunications, mechanical or other systems either located or servicing the Building (whether belonging to or utilized by Landlord or any other tenant or occupant of the Building) or located at or servicing any building, premises or location in the vicinity of the Building, except to the extent permissible under applicable F.C.C. regulations and (iii) the installation, existence, maintenance and operation of the GPS Antenna shall not constitute a violation of any applicable laws, ordinances, rules, order, regulations, etc., of any Federal, State, or municipal authorities having jurisdiction thereover, or constitute a nuisance or interfere with the use and enjoyment of the premises of any other tenant in the Building.

(e) The term of the Rooftop License shall be deemed to commence on the Term Commencement Date and expire on the expiration or earlier termination of the Term of this Lease.

(f) Tenant shall pay to Landlord as Additional Rent (the ‘‘GPS Rent”), all applicable taxes or governmental charges, fees, or impositions imposed upon Landlord and arising out of Tenant’s use of the Rooftop Installation Area, and the amount, if any, by which Landlord’s insurance premiums increase as a result of the installation of the GPS Antenna.

(g) Tenant covenants and agrees that the installation, operation and removal of the GPS Antenna will be at its sole risk. Tenant agrees to indemnify and defend Landlord and all other Indemnitees (as defined in Section 5.6.1) against all claims, actions, actual and punitive damages, liabilities and expenses including reasonable attorney’s fees by counsel of Landlord’s choice incurred in connection with the loss of life, personal injury, damage to property or business or any other loss or injury or as a result of any litigation arising out of the installation, use, operation, or removal of the GPS Antenna by Tenant or its transferee, including any liability arising out of Tenant’ s violation of its obligations under paragraph (d) of this Article XII (except if such liability is caused by the gross negligence or willful misconduct of Landlord or its employees, agents, or contractors). Landlord assumes no responsibility for interference in the operation of the GPS Antenna caused by other tenants’ telecommunications equipment, or for interference in the operation of other tenants’ telecommunications equipment caused by the GPS Antenna.

(h) Within fifteen (15) days following the expiration or earlier termination of the Lease or the permanent termination of the operation of the GPS Antenna by Tenant, Tenant shall, at its sole cost and expense, (i) remove the GPS Antenna from the Rooftop Installation Area and the Building in accordance with the terms hereof, (ii) leave the Rooftop Installation Area in good order and repair, reasonable wear and tear excepted and (iii) pay all amounts due and owing with respect to the Rooftop License up to the date of the termination thereof. If Tenant does not remove the GPS Antenna when so required, the GPS Antenna shall become Landlord’s property and, at Landlord’s election, Landlord may remove and dispose of the GPS Antenna and charge Tenant for all costs and expenses incurred as Additional Rent. Notwithstanding that Tenant’s use of the Rooftop Installation Area shall be subject at all times to and shall be in accordance with the terms, covenants, conditions and agreements contained in this Lease, the Rooftop Installation Area shall not be deemed part of the Premises. All Tenant obligations under this Article XII shall survive the Term of this Lease.

ARTICLE XIII

BACK-UP GENERATOR

13.1 BACK-UP GENERATOR

(a) Effective as of the Term Commencement Date, Landlord agrees to grant to Tenant a license to use a portion of the ground next to the Building and enjoy 24-hour access thereto (the “Ground License”) at a technologically sufficient location reasonably designated by Landlord (the “Ground Installation Area”). The Ground Installation Area is to be used by Tenant solely for the installation, operation, maintenance, repair and replacement during the Term of this Lease of a back-up ground level generator and related fuel supply and infrastructure comparable to Landlord’s existing 850KV A facility, to support Tenant’s data center and other Tenant critical facilities and equipment (the

"Generator"). Tenant's installation and operation of the Generator and its obligations with respect thereto shall be all in accordance with the terms, provisions, conditions and agreements contained in this Lease.

(b) Tenant shall install the Generator in the Ground Installation Area at its sole cost and expense, at such times and in such manner as Landlord may reasonably designate and in accordance with all of the applicable provisions of this Lease (including, without limitation, Section 3.3). Landlord shall not be obligated to perform any work or incur any expense to prepare the Ground Installation Area for Tenant's use thereof.

(c) Tenant shall not install or operate the Generator until it receives prior written approval from Landlord, which approval Landlord agrees shall not be unreasonably withheld, conditioned, or delayed provided, and on the condition that Tenant complies with all of the requirements of this Lease (including, without limitation, Section 3.3 and this Article XIII). Prior to commencing such installation, Tenant shall provide Landlord with (i) copies of all required permits, licenses and authorizations which Tenant will obtain at its own expense and which Tenant will maintain at all times during the operation of the Generator; and (ii) a certificate of insurance evidencing insurance coverage as required by this Lease and any other insurance reasonably required by Landlord for the installation and operation of the Generator. Landlord may withhold approval if the installation or operation of the Generator reasonably would be expected to damage the structural integrity of the Building. Tenant agrees to reimburse Landlord for reasonable expenses incurred in connection with the review and approval of Tenant's plans showing the proposed installation of the Generator.

(d) Tenant covenants that (i) Tenant shall repair any damage to the Land or Building caused by the installation or operation of the Generator, (ii) the installation and operation of the Generator on the ground shall not cause interference with any telecommunications, mechanical or other systems either located or servicing the Building (whether belonging to or utilized by Landlord or any other tenant or occupant of the Building) or located at or servicing any building, premises or location in the vicinity of the Building, and (iii) the installation, existence, maintenance and operation of the Generator shall not constitute a violation of any applicable laws, ordinances, rules, order, regulations, etc., of any Federal, State, or municipal authorities having jurisdiction thereover, or constitute a nuisance or interfere with the use and enjoyment of the premises of any other tenant in the Building.

(e) The term of the Ground License shall be deemed to commence on the Term Commencement Date and expire on the expiration or earlier termination of the Term of this Lease.

(f) Tenant shall pay to Landlord as Additional Rent (the "Generator Rent"), all applicable taxes or governmental charges, fees, or impositions imposed upon Landlord (excluding Taxes) and arising out of Tenant's use of the Ground Installation Area, and the amount, if any, by which Landlord's insurance premiums increase as a result of the installation of the Generator.

(g) Tenant covenants and agrees that the installation, operation and removal of the Generator will be at its sole risk. Tenant agrees to indemnify and defend Landlord and all other Indemnitees (as defined in Section 5.6.1) against all claims, actions, actual and punitive damages, liabilities and expenses including reasonable attorney's fees by counsel of Landlord's choice incurred in connection with the loss of life, personal injury, damage to property or business or any other loss or injury or as a result of any litigation arising out of the installation, use, operation, or removal of the Generator by Tenant or its transferee, including any liability arising out of Tenant's violation of its obligations under paragraph (d) of this Article XIII (except if such liability is caused by the gross negligence or willful misconduct of Landlord or its employees, agents, or contractors).

(h) Within fifteen (15) days following the expiration or earlier termination of the Lease or the permanent termiination of the operation of the Generator by Tenant, Tenant shall, at its sole cost and expense, (i) remove the Generator from the Ground Installation Area and the Building in accordance with the terms hereof, (ii) leave the Ground Installation Area in good order and repair, reasonable wear and tear excepted and (iii) pay all amounts due and owing with respect to the Ground License up to the date of the termination thereof. If Tenant does not remove the Generator when so required, at Landlord's election, Landlord may remove and dispose of the Generator and charge Tenant for all costs and expenses incurred as Additional Rent. Notwithstanding that Tenant's use of the Ground Installation Area shall be subject at all times to and shall be in accordance with the terms, covenants, conditions and agreements contained in this Lease, the Ground Installation Area shall not be deemed part of the Premises. All Tenant obligations under this Section 13.1 shall survive the Term of this Lease.

Executed to take effect as a sealed instrument.

LANDLORD:

601 EDGEWATER LLC

By: (-s- ILLEGIBLE)
Manager

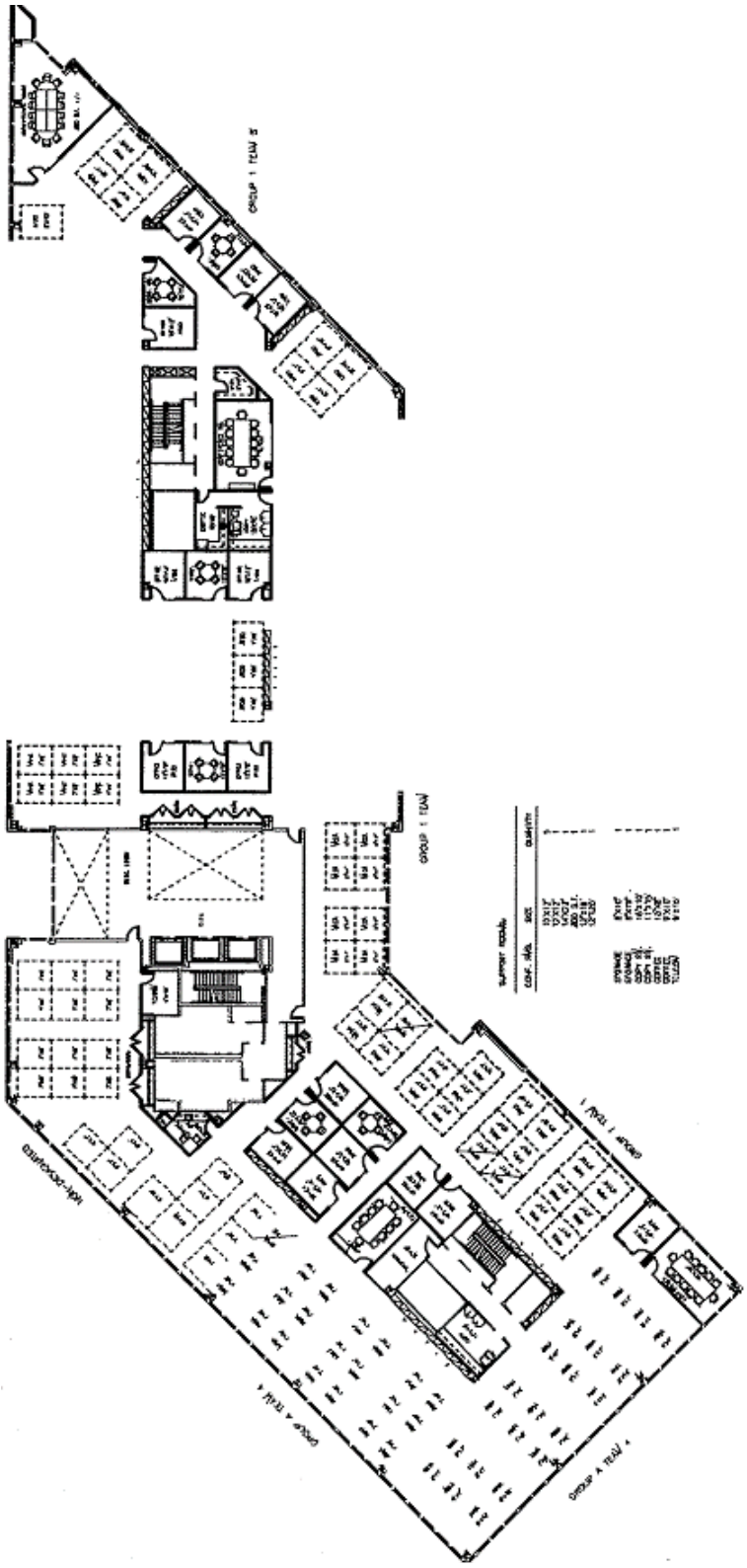
TENANT:

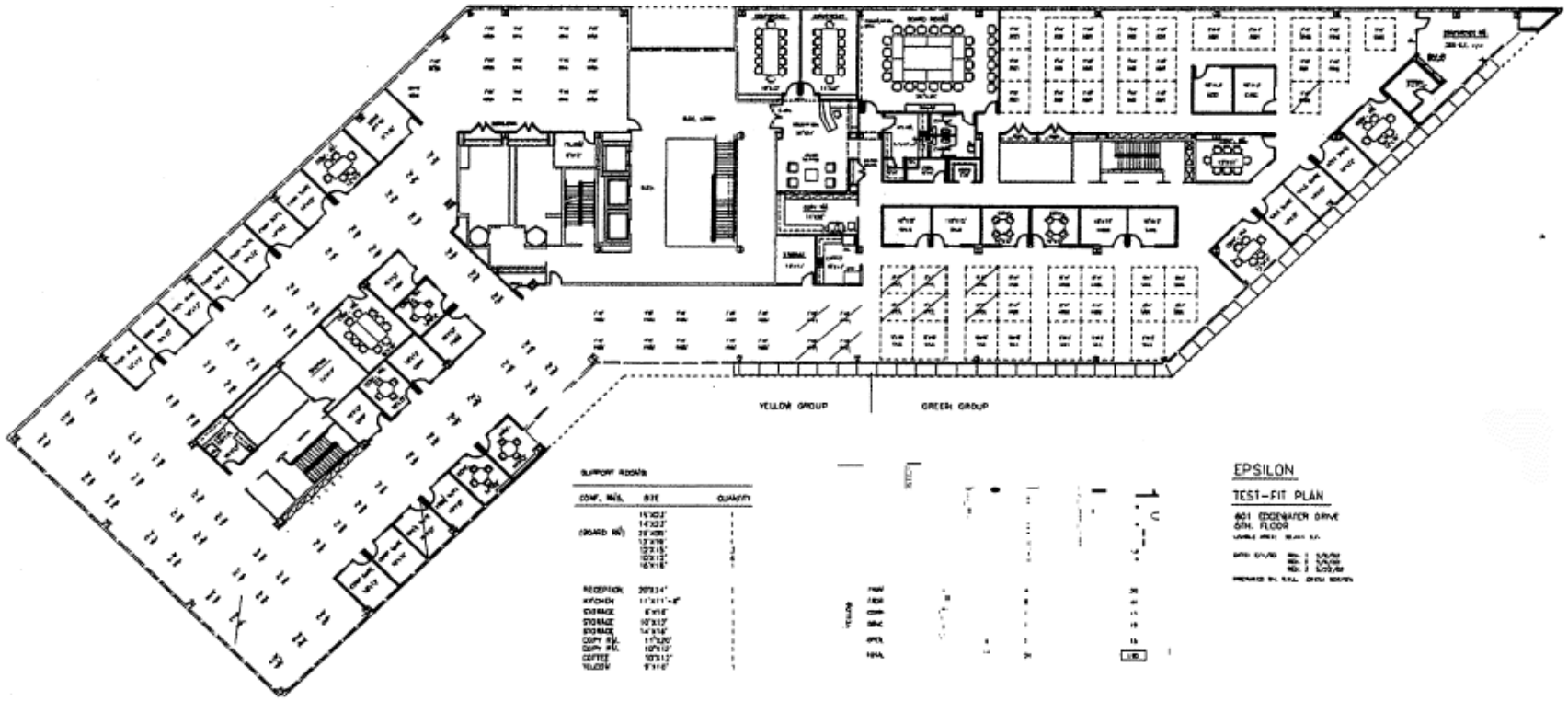
EPSILON DATA MANAGEMENT, INC.

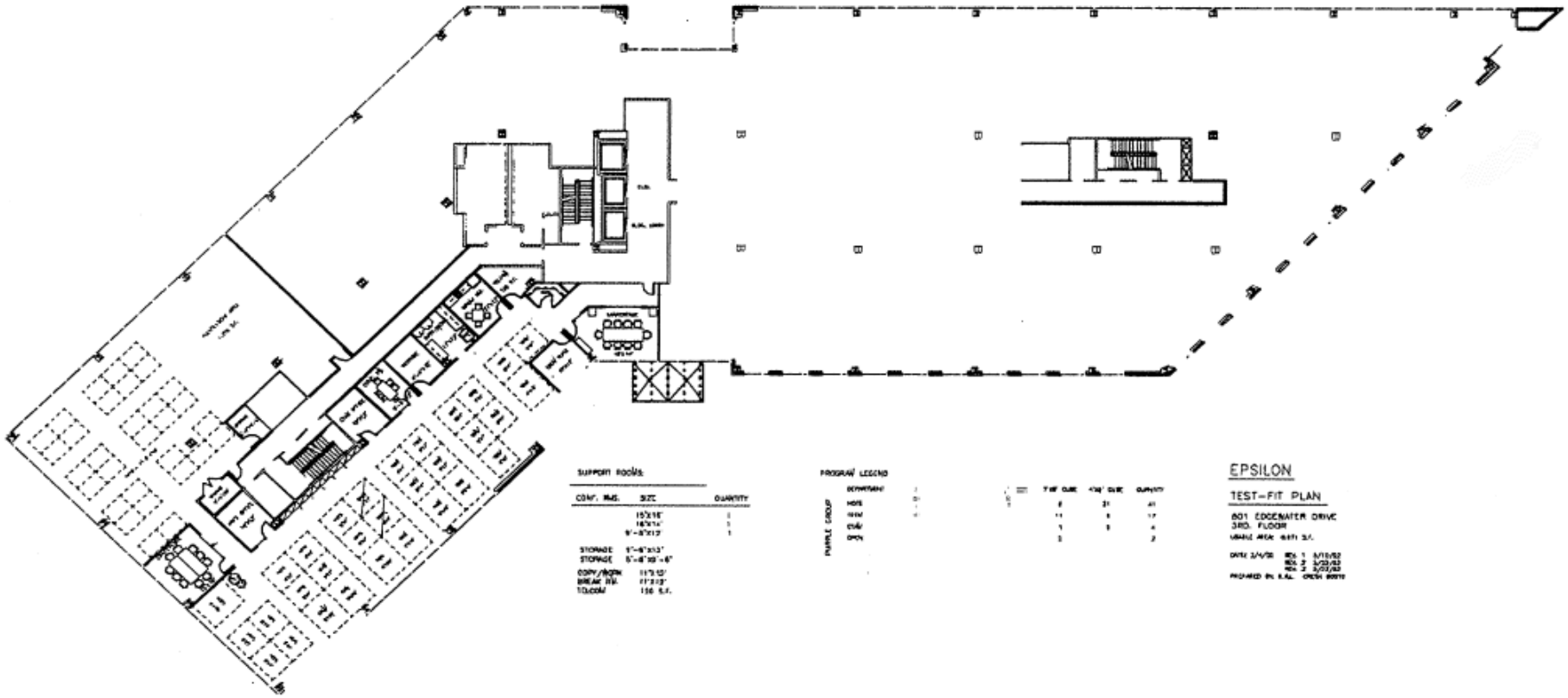
By: /s/ Timothy Schriner
Name:
Title: President/Vice-President

BY: /s/ Sarah L. Burton
Name: Sarah L. Burton
Title: Treasurer/Assistant Treasurer

Exhibit A Premises




YELLOW GROUP
GREEN GROUP
EPSILON
TEST-FIT PLAN



SUPPORT ROOMS

CONF. RMS.	SIZE	QUANTITY
	15'X15'	1
	18'X14'	1
	9'-8"X13'	1
STORAGE	5'-8"X13'	
STORAGE	5'-8"X8'-6"	
COPY/WORK	11'X13'	
BREAK RM.	11'X13'	
TELCOM/	156 S.F.	

PROGRAM LEGEND

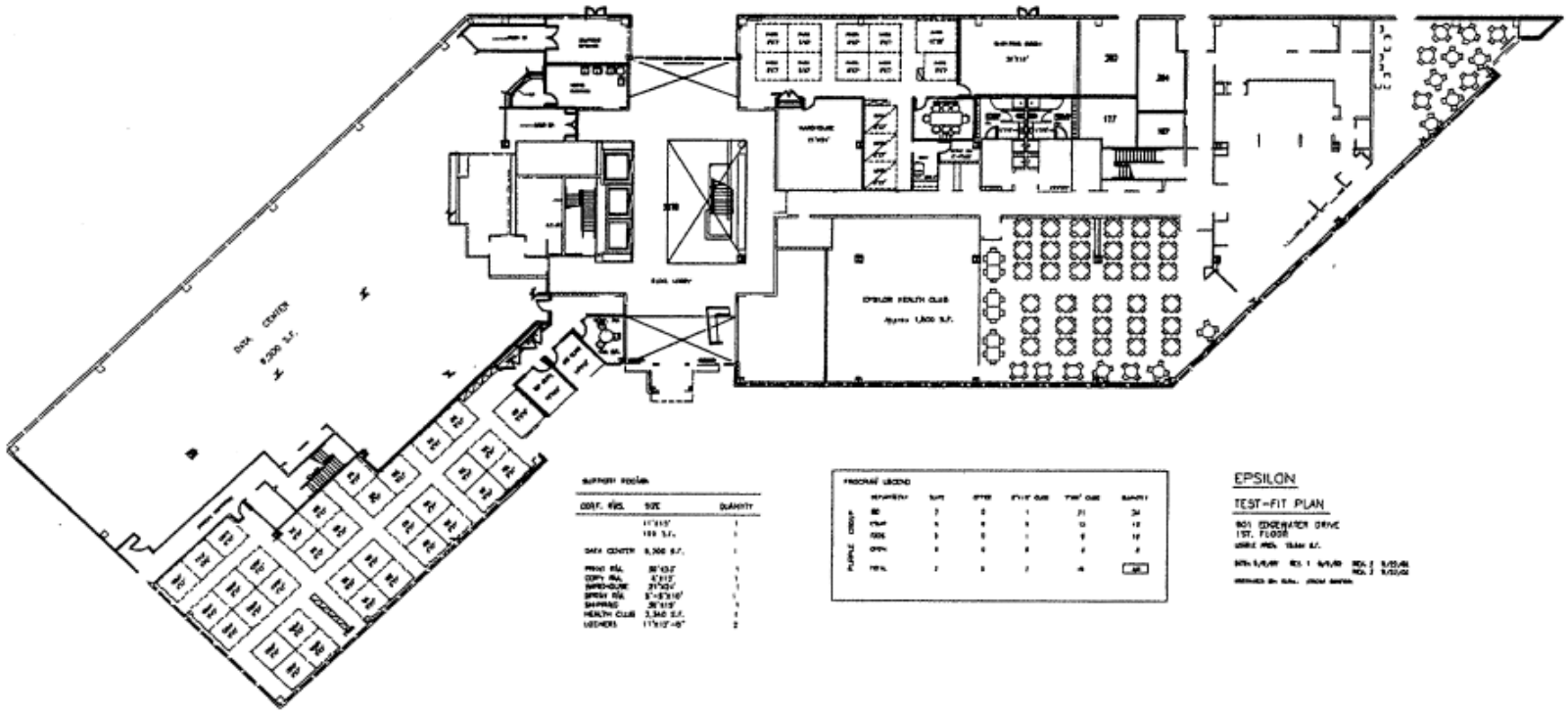
		7'W' CUBE	10'W' CUBE	QUANTITY
PURPLE GROUP	EXECUTIVE			
	MGR.	6	21	27
	MGR.	11	6	17
	CHAIR	1	3	4
	OPEN	2		2

EPSILON

TEST-FIT PLAN

601 EDGEWATER DRIVE
3RD. FLOOR
RENTABLE AREA: 16,871 S.F.

DATE: 2/4/92 REV. 1 3/10/92
REV. 2 3/20/92
REV. 3 3/27/92
PREPARED BY: K.A.L. CHECK BOX'D

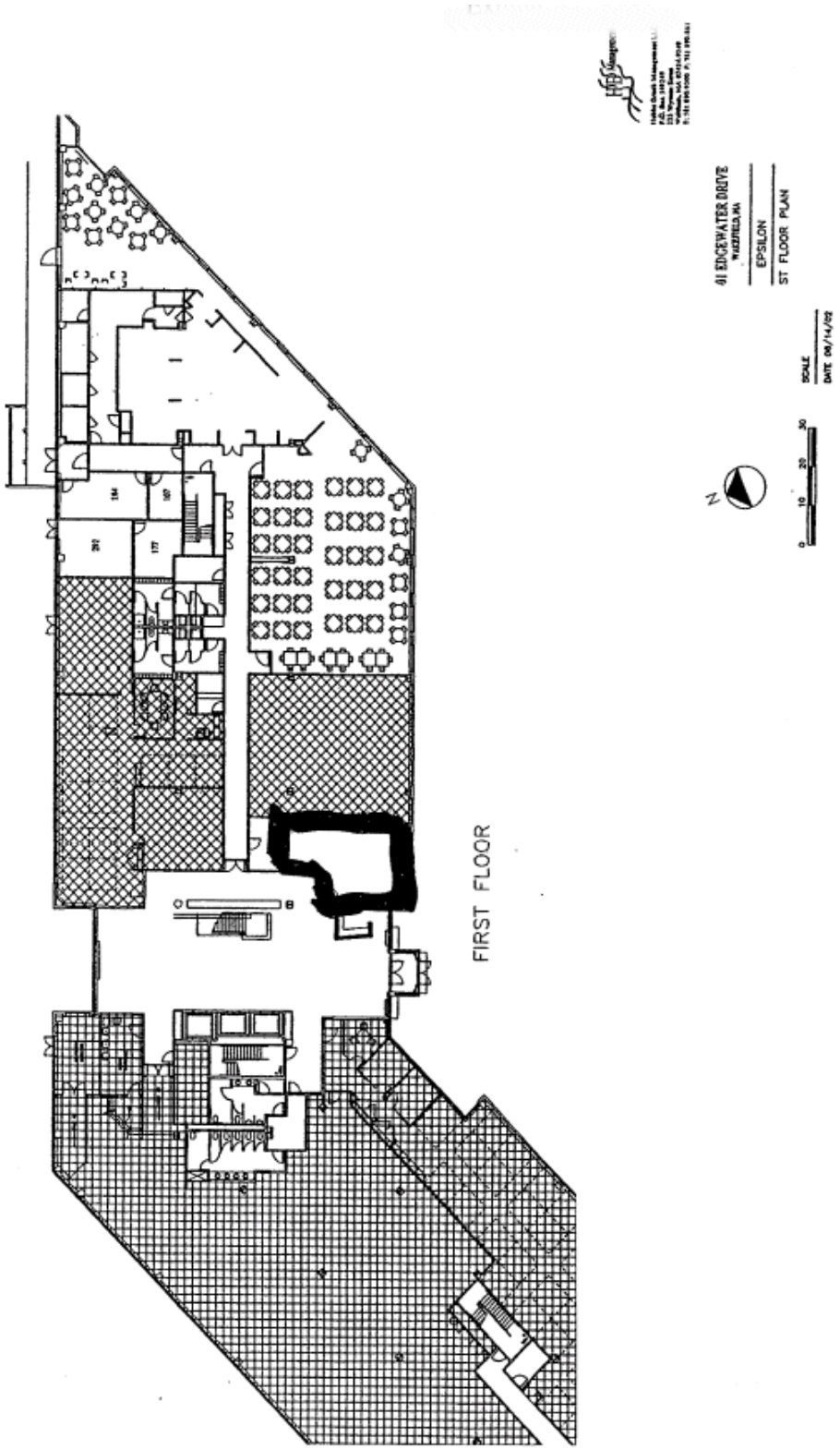


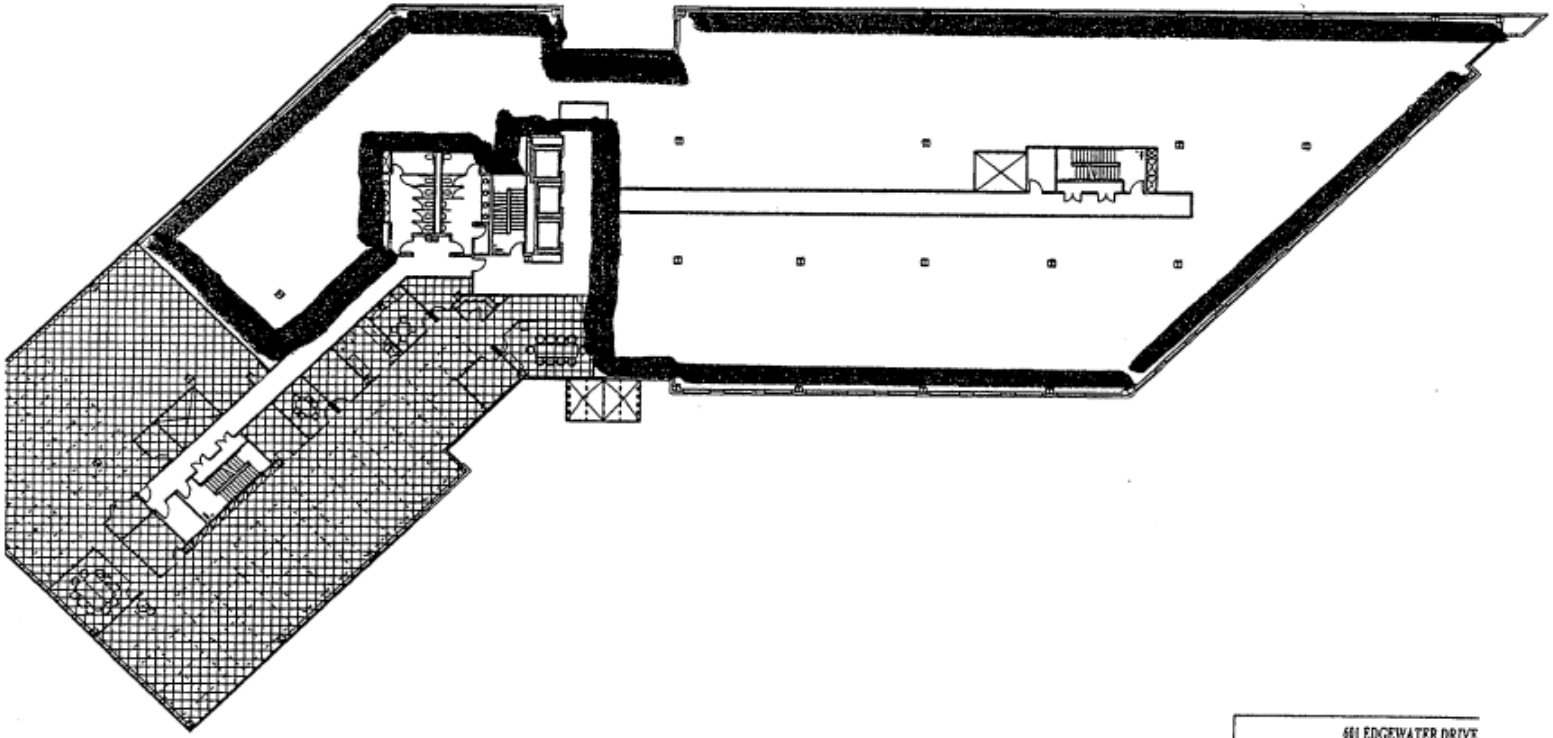
EPSILON

TEST-FIT PLAN

901 EDGEWATER DRIVE
1ST. FLOOR

Exhibit A-2 **RFO**





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601 EDGEWATER DRIVE WAKEFIELD, MA	
EPSILON	
3RD FLOOR PLAN	
SCALE	
DATE 05/14/02	

Hines

Hines Retail Management LLC
P.O. Box 541249
200 Wyman Street
Waltham, MA 02454-9249
T: 781 890-9100 F: 781 890-4411

Exhibit A-3 Location of Walkway

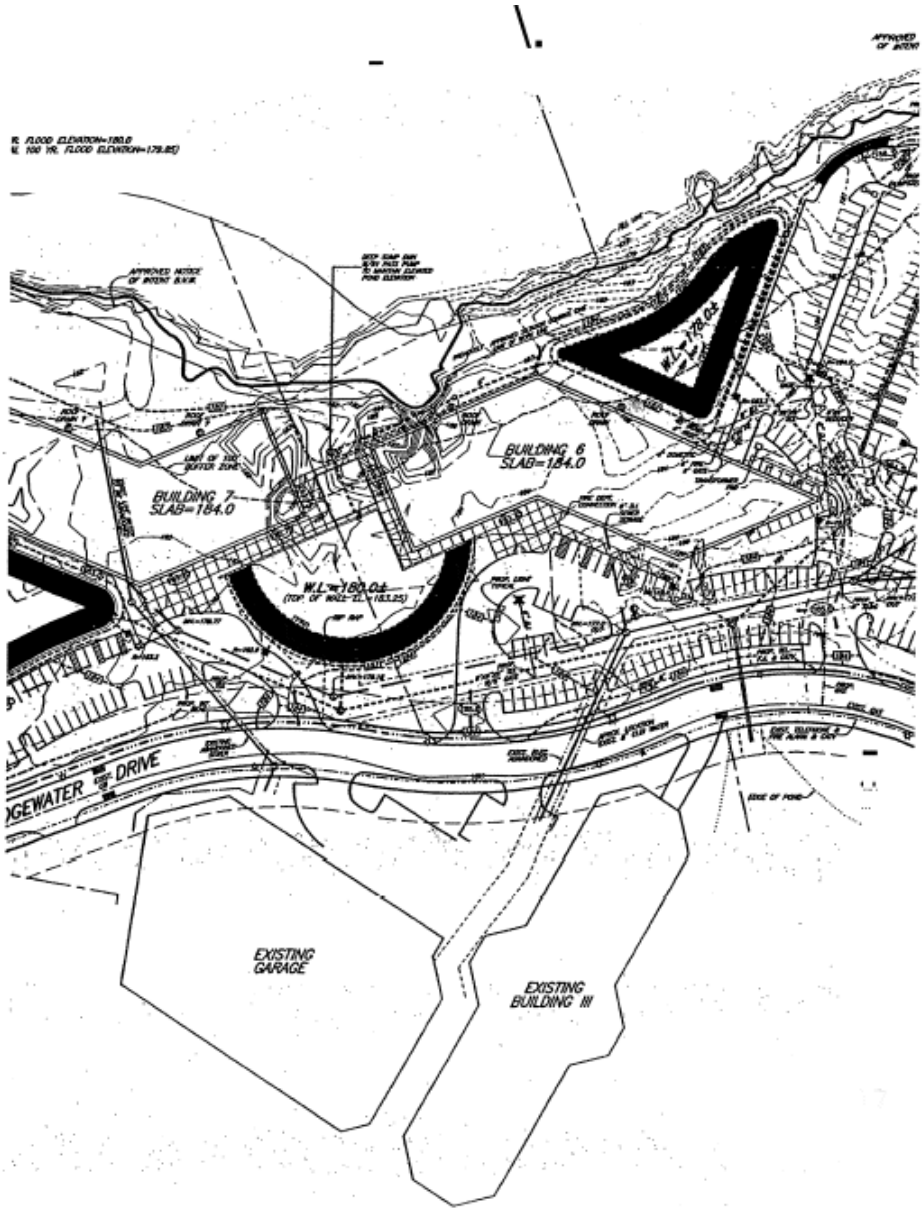

Exhibit B

Tenant's Initial Construction

[Plans by Tenant; Construction by Tenant; Improvement Allowance)

1. Plans and Specifications.

(a) Preparation of Plans. Tenant shall prepare at Tenant's cost, subject to the Improvement Allowance, as hereinafter defined, plans ('Tenant's Plans") for the construction and layout of the Premises. Tenants leasing partial floors shall design entrances, doors and any other elements which visually integrate with the elevator lobbies and common areas in a manner and with materials and finishes which are compatible with the Building standard materials and common area finishes for such floor. Tenant may contract directly for design work or through design-build contracts with Landlord approval not to be unreasonably withheld. Where required, Tenant shall employ the engineers utilized or otherwise approved by Landlord to construct the Building for all mechanical, electrical and plumbing engineering design work, Landlord approval not to be unreasonably withheld. Tenant reserves the sole right to employ engineers approved by Landlord for the design of Ten ant's data center. Tenant shall consult with Landlord from time to time as Tenant's Plans are being prepared and Tenant's Plans shall be subject to Landlord's prior written approval prior to the commencement of construction. Landlord shall not unreasonably withhold, condition, or delay Landlord's approval of the Tenant Plans, and if, for any reason, Landlord does not approve Tenant's Plans, it shall state specifically the reasons therefor. Landlord need not approve any items or aspects of Tenant's Initial Construction which in Landlord's reasonable judgment (i) would delay other work in the Building, (ii) would increase the cost of operating the Building or performing any other work in the Building, (iii) are incompatible with the design, quality, equipment or systems of the Building, (iv) would require unusual expense to readapt the Premises to general purpose office use or (v) otherwise do not comply with the provisions of this Lease (including, without limitation, Section 5.10).

(b) Tenant Plans. Tenant shall submit the information/data/plans, etc., as noted:

(i) Major Work: A list of any items or matters, which might require structural modifications to the Building, including, without limitation, the following:

(1) Location and details of special floor areas exceeding seventy (70) pounds of live load per square foot;

(2) Location and weights of storage files;

(3) Location of any special soundproofing requirements;

(4) Existence of any extraordinary HVAC requirements necessitating perforation of structural members or connection to the Building condenser water loop; and

(5) Existence of any requirements for interconnecting staircases or other items affecting the structure.

(ii) Final Plans: One (1) sepia and one (1) blackline drawing showing all architectural, mechanical and electrical systems, including, without limitation, cutsheets, specifications and the following:

CONSTRUCTION PLANS:

(1) All partitions shall be shown; indicate all Building standard or non- standard construction and details referenced;

(2) Dimensions for partition shall be shown to face of stud; critical tolerances and ± dimensions shall be clearly noted;

(3) All doors shall be shown on and shall be numbered and scheduled on door schedule;

(4) All non-Building standard construction, non-standard materials and/or installation shall be explicitly noted; equipment and finishes shall be shown and details referenced; and

(5) All plumbing fixtures or other equipment requirements and any equipment requiring connection to Building plumbing systems shall be noted.

REFLECTED CEILING PLAN:

(1) Layout suspended ceiling grid pattern in each room, describing the intent of the ceiling working point, origin and/or centering; and

(2) Locate all ceiling-mounted lighting fixtures and air handling devices including air dampers, fan boxes, etc., Building standard 2’ x 2’ fluorescent lighting fixtures, Building standard supply air diffusers, Building standard wall switches, down lights, special lighting fixtures, special return air registers, special supply air diffusers, and special wall switches.

TELEPHONE AND ELECTRICAL EQUIPMENT PLAN:

(1) All telephone outlets required;

(2) All electrical outlets required; note non-standard power devices and/or related equipment; and

(3) All electrical requirements associated with plumbing fixtures or equipment; append product data for all equipment requiring special power, temperature control or plumbing considerations.

DOOR SCHEDULE:

(1) Provide a schedule of doors, sizes, finishes, hardware sets, and all information necessary to fully describe selected Building standard; and

(2) Non-standard materials and/or installation shall be explicitly noted.

HVAC:

(1) Areas requiring special temperature and/or humidity control requirements;

(2) Heat emission of equipment (including catalogue cuts), such as CRTs, copy machines, etc.; and

(3) Special exhaust requirements — conference rooms, pantry, toile5, etc.

ELECTRICAL:

(1) Special lighting requirements;

(2) Power requirements and special outlet requirements of equipment;

(3) Security requirements; and

(4) Supplied telephone equipment and the necessary space allocation for same.

PLUMBING:

(1) Remote toilets;

(2) Pantry equipment requirements;

(3) Remote water and/or drain requirements such as for sinks, ice makers, etc.; and

(4) Special drainage requirements, such as those requiring holding or dilution tanks.

COMPUTERS:

Equipment cuts, power requirements, heat emissions, raised floor requirements, fire protection requirements, security requirements, and emergency power.

(c) Plan Requirements. Tenant's Plans shall be fully detailed and fully coordinated, shall show complete dimensions, and shall have designated thereon all points of location and other matters, including, without limitation, special construction details and finish schedules. All drawings shall be uniform size (30" x 42") and shall incorporate the standard electrical and plumbing symbols and be at a scale of 1/8" = 1'O" or larger. Materials and/or installation shall be explicitly noted and adequately specified to allow for Landlord review, building permit application, and construction. A concise description of products, acceptable substitutes, and installation procedures and standards shall be provided. Product cuts must be provided and special mechanical or electrical loads noted. Landlord's approval of the plans, drawings, specifications or other submissions in respect of any work, addition, alteration or improvement to be undertaken by or on behalf of Tenant shall create no liability or responsibility on the part of Landlord for their completeness, design sufficiency or compliance with requirements of any applicable laws, rules or regulations of any governmental or quasi-governmental agency, board or authority .

(d) Drawing and Document Production. Landlord shall provide Tenant with a sepia drawing or CAD disk showing the Building outline, core walls and columns, together with corridor and demising wall location plans. In addition, in the event that compatible CAD drawing production is not available between the architectural designer and the mechanical, electrical and plumbing engineers, the following four (4) mylars, supplied by the architects to the mechanical, electrical and plumbing engineers, are required:

(i) One (1) composite, reverse washoff mylar showing electrical and telephone layouts as follows:

Fifty percent (50%) screened: Building outline, core walls, columns and Tenant partitions.

Full strength: All telephone and power outlets and dimensional information locating these outlets both in plan and elevation where necessary;

(ii) Two (2) composite, reverse washoff mylars showing reflecting ceiling plan as follows:

Fifty percent (50%) screened: Building outline, core walls, columns and Tenant partitions. Full strength: Lighting fixtures; and

(iii) One (1) composite, reverse washoff mylar showing reflecting ceiling plan as follows:

Fifty percent (50%) screened: Building outline, core walls, columns, Tenant partitions and lighting fixtures.

(e) Change Orders. Tenant's Plans shall not be changed or modified by Tenant after approval by Landlord without the further approval in writing ("Change Order") by Landlord.

2. Tenant's Initial Construction.

(a) General. Landlord and its authorized representatives shall be kept fully apprised and informed of the construction process, and shall have the right to inspect Tenant's Initial Construction from time to time and to attend construction job-site meetings.

(b) Tenant's Architect/Engineers. Landlord has approved, Dyer Brown as "Tenant's Architect" for Tenant's Initial Construction (Tenant may hire a different architect so long as Landlord has no reasonable objection thereto). If an architect other than Landlord's architect is selected by Tenant, Tenant shall provide a letter from such architect to Landlord stating that the architect has carefully reviewed the requirements of this Exhibit B, of any design manual or handbook provided to Tenant by Landlord with respect to the Tenant's Initial Construction (including, but not limited to, Landlord's Construction Manual), and of any Tenant's Initial Construction design schedule, and that Tenant's Architect will comply with all such requirements including without limitation the submission deadlines stated in any Tenant's Initial Construction design schedule. Any electrical, mechanical or structural engineers employed by Tenant or Tenant's Architect shall be subject to Landlord's approval, which shall not be unreasonably withheld, conditioned or delayed.

Tenant shall be solely responsible for the liabilities and expenses of all architectural and engineering services relating to Tenant's Initial Construction (subject to reimbursement from the Improvement Allowance) and for the adequacy and completeness of Tenant's Plans submitted to Landlord. Tenant's Plans shall provide for the uniform exterior appearance of the Building, including without limitation the use of Building standard window blinds and Building standard light fixtures within fifteen (15) feet of each exterior window.

(c) Performance of Tenant's Initial Construction. Tenant's Initial Construction shall be performed in accordance with Tenant's Plans and any Change Orders approved by Landlord (such

approval not be unreasonably withheld). Minor Change Orders (under $50,000 per change which do not affect the systems or structure of the Building) shall not require Landlord's approval.

By its execution of the Lease, and submission of Tenant's Plans and any Change Orders, Tenant will be deemed to have approved, and shall be legally responsible for, such Tenant's Plans and Change Orders. Landlord shall not be responsible for any aspects of the design or construction of Tenant's Initial Construction, the correction of any defects therein, or any delays in the completion thereof. Tenant shall be responsible for building standard costs of Building services or facilities (such as electricity, HVAC, and cleaning) required to implement Tenant's Initial Construction and other variable costs to the extent required to be paid by Tenant under the Lease (such as for review, inspection, and testing). All payments required to be made by Tenant hereunder, whether to Landlord or to third parties, shall be deemed Additional Rent for purposes of Article VII of this Lease. There shall be no review fees or similar fees to Landlord.

Tenant's Initial Construction shall be made in accordance with the requirements of this Exhibit B and with Landlord's Construction Manual, as the same may from time to time be amended, modified or replaced. Tenant's Initial Construction must comply with the Building Code in effect for the municipality in which the Building is located and the requirements, rules and regulations of any governmental agencies having jurisdiction. Tenant must deliver to Landlord copies of all required permits and approvals prior to the commencement of Tenant's Initial Construction. A pro-rata share of the cost of the multi-tenant corridor, if applicable, which shall be constructed by Landlord, shall be done at Tenant's cost.

(d) Tenant Contractor. Any independent contractor of Tenant (or any employee or agent of Tenant) performing Tenant's Initial Construction shall be a "Tenant Contractor" and shall be subject to all of the terms, conditions and requirements contained in the Lease. The identity and qualifications of each Tenant Contractor shall be subject to Landlord's prior written approval, which shall not be unreasonably withheld, conditioned, or delayed.

Without limitation, Tenant shall require each Tenant Contractor to adjust and coordinate Tenant's Initial Construction to meet the schedule or requirements of other work being performed by or for Landlord throughout the Building, including those performing the Landlord Work. Tenant shall insure that each Tenant Contractor shall take all reasonable steps to assure that any work is carried out without disruption from labor disputes arising from whatever cause, including, without limitation, disputes concerning union jurisdiction and the affiliation of workers employed by said Tenant Contractor or its subcontractors. Tenant shall be responsible for, and shall reimburse Landlord for, all costs and expenses, including, without limitation, attorney's fees incurred by Landlord in connection with any breach by the contractor of such obligations.

At all times while performing Tenant's Initial Construction, Tenant and each Tenant Contractor shall not discriminate against any individual because of race, color, sex, religion or national origin and will, as may be required by the municipality in which the Building is located or any other public authority having jurisdiction, comply with all applicable laws, regulations and equal opportunity policies generally adhered to by comparable office buildings in the same geographic area as the Building.

In the event that special security arrangements must be made (e.g., in connection with work outside normal business hours), then the cost of such security must be paid by the Tenant Contractor requesting such security. Tenant must insure that each Tenant Contractor and subcontractors use every

effort to minimize noise caused by Tenant's Initial Construction. Work stoppage during Hours of Operation will be ordered if noise, in the sole judgment of the Building manager, disturbs other tenants of the Building, and Landlord shall have no liability therefor.

In all events, Tenant shall indemnify the Indemnitees in the manner provided in Section 5.6.1 of this Lease against any claim, loss or cost arising out of any interference with, or damage to, any work in the Building being done by Landlord, or any delay thereto, or any increase in the cost thereof on account in whole or in part of any act, omission, neglect or default by Tenant or any Tenant Contractor in the performance of Tenant's Initial Construction.

(e) Insurance. Tenant shall, and Tenant shall cause all Tenant Contractors and subcontractors to purchase and maintain the insurance in the coverages and limits set forth in the Landlord's Construction Manual, and prior to the commencement of Tenant's Initial Construction, Tenant shall provide Landlord with the following:

(i) A list of each Tenant Contractor and/or subcontractors for Landlord's approval, such approval to be exercised reasonably and without undue delay.

(ii) Tenant's and all Tenant Contractors' and subcontractors' insurance certificates in accordance with the Landlord's Construction Manual.

(f) General.

All demolition, removals, or other categories of work that may inconvenience other tenants or disturb Building operations must be scheduled and performed before or after normal Building hours, and Tenant shall provide the Building manager with at least twenty-four (24) hours' notice prior to proceeding with such work. Tenant must schedule and coordinate all aspects of work with the Building manager and Building engineer.

Installations within the Premises and in ceiling plenums below the Premises shall not interfere with existing services and shall be installed in such a manner so as not to interfere with subsequent installation of ceilings or services for other tenants.

Redundant electrical, control and alarm systems and mechanical equipment and sheet metal not maintained under the work to the Premises must be removed as part of the work.

Prior arrangements for elevator use shall be made with the Building manager by Tenant. If an operating engineer is required by any union regulations, such engineer shall be paid for by Tenant.

If shutdown of risers and mains for electrical, mechanical and plumbing work is required, such work shall be supervised by Landlord's representative. No work shall be performed in Building mechanical equipment rooms without Landlord's approval, and all such work shall be performed under Landlord's supervision. At least forty-eight (48) hours' prior notice must generally be given to the Building management office prior to the shutdown of fire, sprinkler and other alarm systems. In the event that such work unintentionally alerts the Fire or Police Department for the municipality in which the Building is located through an alarm signal, then Tenant shall be liable for any fees or charges levied by the such Fire or Police Department in connection with such alarm. Tenant shall pay to Landlord such charges as may from time to time be in effect with respect to any such shutdown described herein.

Upon completion of the Tenant's Initial Construction, Tenant shall submit to Landlord a permanent certificate of occupancy (if available in the city or town in which the Premises are located) and final approval by the other governmental agencies having jurisdiction (to the extent required).

3. Improvement Allowance.

Landlord shall provide Tenant with an allowance for the costs ("Allowance Costs") of constructing Tenant's Initial Construction (including, without limitation, architectural and engineering fees with respect thereto) in an amount not to exceed the Improvement Allowance, as such term is defined in Section 1.1 of this Lease. All construction and design costs for the Premises in excess of the Improvement Allowance shall be paid for entirely by Tenant, and Landlord shall not provide any reimbursement therefor.

The Improvement Allowance shall be disbursed as requisitioned by Tenant but in no more than two (2) disbursements per month. For each disbursement, Tenant shall submit a requisition package to Landlord prior to the first day of the month, with an itemization of the costs being requisitioned, a certificate by an officer of Tenant that all such costs are Allowance Costs and have been incurred and paid for by Tenant, and appropriate back-up documentation including, without limitation, lien releases (in a form approved by Landlord), paid invoices and bills. The final requisition package shall further include an executed estoppel letter under this Lease, a certificate of Tenant's Architect that Tenant's Initial Construction has been completed in accordance with the Tenant's Plans and any Change Orders approved by Landlord, lien releases from each Tenant Contractor and all subcontractors, a set of "asbuilt" plans of Tenant's Initial Construction certified by Tenant's Architect or Contractor, and an original certificate of occupancy .

Exhibit C-l

Cleaning Specifications

DAILY:

1. Sweep, dry mop, or vacuum all floor areas of resilient wood or carpet, remove any gum and tar matter which has adhered to the floor.
2. Clean all stairwells and stairs as required by type.
3. Damp mop all non-resilient floors such as: concrete, terrazzo and ceramic tile.
4. Vacuum and spot clean all carpet areas.
5. Empty and damp wipe all ashtrays and waste baskets and remove all trash. Replace plastic liners as needed.
6. All glass entrance doors and interior glass doors and hardware are to be cleaned on both sides.
7. Dust all horizontal surfaces with treated dust cloth or feather duster, including furniture, files, equipment, blinds, oak trim, convector covers and louvers that can be reached without a ladder.
8. Brush all fabric covered chairs with a lint brush as needed.
9. Damp wipe all telephones, including dials and crevices as needed.
10. Spot wash to remove smudges, marks and fingerprints from such areas as walls, equipment, doors, partitions and light switches within reach.
11. Wash water fountains, chalkboards, cafeteria tables and chairs.
12. Clean and vacuum freight and passenger elevator cabs and landing doors including elevator door tracts.

RESTROOMS:

13. Refill all soap, toilet, sanitary napkin and towel dispensers. Replace plastic liners and waxed bags in sanitary disposal units.
14. Damp mop floors and wash baseboards using detergent disinfectant.
15. Clean mirrors, soap dispensers, shelves, wash basins, exposed plumbing, dispenser and disposal container exteriors using detergent disinfectant and water. Damp wipe all ledges, toilet stalls and doors. Spot clean light switches, doors and walls.

16. Clean toilets and urinals with detergent disinfectant, beginning with seats and working down. Pour one ounce of bowl cleaner into urinal after cleaning and do not flush.

WEEKLY:

1. Spot clean carpet stains.
2. Wash glass in display windows, building directory, entrance doors and frames and show windows, both sides.
3. Spot wash interior partition glass and door glass to remove smudge marks.

MONTHLY:

1. Scrub and recondition resilient floor areas using buffable non-slip type floor finish (product to be approved by building management).
2. Dust all ceiling and wall air supply and exhaust diffusers or grills.
3 . Wash all interior glass, both sides.

QUARTERLY:

1. High dust all horizontal and vertical surfaces not reached in nightly cleaning such as: pipes, light fixtures, door frames, picture frames and other wall hangings.
2. Vacuum/dust all open book shelves.
3. Wash and polish vertical terrazzo or marble surfaces.
4. Damp wash diffusers, vents, grills and other such items, including surrounding wall or ceiling areas that are soiled.

SEMI-ANNUALLY:

1. Vacuum drapes, blinds, cornices and wall hangings.
2. Dust all storage areas, including shelves and contents such as: supply and stock closets and damp mop floor areas.
3. Strip and refinish all resilient floor areas using buffable non-slip floor finish (product will be approved by building management).

ANNUALLY:

1. Wash light fixtures, including reflectors, globes, diffusers and trim.
2. Wash walls in corridors, lounges, classrooms, demonstration areas, cafeterias and washrooms.

3. Clean all vertical surfaces not attended to in nightly, weekly, quarterly or semi-annual cleaning.

Exhibit C-2

Heat and Air Conditioning Specifications

EXHIBIT C-2

EXHIBIT E

HEAT AND AIR-CONDITIONING SPECIFICATION

SUMMER	
Outdoor	Indoor (maximum)
88F dry bulb	75F dry bulb
74F wet bulb	62F wet bulb
WINTER	
Outdoor	Indoor (maximum)
0F dry bulb	72F dry bulb

Outside air shall be introduced at a minimum rate of 0.1 cfm per square foot of floor area and 20 cfm fresh air per person.

The above is based on the following computations: sustained peak loading, conditions of one (1) person per two hundred (200) square feet of usable space and a combined lighting load and power load of 4.5 watts per square foot of usable area.

Exhibit D

Rules and Regulations

(Subject to reasonable change from time to time at the sole discretion of the Landlord.)

A. Security/Safety

1. All doors are secured with electronic locks. Tenants shall use card keys for all entry into the buildings during non-business hours.

2. Card keys will be issued upon tenant occupancy. Any new card keys or replacement card keys will be issued upon written request of the tenant. A fee may be charged for all cards.

3. All keys must be returned to building management whenever there is a change of status in the employee holding the card (i.e. termination, change of access authority).

4. Tenants must provide automobile registration information to building management as requested from time to time.

5. All tenants are responsible for complete and immediate evacuation of the building in the event of an alarm.

B. Parking Regulations

1. All employees, visitors, contractors, vendors and guests of a tenant shall abide by all posted parking regulations .

2. Illegally parked vehicles involving handicapped reserved spaces are subject to ticketing and towing by the City.

3. All other vehicles parked in violation of posted regulations are subject to towing with all costs charged to the owner of the vehicle.

4. When leaving any vehicle in the parking areas overnight, the owner must notify the building manager with the make, model, plate number and other pertinent information as requested.

5. All employees, visitors, contractors, vendors and guests must cooperate with building management in the event of a snowstorm or other emergency. Snow emergency parking areas are designated for any non-business hours parking for the purpose of allowing snow removal equipment access to parking areas. Any vehicles parked in non-designated spaces are subject to towing without notice.

C. Trash Removal

1. Disposal of any furniture, crates, computer equipment and other abnormal office trash requires special handling with additional charges to the tenant.
2. Any items not placed in appropriate trash receptacles or clearly labeled as trash will not be removed from the office premises.
3. All tenants must cooperate with building management in implementing a recycling program.

D. Move In/Move Out

1. Tenant must notify landlord five business days in advance of moving with date of move, tenant contact name and phone number of person responsible for coordinating move, name of moving company, contact and phone number
2. All moves must take place prior to 8:00 a.m. or after 5:00 p.m., Monday through Friday or anytime on weekend days or by special arrangement with building management.
3. Furniture moves must use loading dock entrance, unless other arrangements have been made.
4. All common area floors surfaces must be protected with masonite or equivalent.
5. All trash generated as a result of the move shall be the responsibility of the tenant. For tenants moving out, space must be left in broom clean condition in accordance with the lease. However, upon submission of a written request, landlord will dispose of all trash at tenant cost.
6. At no time is furniture or equipment to block access of hallways. Under no circumstances is equipment or furniture to be stored in common areas overnight.
7. Any and all damage to the building or grounds as a result of the move will be the responsibility of tenant.
8. Landlord will provide elevator pads.
9. Extra security may be required by landlord. If needed, this will be an additional charge to tenant.

E. Construction

1. Tenant must obtain approval from Park Management prior to initiating any construction within their leased premises.
2. All work shall conform to Building Standards, a copy of which is available from Park Management.

3. Tenant shall submit architectural plans stamped by a registered architect to landlord, subject to landlord's review, prior to commencement of any construction.

4. All work performed by outside trades require appropriate building permits from the City which must be on file with Park Management prior to commencement.

5. All construction contractors must be approved by landlord prior to execution of any contracts to perform work in the Park.

6. If contractors not hired by Park Management perform work, a certificate of insurance must be submitted to Park Management prior to commencement of work.

7. A Project Manager will be assigned to all construction related projects. A construction management fee may be charged if warranted. In the event tenant has questions or concerns regarding elements of project, tenant shall contact the project manager or his supervisor only.

8. Any work related to project which must be performed by landlord (i.e. sprinkler shut down, relocate heat sensors) must be requested by tenant in writing as a request and will be charged to tenant.

9. Park Management shall have the authority to stop work in progress if it is determined not in conformance with building standards of town building codes.

10. Upon completion of work, Park Management shall have the right to inspect all work. Any work completed which does not conform to building standard or building code shall be rejected as non-tenantable and the space shall not be occupied until such time that it meets all requirements.

F. Smoking

1. The building is a non-smoking facility. All employees, contractors, visitors and guest must exit the building before smoking. Smoking in not allowed at the main entrance to the building. Everyone must use the designated smoking areas and must dispose of all smoking material properly. All tenant management is required to cooperate in enforcing any reasonable smoking regulations.

Exhibit F

Confirmation of Lease Commencement

Reference is made to the Lease dated _____ between ___, as Landlord and _____ as Tenant (the "Lease"). The terms listed below are used as defined in the Lease.

Landlord and Tenant confirm the following:

Lease Commencement Date:

Rent Commencement Date:

Term Expiration Date:

Executed as a Massachusetts instrument under seal as of _____

LANDLORD:

By: _____
Name: _____
Title: _____

TENANT:

By: _____
Name: _____
Title: President/Vice President

By: _____
Name: _____
Title: Treasurer/Assistant Treasurer

COMMONWEALTH OF MASSACHUSETTS

___, ss. ___,2002

Then personally appeared the above-named , of , and acknowledged the foregoing instrument to be his/her free act and deed, before me,

Notary Public
My Commission Expires:

COMMONWEALTH OF MASSACHUSETTS

___ss. ___, ___2002

Then personally appeared the above-named , of , and acknowledged the foregoing instrument to be his/her free act and deed, before me,

Notary Public
My Commission Expires:

COMMONWEALTH OF MASSACHUSETTS

___ss. ___ ___2002

Then personally appeared the above-named , of , and acknowledged the foregoing instrument to be his/her free act and deed, before me,

Notary Public
My Commission Expires:

Exhibit G

GUARANTY

601 EDGEWATER DRIVE
WAKEFIELD, MASSACHUSETTS

Guaranty dated _____, 2002, by the undersigned The Relizon Company, a Delaware corporation ("Guarantor" hereunder).

BACKGROUND

601 Edgewater LLC, a Delaware limited liability company, ("Landlord") and Epsilon Data Management, Inc., a Delaware corporation, ("Tenant") entered into a lease dated ___, 2002 for space at 601 Edgewater Drive, Wakefield, Massachusetts (as the same may be amended hereafter from time to time, the "Lease").

It is intended that Guarantor shall guarantee all of Tenant's obligations under the Lease pursuant to this Guaranty. Capitalized terms used and not defined in this Guaranty shall have the same meanings as in the Lease.

AGREEMENT

1. Guarantor guarantees to Landlord, its successors and assigns, the full performance and observance of all the covenants, conditions and agreements in the Lease provided to be performed and observed by Tenant, its successors and assigns, for the entire Term, as the same -may be extended or renewed and to any holdover term thereafter, for the entire Premises, as the same may be expanded, contracted, relocated, sublet, licensed and/or assigned (voluntarily or otherwise), and whether or not Landlord has consented to same. Guarantor expressly agrees that the validity of this Guaranty and the obligations of Guarantor under this Guaranty shall not be terminated or in any way affected or impaired by reason of any amendment to the Lease, but shall continue in full force and effect with respect to the Lease as the Lease may be amended from time to time. Guarantor further expressly agrees that the validity of this Guaranty and the obligations of Guarantor under this Guaranty shall not be terminated or in any way affected or impaired by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease, or by reason of the waiver or failure by Landlord to enforce any of the terms, covenants or conditions of the Lease, this Guaranty, or any other guaranty of the Lease (if any), or by reason of the granting of any indulgence or extension to Tenant, or Guarantor, or to any other guarantor (if any), all of which may be given or done by Landlord from time to time without notice to Guarantor. Guarantor waives notice of non-payment of rent, additional charges, or any other amounts to be paid by Tenant under the Lease, and waives notice of default or non-performance of any of Tenant's other covenants, conditions and agreements contained in the Lease. Guarantor further waives, to the fullest extent permitted by law, any and all legal, equitable and/or surety defenses whatsoever to which Guarantor might otherwise be entitled other than: (1) that Guarantor has fully performed all of its obligations under this Guaranty, and (2) that Tenant has fully performed all of its obligations under the Lease (determined without regard to any relief of Tenant from its obligations by operation of law or otherwise).

2. Guarantor agrees that its liability under this Guaranty shall be primary and joint and several with Tenant, any other guarantor (if any), and any other party liable for Tenant's obligations under the Lease, and that in any right of action that shall accrue to Landlord under the Lease, Landlord may, at its option, proceed against Guarantor, without having commenced any action or having obtained any judgment against Tenant, any other guarantor, or any other party liable for Tenant's obligations under the Lease.

3. Guarantor represents and warrants to Landlord that Guarantor has a material financial interest in the Tenant. If Guarantor is a corporation or other entity, Guarantor represents and warrants to Landlord that the individual or individuals executing this Guaranty on behalf of Guarantor is or are duly authorized to execute and deliver this Guaranty on behalf of Guarantor, that this Guaranty is a valid and binding obligation of Guarantor enforceable in accordance with its terms, and that this Guaranty violates no law, rule, regulation, agreement or contract applicable to or binding on Guarantor.

4. Guarantor further agrees as follows:

a. Any and all claims of any nature that Guarantor may now or hereafter have against Tenant are hereby subordinated to the full and final cash payment to Landlord of all obligations under the Lease and under this Guaranty. Without limiting the generality of the foregoing, prior to the full and final cash payment to Landlord of all obligations under the Lease and under this Guaranty, Upon notice to Tenant of any monetary default under the Lease, and until such default is cured, Guarantor agrees that it shall not: (i) make any claim of liability of Tenant to any Guarantor or assert any set-off or counterclaim against Tenant whether by reason of paying any sum due or recoverable under this Guaranty (whether or not demanded by Landlord) or under the Lease, or by any other means or on any other ground that would in any way diminish, have an adverse effect upon, or be adverse to the superior rights of Landlord under the Lease and this Guaranty; or (ii) attempt to prove in competition with Landlord any claim regarding any payment made under this Guaranty or under the Lease; or (iii) have the benefit of any counterclaim or proof of claim or dividend or payment by or on behalf of Tenant or the benefit of any other security for any obligation as having priority over amounts due to Landlord. Until all of Tenant' s obligations under the Lease have been fully and completely satisfied beyond any period during which Landlord may be required to disgorge any payment or other satisfaction, Guarantor shall not enforce any right of subrogation nor any right to enforce any right or remedy of Landlord against Tenant, and in no event shall Tenant have any right to participate in any collateral held or payment received by Landlord.

b. In order to carry out the terms and intent of this Guaranty more effectively, Guarantor agrees in the event of any bankruptcy or insolvency proceeding, assignment for the benefit of creditors, or the like involving Tenant as debtor to do all acts necessary or convenient to preserve for Landlord the benefits of the foregoing subordination provisions and promptly will execute all agreements and instruments that Landlord may from time to time reasonably request for that purpose. During any time period when a monetary default by Tenant exists under the Lease after thirty (30) days notice to Guarantor, Guarantor shall be deemed to have assigned, transferred and set over to Landlord all claims against the Tenant that Guarantor now has or Guarantor hereafter may have ("Guarantor's Claims") and without imposing upon the Landlord any duty with respect to preservation, protection or enforcement of any Guarantor's Claims, constitutes and appoints Landlord the true and lawful attorney of Guarantor for the purposes of collecting and/or proving Guarantor's Claims, of accepting or rejecting to the extent to which Guarantor otherwise would be entitled to accept or reject any plan of reorganization or arrangement in any proceedings affecting Tenant, and in general of doing any act in connection with any proceedings affecting Tenant which Guarantor might otherwise do. Landlord shall

account to Guarantor for any dividends or payments received in excess of the amount necessary fully and finally to satisfy in cash all claims arising out of the Lease and the Guaranty including, without limitation, all interest and expenses of collection.

c. In the event of avoidance, disgorgement, reduction, reconveyance or recovery of any payment from Tenant to Landlord as a preference under any laws relating to the bankruptcy, reorganization or liquidation of debtors, or as a so-called fraudulent conveyance, or under any other applicable law, Landlord shall be entitled to recover on demand the amount of such payment from Guarantor as if such payment had never been made by Tenant.

5. Guarantor shall furnish to Landlord copies of its financial statements as set forth in Section 8.18 of the Lease.

6. No assignment or transfer of the Lease shall operate to extinguish or diminish the liability of Guarantor under the Guaranty. Guarantor further agrees to be responsible to the Landlord for any expenses, including reasonable attorneys' fees, incurred by Landlord in enforcing any obligations under this Guaranty.

7. Guarantor's liability hereunder shall be ascertained as though the Guarantor was itself the tenant under the Lease, jointly and severally with Tenant, and the Guarantor's obligations hereunder shall not be affected or impaired by any relief of Tenant from Tenant's obligations under the Lease by operation of law or otherwise including, without limitation, in connection with proceedings under the bankruptcy laws now or hereafter enacted, or similar laws for the relief of debtors.

8. Guarantor hereby irrevocably and unconditionally submits to personal jurisdiction in the Commonwealth of Massachusetts over any suit, action or proceeding arising out of this Guaranty or out of the Lease, and Guarantor hereby waives any right to object to personal jurisdiction within the Commonwealth of Massachusetts. The initiation of any suit, action or proceeding by Landlord against any Guarantor or any property of Guarantor in any other jurisdiction shall not constitute a waiver of the agreements contained herein that the law of the Commonwealth of Massachusetts shall govern the rights of Landlord and the rights and obligations of Guarantor under this Guaranty, and that Guarantor submits to personal jurisdiction within the Commonwealth of Massachusetts.

9. If any term of this Guaranty, or the application thereof to any person or circumstance, shall to any extent be invalid or unenforceable, the remainder of this Guaranty, or the application of such term to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term of this Guaranty shall be valid and enforceable to the fullest extent permitted by law.

Executed as a sealed Massachusetts instrument.

GUARANTOR:

THE RELIZON COMPANY

By:

Name:: _____

Title: _____

Hereunto duly authorized

By:

Name:: _____

Title: _____

Hereunto duly authorized

Exhibit H

Data Room and Fitness Center Fixtures

To be specified by Tenant, subject to
Landlord’s reasonable approval.

Exhibit F

Confirmation of Lease Commencement

Reference is made to the Lease dated February 22, 2002 between 601 Edgewater, LLC, as Landlord and Epsilon Data Management Inc. as Tenant (the "Lease"). The terms listed below are used as defined in the Lease.

Landlord and Tenant confirm the following:

Lease Commencement Date:	May 1, 2003
Rent Commencement Date:	June 1, 2003
Term Expiration Date:	April 30, 2013

Executed as a Massachusetts instrument under seal as of _____.

LANDLORD:

By: /s/ Donald G. Oldmixon
Name: Donald G. Oldmixon
Title: Manager

TENANT:

By: /s/ Sarah L. Burton
Name: Sarah L. Burton
Title: Vice President & Treasurer
Acting CFO

By: _____
Name: _____
Title: Treasurer/Assistant Treasurer

Exhibit 10.18

ASSIGNMENT OF REAL ESTATE LEASE

Sterling Direct, Inc., a Missouri corporation, One American Eagle Plaza, Earth City, Missouri 63045 ("Assignor") for value received, does hereby assign and transfer to The Reynolds and Reynolds Company, an Ohio corporation, 115 South Ludlow Street, Dayton, Ohio 45402 ("Assignee") as of the Closing of the transactions contemplated by the Acquisition Agreement by and between Assignor and Assignee dated as of September 16, 1999 (the "Agreement"), all of Assignor's right, title and interest as lessee in the lease dated September 22, 1997, attached hereto as Exhibit A (the "Lease") with Sterling Properties, L.L.C., a Missouri limited liability company, of real estate situated in the County of St. Louis, State of Missouri, as more specifically described in the Lease. This Assignment shall not amend, modify or otherwise affect the rights and obligations of the parties under the Agreement, including the parties' respective rights and obligations under Section 19 of this Agreement. Assignor represents and warrants that a true, correct and complete copy of the Lease is attached as Exhibit A, and that no default by Assignor (or event which with notice, lapse of time or both would constitute a default by Assignor) has occurred under the Lease.

STERLING DIRECT, INC., a Missouri Corporation

By: /s/ David T. Hawkins

Title: Executive Vice President

ACCEPTANCE OF ASSIGNMENT OF REAL ESTATE LEASE

Assignee hereby accepts the foregoing Assignment of Lease as of the date of Closing and assumes and agrees to perform and be bound by all obligations, liabilities, covenants, conditions and restrictions to be done, kept or performed by or imposed upon Assignee, with respect to such Lease.

THE REYNOLDS AND REYNOLDS COMPANY, an Ohio corporation

By: /s/ Deepak Sircar

Title: Sr. VP & GM: e CRM

LANDLORD ESTOPPEL CERTIFICATE

September 30, 1999

THE REYNOLDS AND REYNOLDS COMPANY
115 S. Ludlow Street
Dayton, OH 45402
Attn: General Counsel

Re: Lease Agreement by and between Sterling Properties, L.L.C. ("Landlord") and Sterling Direct, Inc., dated as of September 22, 1997 (the "Lease") Regarding the Property Located at One American Plaza, Earth City, Missouri

Ladies and Gentlemen:

Landlord understands and acknowledges that THE REYNOLDS AND REYNOLDS COMPANY ("Reynolds") is in the process of acquiring the business of STERLING DIRECT, INC. ("Tenant"), the current Tenant of the above-referenced property. In the even such acquisition is completed, Tenant intends to assign to Reynolds, and Reynolds intends to assume from Tenant, all of Tenant's rights and obligations under the Lease, a copy of which is attached hereto. Landlord acknowledges that it is the lessor under the Lease and that Reynolds is relying upon Landlord's certifications made herein, and that Landlord has executed a written consent to assignment of the Lease by Tenant to Reynolds.

Landlord hereby certifies to Reynolds that:

1. The monthly base rental amount due under the Lease is $42,500[1]. The only pending increases to the rent are as expressly stated in the Lease.

2. The copy of the Lease attached hereto represents a complete delineation of rights and obligations of the Landlord and Tenant. The Lease has not been modified, supplemented or otherwise altered.

3. The Lease is in full force and effect, no advance rentals have been paid, and there are no unsatisfied claims against the Tenant.

---

[1] Does not include applicable taxes, insurance and other charges passed through to Tenant in accordance with the express terms of the Lease.

4. Tenant is in full compliance with all payment and performance obligations under the Lease. Without limiting the foregoing, there is no condition currently existing that, with the lapse of time, will constitute a default by Tenant under the Lease.

5. Landlord at no point has served notice to Tenant of any performance or payment default under the Lease.

6. Landlord is in full compliance with all its obligations under the Lease.

7. Tenant took possession of the demised premises on August 28, 1997 and has paid rent commencing on October 1, 1997.

8. The term of the Lease commenced on October 1, 1997 and terminates on September 30, 2012.

9. The amount of Tenant's last rental payment was $42,500 and the date of Tenant's last rental payment was September 1, 1999.

10. Landlord is not in default under, and no event has occurred which with notice, lapse of time or both would constitute a default under, any of the obligations for which the Lease Assignment or the Mortgage in favor of Life Investors Insurance Company of America serves as security.

The statements herein contained are made for the purpose of inducing Reynolds to proceed with its acquisition of Tenant and may be relied upon for such purpose by Reynolds and its successors and assigns.

STERLING PROPERTIES, L.L.C.

By: /s/ David T. Hawkins

Print Name: David T. Hawkins

Title: Managing Member

CONSENT TO ASSIGNMENT OF LEASE BY ASSIGNOR

The undersigned, Lessor under the Lease, hereby consents to the foregoing Assignment of Real Estate Lease and Acceptance of Assignment and Assumption of Real Estate Lease and releases Assignor from all obligations, liabilities, covenants, conditions and restrictions imposed on lessee under or pursuant to the Lease as of the Closing.

STERLING PROPERTIES, L.L.C., a Missouri limited liability company

By: /s/ David T. Hawkins

Name: David T. Hawkins

Title: Managing Partner

CONSENT TO ASSIGNMENT OF LEASE BY LENDER

The undersigned, Lender under the mortgage loan to Sterling Properties, L.L.C., a Missouri limited liability company, hereby consents to the foregoing Assignment of Real Estate Lease and Acceptance of Assignment of Real Estate Lease.

LIFE INVESTORS INSURANCE COMPANY OF AMERICA

By: /s/ David R. Halfpap

Name: David R. Halfpap

Title: Vice President

SUBORDINATION, NONDISTURBANCE AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NONDISTRUBANCE AND ATTORNMENT AGREEMENT ("Agreement") made and entered into as of the 24th day of September, 1999, by and between Life Investors Insurance Company of America ("Lender"), and The Reynolds and Reynolds Company ("Tenant")

WHEREAS, Lendor is the owner of and holds a mortgage loan (the "Loan") from Sterling Properties, L.L.C. (the "Landlord") secured by a mortgage or deed of trust (the "Mortgage") on the land described on Exhibit "A", together with present or future improvements (the "Real Property"); and

WHEREAS, Landlord entered into a lease with Sterling Direct, Inc. (SDI) as to all of the Real Property dated the 22nd day of January, 1997 (which lease together with all amendments, options, extensions, renewals and replacements is the "Lease"); and SDI has assigned the Lease to Tenant; and

WHEREAS, Lender and Tenant have reached certain agreements as to the subordination of that Lease to the Mortgage, as to Tenant's attornment to Lender and as to Lender nondisturbance of Tenant, and

WHEREAS, the parties desire to set forth in writing their agreements.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants herein contained, which the parties agree and acknowledge constitute good and adequate consideration, the parties mutually agree as follows:

1. Subordination. The Lease, all of its terms and provisions, and all of the Tenant's rights thereunder and as to the Real Property shall be and are subordinate to the Mortgage.

2. Consent to Assignment. The Tenant consents to the assignment of the Lease to Lendor as security for the Loan.

3. Notice to Lender in the Event of Landlord Default; Notice to Tenant in the Event of Landlord Default. If Landlord defaults under the Lease, and upon notice, fails to cure its default within the cure period provided under the Lease, Tenant will notify Lender of the default and afford Lender a reasonable opportunity to cure the default before terminating the Lease or exercising any self-help rights from which a right of setoff would arise. If Landlord defaults under the Mortgage, Lender will provide to Tenant copies of all related notices, simultaneously with providing notices to Landlord.

4. New Owner Obligations. If Lender forecloses the Loan, or acquires title to the Real Property by deed in lieu of foreclosure, the following terms and conditions will govern the respective rights and obligations of Tenant and Lender or other new owner of the Real Property (in either case, the "New Owner"). Neither the New Owner or anyone claiming by, through or under the New Owner:

(a) will be bound by an purchase option contained in the Lease.

(b) will as to matters arising prior to the date New Owner acquires title to the Real Property, assume an Landlord's liabilities to Tenant arising from any: (i) Landlord default, act or omission; or (ii) Lease indemnification or hold harmless provisions.

(c) Will be subject to any defenses, counterclaims or off-sets which Tenant has as of the date New Owner acquires title to the Real Property.

(d) Will be liable to the Tenant in excess of the value of New Owner's interest in the Real Property.

(e) Will be bound by any modification of the Lease, including the release from liability of any party liable for obligations of Tenant, made without New Owner's written consent.

(f) Will be bound by any rent paid more than one month in advance unless actually received by New Owner, except as expressly required by the Lease, or unless New Owner has consented to an advance payment in writing.

(g) Will be liable for the return of security or other lease deposits, unless and then only to the extent of any security or funds actually received by New Owner.

(h) Will be responsible for any consequential damages arising out of a default, act or omission of landlord under the Lease.

5. **Nondisturbance**. The New Owner will not disturb Tenant's quiet employment and possession of its Lease premises for so long as Tenant faithfully performs all of Tenant's obligation under the Lease and under this Agreement. Lender will not join Tenant as a party defendant in any action or proceeding foreclosing the Mortgage, unless joining Tenant is necessary or appropriate to foreclose the Mortgage, and then only for such purposes and not for the purposes of terminating the Lease.

6. **Tenant Obligations as to Payment of Rental under the Lease**. This Agreement will not vary any terms of the Lease that condition Tenant's obligation to pay rent on Landlord's performance of its covenants under the Lease in respect of the habitability and quiet enjoyment of the Real Property, which Lender agrees shall apply to the New Owner as they have to the Landlord, provided Tenant has performed all of its obligation under Paragraph 3 of this Agreement.

7. **Attornment**. Subject to the other terms of this Agreement, Tenant will, upon notice of the transfer of title to the Real Property to New Owner, attorn to the New Owner and

recognize the New Owner as the landlord under the Lease from and after the date New Owner acquires title to the Real Property.

8. **Notices**. Any notice under this Agreement may be delivered by hand or sent by commercial delivery service or United States Postal Service express mail, in either case for overnight delivery with proof of receipt, or sent by certified mail, return receipt requested, to the following addresses:

To Tenant: The Reynolds and Reynolds Company
115 S. Ludlow Street
Dayton, OH 45402
Attn:General Counsel

To Lender: Life Investors Insurance Company of America
Director, Mortgage Loan Servicing-LOAN # 87585
AEGON USA Realty Advisors, Inc.
4333 Edgewood Road NE
Cedar Rapids, Iowa 52499

Notice shall be deemed to have been given upon receipt if delivered by hand, on the next business day if sent for overnight delivery by commercial delivery service or United States Postal Service express mail, or three (3) business days following mailing if sent by certified mail, return receipt requested.

9. **No Modification**. No modification of this Agreement shall be valid unless in writing and executed by the party against whom enforcement is sought.

10. **Applicable Law**. This Agreement shall be construed according to and governed by the laws of the state in which the Real Property is located.

11. **Successor and Assigns**. This Agreement shall be binding on, and shall inure to the benefit of, the parties' successors and assigns.

12. **Counterparts**. This Agreement may be executed and delivered in counterparts for the convenience of the parties.

IN WITNESS WHEREOF, the parties have signed this Subornation, Nondisturbance and Attornment Agreement as of the year and date first above written.

Tenant:

The Reynolds and Reynolds Company

By: /s/ Deepak Sircar
Name:Deepak Sircar
Its: Sr. VP & GM: eCRM

Lender:

Life Investors Insurance Company of America

By: /s/ David R. Halfpap
Name: David R. Halfpap
Its: Vice President

ACKNOWLEDGMENT

STATE OF _____)
)SS:
COUNTY OF _____)

On this ___day of September, 1999, before me, a Notary Public in and for said county, personally appeared ___, to me personally known, who being by me duly sworn did say that that person is the ___of The Reynolds and Reynolds Company and that said instrument was signed on behalf of the said corporation by authority of its board of directors and the said ___acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal the day and year first above written.

_____
Notary Public in and for said State

State of Iowa)
)SS:
County of Linn)

On this 24th day of September, 1999, before me, a notary public in and for said county, personally appeared David R. Halfpap, to me personally known, who being by me duly sworn did say that that person is the Vice President of said corporation and that said instrument was signed on behalf of the said corporation by authority of its board of directors and the said David R. Halfpap acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal the day and year first above written.

/s/ Randall R. Smith

ADDENDUM TO COMMERCIAL LEASE

This Addendum to Commercial Lease (the "Addendum") is made on this 22nd day of September, 1997, by and between STERLING PROPERTIES, L.L.C. a Missouri limited liability company (the "Lessor") and STERLING Direct, Inc., a Missouri corporation (the "Lessee")

WHEREAS, Lessor and Lessee have entered into that certain Commercial Lease, of even date herewith, for the property known as One American Eagle Plaza, Earth City, Missouri 63045 (the "Premises"); and

WHEREAS, the Lessor's lender has requested certain revisions to the Commercial Lease, which Lessor and Lessee are willing to incorporate within the terms of said Commercial Lease; and

NOW, THEREFORE, Lessor and Lessee have entered into this Addendum in consideration of the rental obligations and other valuable considerations made from Lessee to Lessor as follows:

1. **NET LEASE**

It is intended that all rent provided for in the Commercial Lease shall be an absolute net return to the Lessor, and shall be paid to the Lessor without setoff, counterclaim, abatement or deduction. Accordingly, all costs, charges, expenses and obligations relating to the Premises and building, equipment or improvements on the Premises, including maintenance, repairs, costs of replacement, equipment or improvements, insurance, taxes, assessments, and all other costs, charges, expenses, obligations of any kind, now or at any time imposed upon or related to, the Premises or building, or equipment or improvements on the Premises, shall, during the term of any extension or renewal term thereof, be paid by the Lessee.

Except that Lessor shall be responsible for roof maintenance and the structural integrity of the improvements located on the Premises.

2. **CONDEMNATION PROCEEDS**

In the event of a complete condemnation by any municipality or authority, Lessor shall have..... [illegible]..... lease by written notice ..... [illegible].....spaces within the Premises; or (b) the taking or condemnation of direct access to and from the Premises; or (c) the taking of the improvements of which the Premises is a part, causing a substantial negative impact on Lessee's business conducted on or from the Premises.

If this Lease is terminated as set forth herein, then the condemnation award or payment for the taking shall be paid to and used by Lessor; provided, however, nothing herein shall prohibit Lessee from applying for a separate award for Lessee's loss of personal property on the Premises, if any.

3. **INSURANCE**

At all times during the Lease Term, Lessee shall maintain in full force and effect, at Lessee's own cost and expense, a policy or policies of liability insurance for the protection, indemnification and defense of Lessee (with Lessor and Lessor's mortgage named as an additional insured) against claims, demands and causes of action arising out of or in connection with the use, maintenance, operation and occupancy of the Premises, which policy or policies shall have limits of not less than one million dollars per occurrence, including protection against bodily injury or damages to persons and damage or destruction of property, placed with insurance companies acceptable to Lessor. Said insurance shall provide that it shall not be canceled without at least thirty (30) days prior written notice to Lessor and Lessor's mortgagee.

A. COVERAGE PROVISIONS

(i) All risks open perils special form property insurance must be in force with limits of 100% replacement cost. If a co-insurance clause is in effect, an agreed upon amount endorsement is required. Blanket policies must include limits by property location. The coverage shall insure the real property and all tangible personal property;

(ii) Broad form boiler and machinery coverage, including a form of business income coverage, must be in force, if any such item is located on or about the Premises;

(iii) If available, flood insurance must be in force, if the real property is located in a special flood hazard area according to the most current flood insurance rate map issued by the Federal Emergency Management Agency. This coverage shall include real property and the tangible personal property;

(iv) A form of business income coverage must be in force, in the amount of 80% of one year's business income from the Premises. Blanket policies must include limits by property location;

(v) Comprehensive general liability coverage must be in force, with a one million dollar combined single limit per occurrence with a minimum aggregate limit of two million dollars. Umbrella/excess liability insurance may be used to satisfy this requirement.

B. LESSOR'S LENDER

On all property policies and coverages (including coverage against loss of business income) Lessor's lender must be named as "first mortgagee" under a standard mortgage clause. On all liability policies and coverages, Lender must be named as an "additional insured". Lender shall be referred to verbatim as follows: "Life Investors

Insurance Company of America and its successors, assigns and affiliates; as their interest may appear; c/o AEGON U.S.A. Realty Advisors, Inc; Mortgage Loan Department; 4333 Edgewood Road, N.E.; Cedar Rapids, Iowa 52499-5223."

The insurance carrier must be rated A, Class XII, or better by Best's Rating Service, without regard to its parent's or any reinsurer's rating.

The maximum deductible on all coverages and policies is $25,000.00

All policies must require the insurance carrier to give the first mortgagee a minimum of thirty (30) days notice in the event of cancellation or non-renewal. Any vacancy, change of title, tenant occupancy or use, physical damage, additional improvements or other factors affecting any insurance contract must be reported to the Lessor immediately. An original certified copy of each policy is required upon renewal. If no such copy is available, Lessor will accept a binder for a period not to exceed ninety (90) days. All binders, certificates of insurance, and original or certified copies of policies must name Lessor as a named insured, or as an additional insured, must include the complete and accurate property address and must bear the original signature of the issuing insurance agency.

5. HAZARDOUS MATERIALS

A. Flammables, Explosives or Toxic Substances. Lessee will not use or permit in the Premises or the building any flammable or explosive material, toxic substances, environmentally Hazardous Materials or other items hazardous to persons or property. Lessee will not use the Premises in a manner that (a) invalidates or is in conflict with any fire, insurance, life, safety, or other codes or policies covering the Building or the Premises, or (b) increases the rate of any fire or any other insurance being maintained with respect to the Building or the Premises. If any insurance premium is higher than it otherwise would be due to the Lessee's failure to comply with the provisions herein, Lessee shall reimburse Lessor, as additional rent, immediately on demand the amount constituting that part of Lessor's insurance premiums that are charged because of Lessee's said failure.

B. Hazardous Materials Defined. The term "Hazardous Materials" shall, for purposes herein mean: (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. §6901 et seq.) ("RCRA"), as amended from time to time, and regulations promulgated thereunder; (b) any "hazardous substance" being "released" in "reportable quantity", as such terms are defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. §9601 et seq.) ("CERLA"), as amended from time to time, and regulations promulgated thereunder; (c) asbestos; (d) polychlorinated biphenyls; (e) urea formaldehyde insulation; (f) "hazardous chemicals" or "extremely hazardous substances", in quantities sufficient to require reporting, registration, notification or special treatment or handling under the Emergency Planning and Community Right-to-Know Act of 1986 (42 U.S.C. §11001, et seq.) ("EPCRA"), as amended from time to time, and regulations promulgated thereunder; (g) any "hazardous chemicals" in levels that would result in exposures greater than those allowed by permissible

exposure limits established pursuant to the Occupational Safety and Health Act of 1970 (29 U.S.C. §651 et seq.) ("OSHA"), as amended from time to time, and regulations promulgated thereunder; (h) any substance which requires reporting, registration, notification, removal, abatement or special treatment, storage, handling or disposal under Sections 6, 7, or 8 of the Toxic Substances Control Act (15 U.S.C. §2601 et seq.) ("TSCA"), as amended from time to time, and regulations promulgated thereunder; (i) any toxic or hazardous chemicals described in the Occupational Safety and Health Standards (29 C.F.R. 1910. 10000-1047) in levels which would result in exposures greater than those allowed by the permissible exposure limits pursuant to such regulations; (j) the contents of any storage tanks, whether above or below ground; (k) medical wastes; (l) materials related to those described in subparagraphs (a) through (k) thereof; and (m) anything defined as hazardous or toxic under any now existing or hereafter enacted Environmental Regulations.

C. Environmental Regulations Defined. The term "Environmental Regulations" shall for purposes hereof, mean any law, statute, regulation, order or rule now or hereafter promulgated by any governmental authority, whether local, state or federal, relating to air pollution, water pollution, noise control or transporting, storing, handling, discharge, disposal, or recovery of on-site or off-site hazardous substances or materials (including without limitation, the Hazardous Materials as defined and described herein) as same may be amended from time to time, including without limitation, the following: (a) the Clean Air Act (42 U.S.C. §7401 et seq.); (b) Marine Protection Research and Sanctuaries Act (33 U.S.C. §1401-1445); (c) the Clean Water Act (33 U.S.C. §1251 et seq.); (d) RCRA, as amended by the Hazardous and Solid Wastes Amendments of 1984 (42 U.S.C. §6901 et seq.); (e) CERCLA, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. §9601, et seq.); (f) TSCA; (g) the Federal Insecticide, Fungicide and Rodenticide Act as Amended (7 U.S.C. §136 et seq.) (h) the Safe Drinking Water Act (42 U.S.C. §300(f) et seq.); (i) OSHA; (j) the Hazardous Materials Transportation Act (49 U.S.C. §4901 et seq.); (m) EPCRA; and (n) National Environmental Policy Act (42 U.S.C. §4321-4347) and (o) Medical Waste Tracking Act of 1988 (42 U.S.C. §6992).

D. Compliance: Environmental Compliance. Lessee and Lessee's Agents will observe and comply promptly with all present and future legal requirements of governmental authorities and insurance requirements (as well as applicable covenants, encumbrances and other matters of record) relating to or affecting the Premises, any Lessee sign, or the use and occupancy of the Premises or incident to Lessee's occupancy of the Building and the use of the Building or any portion thereof by Lessee or Lessee's Agents. Nothing contained in this Lease is intended to prevent or prohibit compliance by either party with any of the Disability Act, and any provision that does so is hereby modified to allow compliance or deleted as necessary. At Lessee's sole expense, Lessee will comply with all requirements of all Disability Acts with regard to all aspects of Lessee's Work (defined in the Work Letter) and with requirements of all Disability Acts with regard to any other Alterations to the Premises by Lessee, including but not limited to the design and installation of improvements to the Premises required as Lessee's Work. Lessee shall and hereby agrees to indemnify and hold harmless Lessor and Lessor's Agents, and their respective affiliates, agents, officers, employees and contractors, from and against all costs, liabilities, and causes of action occurring or arising as a result of Lessee's failure to comply with any of the Disability Acts

or as a result of any violation of any of the Disability Acts by Lessee or Lessee's Agents, and, at Lessor's option, Lessee will defend Lessor and Lessor's Agents, and their respective affiliates, agents, officers, employees and contractors, against all such costs, liabilities, and causes of action. Lessee will not use the Premises nor permit the Premises to be used in violation of any Environmental Regulations. Lessee assumes sole and full responsibility for, and will remedy at Lessee's sole costs, any and all such violations, provided that Lessor shall not unreasonably withhold. Lessee will not use, generate, release, store, treat, dispose of, or otherwise deposit, in, on, under or about the Premises, any Hazardous Materials, nor will Lessee permit or allow any third party to do so without Lessor's prior written consent (which Lessor may grant or withhold in Lessor's sole discretion). Lessor's election to conduct inspections of the Premises is not approval of Lessee's use of the Premises or any activities conducted thereon, and is not an assumption by Lessor of any responsibility regarding Lessee's use of the Premises or Hazardous Materials. Lessee's compliance with the terms of this Section and with all Environmental Regulations is and shall be and remain at Lessee's sole cost. Lessee will pay or reimburse Lessor for any costs or expenses incurred by Lessor, including reasonable attorney's, engineers', consultants' and other experts' fees and disbursements incurred or payable, to determine, review, approve, consent to or monitor the requirements for compliance with Environmental Regulations, including (without limitation) above and below ground testing. Lessor and Lessor's Agents are hereby authorized to enter upon the Premises for such purposes. Lessee will supply Lessor with historical and operational information regarding the Premises, including (without limitation) all reports required to be filed with governmental agencies, as may be reasonably requested by Lessor to facilitate site assessment, and Lessee will make available for meetings with Lessor, or Lessor's Agents, appropriate personnel having knowledge of such matters. If Lessee fails to comply with the provisions of this Section, or if Lessor receives notice of information asserting the existence of any Hazardous Materials in or about the Building or the Premises, Lessor has the right, but not the obligation, without in any way limiting Lessor's other rights and remedies, to enter upon the Premises or to take such other actions Lessor deems necessary or advisable to clean up, remove, resolve, or minimize the impact of any Hazardous Materials on or affecting the Premises, and Lessee shall pay to Lessor on demand, as Additional rent, all reasonable costs and expenses paid or incurred by Lessor in the exercise of any such rights. Lessee shall and hereby agrees to indemnify and hold harmless Lessor and Lessor's Agents, and their respective affiliates, agents, officers, employees and contractors, from and against all costs, liabilities and causes of action occurring or arising as a result of Lessee's failure to comply with any Environmental Regulations or as a result of any violation of any Environmental Regulations by Lessee or Lessee's Agents, and, at Lessor's option, Lessee will defend Lessor and Lessor's Agents, and their respective affiliates, agents, officers, employees and contractors, against all such costs, liabilities and causes of action. Lessee will notify Lessor in writing immediately upon the discovery, receipt of notice (from a governmental authority or other entity) or reasonable grounds to suspect, by Lessee, Lessee's Agents, or Lessee's or Lessee's Agents' successors or assigns, the presence in the Premises or the Building of any Hazardous Materials or conditions that result in a violation of or could reasonably be expected to violate this Section together with a full description thereof. Brea ch of this Section shall constitute a Default by Lessee under this Lease.

E. ACM Provisions. It is agreed upon that Lessee's acceptance of the Premises and of all of the equipment, apparatus, plumbing, heating, air conditioning, electric, water, waste disposal and other systems includes Lessee's acceptance of any possible latent or patent defects involving the possible presence of Asbestos Containing Materials or any other hazardous materials (collectively, "ACM") therein. It is further agreed that, in the event ACM is found to be present within the Premises: (a) Lessee shall immediately give Lessor written notice of such fact; (b) Lessee shall forthwith cease all activities (including but not limited to performance of alterations, renovations or redecoration activities) that disturb ACM, compromise environmental quality or violate any legal requirement; (c) Lessor may (if its so elects), upon receipt of such notice from Lessee, retain control of all procedures employed for ACM removal work; and (d) Lessor may, at Lessee's expense to the extent that any such ACM is as a result of Lessee's activities at the Premises, cause the removal of all ACM to be accomplished in accordance with all laws, regulations and legal requirements of governmental agencies or authorities having jurisdiction. If required by Lessor to do so, in order to accomplish ACM removal, Lessee shall temporarily close the Premises for business, remove Lessee's inventory and other contents, permit entry to accomplish ACM removal and generally cooperate with Lessor's and Lessor's Agents removal efforts; and Lessee hereby Irrevocably Waives all claims for damage, loss of business, constructive eviction or otherwise in consequence of any such occurrence. In the event of any conflict of inconsistency between this Section and any other provision of this Lease (including but not limited to any provision regarding repairs, maintenance, alterations and compliance with laws), the provisions of this Section shall control.

This Addendum is effective on the date as first set forth above.

LESSOR:

STERLING PROPERTIES, L.L.C.
a Missouri limited liability Company

By:/s/ David T. Hawkins
Its: Managing Partner
Date: September 22, 1997

LESSEE:

STERLING DIRECT, INC.

By: /s/
Its: President
Date: September 22, 1997

State of Missouri,)
of)ss
)

On this 22nd day of September, 1997

before me personally appeared David T. Hawkins

to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the ___and State aforesaid, the day and year first above written.

/s/ Jean M. Mertens
Notary Public

My term expires 8/16/98

State of Missouri,)
of)ss

On this 22nd day of September 1997, before me appeared William G. Ziercher to me personally known, who, being by me duly sworn, did say that he is the President of Sterling Direct, Inc. a corporation of the State of Missouri, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed an sealed in behalf of said corporation, by authority of its Board of Directors; and said President acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONEY WHEREOF, I have herunto set my hand and affixed my official seal in the _____ and State aforesaid, the day and year first above written.

/s/ Jean M. Mertens
Notary Public

My term expires 8/16/98

RENT ROLL

LANDLORD	TENANT	SIZE (SF)	TERM	BASE RENT	EXPENSES	COMMENTS
Sterling Properties, LLC	Sterling Direct, Inc.	116,783	15 Years	$4.37*	NNN	Standard lease with no termination clause

*The base rent will increase every five years as follows:

Years	Monthly Payments	Annual Payments	$/SF
1-5	$42,500.00	$510,000	$4.37
6-10	$45,000.00	$540,000	$4.62
11-15	$50,000.00	$600,000	$5.14

I hereby certify the above information as true and correct. It is our intention to execute a lease according to the above terms in conjections with the subject loan closing.

STERLING PROPERTIES, LLC

By: /s/ David T. Hawkins
David Hawkins, Managing Partner

COMMERCIAL LEASE

This Lease, made and entered into, this 22nd day of September 1997,

by and between

STERLING PROPERTIES LLC

Parties hereinafter called Lessor, and

STERLING DIRECT, INC.

Hereinafter called Lessee,

WITNESSETH, That the said Lessor for and in consideration of the rents, covenants, and agreements hereinafter mentioned and hereby agreed to be paid, kept and performed by said Lessee, or Lessee's, successors and assigns, has leased and by these presents does lease to said Lessee the following described premises, situation in the County of ___of St. Louis, State of Missouri, to-wit:

Premises

One American Eagle Plaza

Earth City, Missouri 63045

A 116,783 Square Foot Office/Production/Warehouse Facility located on approximately 6.975 gross acres of Land know as Lot 5064B.

Use of Premises To have and to hold the same, subject to the conditions therein contained, and for no other purpose or business than that of

OFFICE/PRODUCTION/MANUFACTURING/WAREHOUSE/DISTRIBUTION

Terms and Rentals For and during the term of (180) one hundred eighty months commencing on the First day of October, 1997 and ending on the Thirtieth day of September, 2012

Payable in advance in equal monthly installments of

Months 1-60 Forty-two thousand five hundred Dollars ($42,500)
Months 61-120 Forty-five thousand Dollars ($45,000)

Months 121-180 Fifty thousand Dollars ($50,000)

TO LESSOR AT:

Sterling Properties LLC
One American Eagle Plaza
Earth City, Missouri 63045

On the first day of each and every month during said term.

Assignment or Sub-letting

This lease is not assignable, nor shall said premises or any part thereof be sublet, used or permitted to be used for purpose other than above set forth without the written consent of the Lessor endorsed hereon; and if this lease is assigned or the premises or any part thereof sublet.....[illegible].....

Repairs and [illegible]

The Lessor reserves the right to prescribe the term, size, character and location of any and all awnings affixed to and all signs which may be placed or painted upon any part of the demised premises, and the Lessee agrees not to place any awning or sign on any part of the demised premises without the written consent of the Lessor, or to bore or cut into any column, beam or any party of the demised premises without the written consent of Lessor. The Lessee and all holding under said Lessee agrees to use reasonable diligence in the care and protection of said premises during the term of this lease, to keep the water pipes, sewer drains, heating apparatus, elevators machinery and sprinkler system in good order and repair and to surrender said premises at the termination of this lease is substantially the same and in as good condition as received, ordinary wear and tear expected.

The Lessee shall pay according to the rules and regulations of the water department for all water used in the demised premises. The Lessee will erect fire escapes on said premises at said Lessee's own cost, according to law, should the proper authorities demand same.

The Lessee agrees to keep said premises in good order and repair and free from any nuisance or filth upon or adjacent thereto, and not to use or permit the use of the same or any part thereof for any purpose forbidden by law or ordinance now in force or hereafter enacted in respect to the use or occupancy of said premises. The Lessor or legal representatives may, at all reasonable hours, enter upon said premises for the purpose of examining the condition thereof and making such repairs as Lessor may see fit to make.

If the cost of insurance to said Lessor on said premises shall be increase.... [illegible].....of the occupancy and use of said demised premises by said Lessee or any other.....[illegible].....under said Lessee, all such increase over the existing rate shall be paid by ....[illegible].....or any one holding under the Lessee, shall retain the demised premises after.....[illegible].....nation of this lease, whether by limitation or forfeiture.

Damage to Tenants' Property

Lessor shall not be liable to said Lessee or any other person or corporation ....[illegible]..... employees, for any damage to their person or property caused by water, ...[illegible].....frost, fire, store and accidents, or by breakage, stoppage or leakage of water,....[illegible].....and sewer pipes or plumbing, upon, about or adjacent to said premises.

Failure on the part of the Lessee to pay any installment of rent or increase in insurance rate promptly as above set out, as and when the same becomes due and payable, or failure of the Lessee promptly and faithfully to keep and perform each and every covenant, agreement and stipulation herein on the part of the Lessee to be kept and performed, shall at the option of the Lessor cause the forfeiture of this lease.

Possession of the within demised premises and all additions and permanent improvement thereof shall be delivered to Lessor upon ten days' written notice that Lessor has exercised said option, and thereupon Lessor shall be entitled to and may take immediate possession of the demised premises, any other notice or demand being hereby waived.

Any and all notices to be served by the Lessor upon the Lessee for any breach of covenant of this lease, or otherwise, shall be served upon the Lessee in person, or left with anyone in charge of the premises, or posted upon some conspicuous part of said premises.

Re-Entry

Said Lessee will quit and deliver upon the possession of said premises to the Lessor or Lessor's heirs, successors, agents or assigns, when this lease terminated by limitation or forfeiture, with all window glass replaced, if broken, and with all keys, locks, bolts, plumbing fixtures, elevator, sprinkler, boiler and heating appliances in as good order and condition as the same are now, or may hereafter be made by repair in compliance with all covenants of this lease, save only the wear thereof from reasonable and careful use.

But it is hereby understood, and Lessee hereby covenants with the Lessor, that such forfeiture, annulment or voidance shall not relieve the Lessee from the obligation of the Lessee to make the monthly payments of rent hereinbefore reserved, at the times and in the manner aforesaid; and in case of any such default of the Lessee, the Lessor may re-let the said premises as the agent for and in the name of the Lessee, at any rental readily obtainable, applying the proceeds and avails thereof, first, to the payment of such expense as the Lessor may be put to in re-entering, and then to the payment of said rent as the same may from time to time become due, and toward the fulfillment of the other covenants and agreements of the Lessee herein contained, and the balances, if any, shall be paid to the Lessee; and the Lessee hereby covenants and agrees that if the Lessor shall recover or take possession of said premises as aforesaid, and be unable to re-let and rent the same so as to realize a sum equal to the rent hereby reserved, the Lessee shall and will pay to the Lessor any and all loss of difference of rent for the residue of the term. The Lessee hereby gives to the Lessor the right to place and maintain its usual "for rent" signs upon the demised premises, in the place that the same are usually displayed on property similar to that herein demised, for the last thirty days of this lease.

“No representation is made that premises are lead free or that these premises are legally habitable.”

SEE SPECIAL AGREEMENTS ATTACHED HERETO
FORMING A PART OF THIS LEASE

No Constructive Waiver

No waiver of any forfeiture, by acceptance of rent or otherwise, shall waive any subsequent cause of forfeiture, or breach of any condition of this lease; nor shall any consent by the Lessor to any assignment or subletting of said premises, or any part thereof, be held to waive or release any assignee or sub-lessee from any of the foregoing conditions or covenants as against him or them; but every such assignee and sub-lessee shall be expressly subject thereto.

Whenever the word "Lessor" is used herein it shall be construed to include the heirs, executors, administrators, successors, assigns or legal representatives of the Lessor; and the word "Lessee" shall include the heirs, executors, administrators, successors, assigns or legal representatives of the Lessee and the words Lessor and Lessee shall include single and plural, individual or corporation, subject always to the restrictions herein contained, as to subletting or assignment of this lease.

IN WITNESS WHEREOF, the said parties aforesaid have duly executed the foregoing instrument or caused the same to be executed the day and year first above written.

STERLING PROPERTIES LLC

By: /s/ David T. Hawkins

STERLING DIRECT, INC.

By: /s/

This lease shall become immediately effective upon Lessor obtaining title to the property.

OPTION AND REIMBURSEMENT AGREEMENT

The REYNOLDS AND REYNOLDS COMPANY ("**Reynolds**"), STERLING PROPERTIES, L.L.C. ("**Seller**") and DAVID T. HAWKINS and WILLIAM G. ZIERCHER (collectively, the "**Principals**" and individually, a "**Principal**") agree as follows:

RECITALS:

Reynolds and Sterling Direct, Inc. (the "**Company**") have entered into a written Acquisition Agreement (the "**Acquisition Agreement**") that provides for the purchase by Reynolds of substantially all of the assets of the Company.

The Company leases the Premises (as defined below) from Seller pursuant to a written lease dated as of September 22, 1997 (the "**Lease**").

Reynolds, Company and Seller desire to enter into a new lease for the Premises for a term of eight (8) years from the Closing Date (as defined in the Agreement). The terms of Seller's loan from and related mortgage in favor of Live Investors Insurance Company of America (the "**First Mortgage**") require that Seller obtain the consent of the holder of the First Mortgage to termination of the Lease and execution of a new lease with Reynolds. The holder of the First Mortgage is unwilling to consent to such a transaction.

As an alternative, Reynolds is willing to enter into an assignment of the Lease, subject to execution and performance of this Agreement (the "**Agreement**") by Seller and the Principals. Execution and delivery of this Agreement by Seller and the Principals is a condition to Reynolds' obligation to close the transactions contemplated by the Acquisition Agreement.

Principals hold a substantial majority of the outstanding common stock of the Company and 60.61% of the membership interests (together with affiliates) of Seller. Principals acknowledge the direct and indirect benefits and consideration received from this Agreement as a result of Reynolds execution of an assignment of the Lease and the performance of the Acquisition Agreement.

AGREEMENT:

1. OPTION

1.1 Grant. In consideration of One Dollar ($1.00) paid to Seller and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller hereby grants to Reynolds the exclusive option (the "**Option**") to purchase the Premises for the Purchase Price set forth below, at any time following the occurrence of a Triggering Event (as defined below).

1.2 Definitions. When used in this Agreement, the following terms shall have the meanings set forth in this Section:

1.2.1 “Premises” means certain real property, with all appurtenant rights, privileges and easements, located at One American Eagle Plaza, Earth City, Missouri, together with all improvements thereon, and personal property located on the Premises as described in Exhibit A.

1.2.2 “Triggering Event” means: (a) any default under the First Mortgage that is not cured within any applicable cure period or waived in writing by the holder within any applicable cure period; (b) any condemnation involving ten percent (10%) or more of the Premises or any casualty loss that renders ten percent (10%) or more of the Premises unstable in the ordinary course of Reynolds business (provided, however, that as long as there is a pro rata reduction in the rent under the Lease or Seller or the Principals hold Reynolds harmless for a pro rata amount of rent under the Lease, the Triggering Event in this clause (b) shall be deferred); or (c) the eighth (8th) anniversary of the Acquisition Closing Date; provided, that the Triggering Event described in clause (c) shall be deferred for such period as either (i) Reynolds continues to occupy the leased premises beyond the eighth (8th) anniversary of the Acquisition Closing Date; or (ii) a sub-tenant assumes and performs all of Reynolds’ obligations under the Lease (Reynolds agrees that if it does not desire to occupy the leased premises beyond the eighth (8th) anniversary of the Acquisition Closing Date and another Person desires to occupy the entire leased premises, Reynolds will sublease the leased premises on substantially similar terms to such a sub-tenant, subject to reasonable credit protections such as a security deposit); provided however that as long as Reynolds is being held harmless by Seller or the Principals (through one or more sources including sub-tenants) for all costs and expenses (including rent) arising out of the Lease, no Triggering Event shall have occurred.

1.2.3 “Closing” means closing of the purchase of the Premises by Reynolds following exercise of the Option as provided in this Agreement.

1.2.4 “Closing Date” means the date on which the Closing occurs.

1.2.5 “Acquisition Closing Date” means the closing date of the acquisition of substantially all the assets of the Company by Reynolds.

1.2.6 “Seller’s Knowledge” means the actual knowledge of Principals.

1.3 Exercise of Option. The Option may be exercised at any time after the occurrence of a Triggering Event or prior to termination (as provided in Section 1.4) by written notice to Seller. If Reynolds exercises the Option, Seller shall have thirty (30) days from receipt of Reynolds’ notice to effect a deferral within the thirty-day period, Reynolds shall purchase and Seller shall sell the Premises on the terms and conditions set forth in this Agreement.

1.4 Termination of Option. Unless the Option has been previously exercised according to this Agreement, the Option will terminate upon either: (a) termination of the Lease at any time (other than due to a default by, or a bankruptcy even involving, the Seller, (b) one (1) day prior to the eighth (8th) anniversary of the Acquisition Closing Date if Seller has both (i) provided notice to Reynolds of the intention to terminate under this clause (b) at least one (1) month prior to the eighth (8th) anniversary of the Acquisition Closing Date and (ii) entered into a termination and complete release of Reynolds' obligations under the Lease and obtained all approvals from lenders of other persons required to do so; or (c) execution of a new lease pursuant to any refinancing in accordance with Section 5.

1.5 Reynolds' Occupancy. In the event Reynolds desires to occupy the Premises after the eighth (8th) anniversary of the Acquisition Closing Date, Reynolds will notify the Seller no later than the seventh (7th) anniversary of the Acquisition Closing Date, and the parties will commence good faith discussions within ninety (90) days after the date of Reynolds' notice).

2. REIMBURSEMENT In the event that Reynolds exercises the Option and purchases the Premises pursuant to this Agreement, then the parties shall have the rights and obligations described in this Section.

2.2.1 Sale of Premises. Within thirty days after the Closing Date, Reynolds shall list the Premises for sale and engage an experienced commercial broker of regional or national reputation and otherwise commence commercially reasonable efforts to sell the Premises (the terms of engagement of the broker shall be within generally accepted terms for similar engagements in the St. Louis metropolitan area and Reynolds shall be entitled to change brokers in its discretion). Following the Closing, the parties shall negotiate in good faith toward an agreement on a sale price for the Premises. If the parties are unable to agree to a price within fifteen (15) days after the Closing Date, the parties shall engage a qualified commercial real estate appraiser in the St. Louis metropolitan area to determine the price. Subject to the requirement of a minimum price determined pursuant to this Section, Reynolds shall determine whether to accept or reject any bona fide offer to purchase the Premises and to negotiate all terms and conditions of sale, each in Reynolds good faith discretion; provided, however, that if Reynolds receives two offers on the same terms except price, Reynolds will accept the offer with the higher price.

2.2.2 Shortfall. Upon closing of a sale of the Premises by Reynolds, Seller shall pay to Reynolds an amount equal to the excess of (a) Reynolds' Cost (as defined below), over (b) the Net Sale Proceeds. In the event the Net Sales Proceeds exceed the Reynolds Cost, Reynolds shall be entitled to retain the excess, subject to Section 2.2.3.

2.2.2.1. “Reynolds’ Cost” means the aggregate amount required to satisfy in full all liens claims, charges or encumbrances (including the First Mortgage) affecting the Premises and any matters that constitute a breach of any of the representations and warranties of Seller under this Agreement as of the Closing Date (including pro rata portions of real estate taxes and other amounts accrued but not yet due with respect to all periods prior to the Closing Date but excluding all other Permitted Exceptions). Notwithstanding the preceding sentence, to the extent an amount otherwise described in this Section 2.2.2.1 is already covered within Purchase Expenses, such amount shall not be deemed part of the “Reynolds Cost”.

2.2.2.2. “Net Sales Proceeds” means the total consideration received (including liabilities assumed) from the sale of the Premises, less the sum of (a) all amounts due but unpaid under Sections 2.2.1 (including late payment charges under Section 2.2.4), and (b) all fees, expenses or amounts paid by Reynolds to third parties in connection with or resulting from the sale of the Premises by Reynolds, including brokers fees and commissions, al transfer fees, legal fees, title insurance fees, survey fees, lender fees, costs and expenses.

2.2.3 Carrying Cost. Upon closing of a sale of the Premises by Reynolds, Seller shall reimburse Reynolds from the following costs incurred by Reynolds since the Closing Date (the “Carrying Cost”): (a) all real estate taxes, assessments and the like, insurance costs, security costs, utility and public service charges and expenses and maintenance and repair costs, rent and other expenses and costs arising out of the lease, ownership and maintenance of the Premises during the period from Closing Date to the closing of the sale of the Premises by Reynolds (provided, however, that such amounts will not be charged to Seller for any period that Reynolds uses a substantial portion of the Premises in the ordinary course of its business or that a tenant leases all or substantially all of the Premises), and (b) interest or other fees paid to lenders with respect to mortgage financing to pay the Reynolds Cost for the period from the Closing Date to the closing of the sale of the Premises by Reynolds (provided, however that if Reynolds does not obtain mortgage financing but otherwise incurs the Reynolds Cost, this amount shall be determined using the Reynolds Cost and the average weighted cost of capital used by Reynolds for internal purposes for that same period). Notwithstanding the preceding sentence, in the even the Net Sales Proceeds exceed the Reynolds Cost, the Carrying Cost shall be reduced dollar for dollar by the amount of such excess (but not below $0).

2.2.4 Late Payments Interest shall accrue on amounts due under this Agreement from the due date at a rate equal to the lower of eighteen percent (18%) or the maximum amount allowed by law.

3. PURCHASE PRICE The purchase price for the Premises shall be One Dollar ($1.00) (the "Purchase Price"). The Purchase Price shall be payable at the Closing.

4. CLOSING DELIVERIES In the event Reynolds exercises the Option, the parties shall have the following rights and obligations:

4.1 Title. At the Closing, Seller will, at Seller's sole expense, cause a title insurance company of national reputation selected by Reynolds to furnish Reynolds, within five (5) days prior to Closing, a commitment for an ALTA form owner's fee title insurance policy (the "**COMMITMENT**"). The Commitment shall be in such title company's usual and customary form in the amount of the sum of the Reynolds Cost plus the Purchase Expenses, without any exception for facts that would be disclosed by a survey and without exception for unfilled mechanic's, laborer's or materialmen's liens, the First Mortgage and the Permitted Exceptions. "Permitted Exceptions" means (a) covenants, conditions, restrictions, limitations, and reservations that do not, individually or in the aggregate, materially reduce the value of the Premises; (b) rights of way of record, easements and zoning regulations and other matters of record, and (c) liens for accrued but not as yet payable taxes.

4.2 Survey Seller shall obtain a survey of the Premises certified by a registered surveyor to Reynolds and to the title company, and a legal description of the Premises prepared in accordance with such survey. Such survey shall show that the Premises is free from encroachments, overhangs, evidence of unrecorded easements and other similar matters which an accurate survey and inspection of the Premises would disclose, and shall be acceptable to the title company for purposes of removing the standard printed General Exceptions relating to matters of survey, unrecorded easements, encroachments and the like. The survey prepared shall be in accordance with the ALTA minimum survey standards and contain the certifications and other matters required by such standards and the title company in order to remove the standard printed General Exceptions from the Commitment. Seller shall deliver the survey within twenty-one (21) days after Reynolds exercises the Option subject to delays beyond the reasonable control of Seller.

4.3 Closing

4.3.1 The Closing shall occur at the offices of the title company at a mutually satisfactory date and time that is not later than thirty (30) days after expiration of the period following exercise of the Option during which Seller may effect a deferral of the Triggering Event as provided in Section 1.3.

4.3.2 At the Closing, Seller shall deliver to Reynolds the following:

4.3.2.1 A recordable general warranty deed conveying to Reynolds good and marketable fee simple title to the Premises, free and clear of all liens, encumbrances, assessments and restrictions, except the First Mortgage and the Permitted Exceptions. Such deed shall also convey to Reynolds all rights, easements and privileges appurtenant to the Premises.

4.3.2.2 An assignment and bill of sale covering all Personal Property. Seller shall convey to Reynolds title to the Personal Property, free and clear of all claims, liens and encumbrances.

4.3.2.3 An affidavit, in form satisfactory to Reynolds, stating that Seller is not a foreign person under Internal Revenue Code section 1445.

4.3.2.4 A customary owner's affidavit as to mechanic's and materialmen's liens and persons in possession of the Premises required by the title company as a condition to its agreement to delete the printed General Exceptions related to such liens and possession from the Commitment.

4.3.2.5 An opinion of counsel for Seller dated as of the Closing Date in form and substance reasonably satisfactory to Reynolds and its counsel and subject to normal qualifications and exceptions, that:

4.3.2.5.1 Seller is a limited liability company duly organized and validly existing and in good standing under the laws of the State of Missouri.

4.3.2.5.2 This Agreement and the documents to be executed and delivered by Seller, will be valid and binding upon Seller and enforceable in accordance with their terms, except as limited by (A) general principals of equity, regardless of whether such enforceability is considered in a proceeding in equity or law, (B) bankruptcy, moratorium, or similar laws, or (C) other laws effecting or relating to the rights of creditors generally.

4.3.2.5.3 The managers and members of Seller have duly authorized the transactions contemplated in this Agreement

4.3.2.5.4 Neither the execution nor delivery of this Agreement nor the consummation of the

transactions contemplated hereby will constitute (A) a default, or an event that would with notice or lapse of time, or both, constitute a default under, or violation or breach of, Seller's Articles or Organization or Operating Agreement, or (B) an event that would result in the creation or imposition of any lien, charge, or encumbrance on the Premises.

4.3.2.6 A certificate of Good Standing from the State of Missouri dated within thirty (30) days of the date of Closing.

4.3.2.7 Certificates confirming that each of the representations and warranties of Seller in this Agreement remains true and correct in all material respects, the incumbency of the persons executing documents and instruments on behalf of Seller to be delivered at the Closing and confirming that the actions of Seller's managers and members to authorize this Agreement and its performance remain in full force and effect.

4.3.3 At the Closing Reynolds shall deliver the Purchase Price and such affidavits as may reasonably be requested by the title company.

4.4 Possession Possession of the Premises shall be delivered to Reynolds at the Closing. Any time prior to the Closing, Reynolds and its designated agents shall have the right, at reasonable times, to enter upon the Premises for the purpose of making inspections, tests, survey and other reasonable investigations.

4.5 Risk of Loss Risk of loss to the Premises shall remain with the Seller until the Closing. In the event of damage or destruction to the Buildings or any improvements on the Premises during the period between exercise of the Option and the Closing, Reynolds may elect to (a) have the proceeds of such insurance and any excess cost of repair paid to Reynolds at Closing, or (b) terminate this Agreement, in which event the parties shall be released from any further obligations hereunder. During the period of its ownership of the Premises, Reynolds agrees to maintain insurance on the Premises in the same amounts as required under the Lease, and Reynolds agrees to keep and maintain the premises in good order and repair (normal wear and tear expected) and to use reasonable diligence to keep the Premises free from waste and nuisance of any kind.

4.6 Specific Performance Seller and Principals acknowledge that in the event of a breach of this Agreement by them, Reynolds would be irreparably harmed, and, accordingly, Seller and Principals agree that in the event of such a breach Reynolds shall be entitled to specific performance and other equitable

remedies in addition to and not in lieu of any other remedies available to Reynolds, including money damages.

5. REFINANCING OF FIRST MORTGAGE In the event that Seller re-finances the First Mortgage at any time prior to the eighth (8th) anniversary of the Acquisition Closing Date, Reynolds and Seller shall terminate the Lease and enter into a new lease on identical terms except that the term shall expire on the eighth (8th) anniversary of the Acquisition Closing Date and the new lease shall include customary terms for abatement and/or reduction of rent in the event of a condemnation or casualty affecting the Premises. Reynolds obligation to execute such a lease shall be conditioned upon the execution by the replacement lender of an attornment agreement in substantially the form of the attornment agreement executed by the holder of the First Mortgage.

6. RESTRICTIONS ON ADDITIONAL INTERESTS OR LIENS Except for the Permitted Encumbrances, the rights granted to Reynolds under this Agreement and security with respect to re-financing of the First Mortgage in accordance with Section 5, neither Seller nor Reynolds shall, whether voluntarily, involuntarily or by operation of law, grant, convey, transfer or allow to exist any liens, charges, encumbrances or interests with respect to the Premises at any time prior to termination of the Option.

7. REPRESENTATIONS AND WARRANTIES OF SELLER Seller represents and warrants to Reynolds that the following statements are true and correct as of the date of this Agreement and will be true and correct on the date of Closing (except as disclosed in Exhibit B to this Agreement):

7.1 Zoning The premises are currently zoned to permit all current uses being made on the Premises, and no portion of the Premises constitutes a non-conforming use.

7.2 Compliance with Laws To Seller's Knowledge, the Premises are not in violation of any building code, fire code, or any other applicable ordinance, statute, regulation or requirement of any governmental authority having jurisdiction thereof, and Seller has received no notice or order from any governmental authority as to such a violation.

7.3 Mechanics' Lien The Premises is free from mechanic's liens or the possibility of the rightful filing thereof. There are no pending lawsuits, no threatened lawsuits, and no asserted or threatened violations affecting the Premises or any part thereof.

7.4 Private Restrictions There are no private restrictions or conditions by deed or contract relating to the Premises that do not appear of record.

7.5 Insurance Matters Seller has received no notices of violations of any policy of insurance covering any part of the Premises, and Seller has not

received and has no knowledge of any notice or request from any insurance company or board of fire underwriters requesting the performance of any work or alteration with respect to the Premises.

7.6 Access To Seller's Knowledge, no fact or condition exists which could reasonably be expected to result in the termination or impairment of access to any of the Premises or which could result in the discontinuation or reduction of traffic and/or necessary sewer, water, electric, gas, telephone, or other utilities or services to the Premises.

7.7 Public Improvements Seller has not been notified of possible future improvements by any public authority, any part of the cost of which would or might be assessed against the Premises, or of any contemplated future assessments of any kind. To Seller's knowledge, there are no condemnation proceedings pending or contemplated which would affect the Premises.

7.8 Conflicting Interests Except for the First Mortgage and Reynolds rights under this Agreement, Seller has not entered into any other contract to sell or encumber the Premises or any part thereof other than the excepted on the Commitment.

7.9 Organization and Authority Seller is a duly organized limited liability company, validly existing under the laws of the State of Missouri. The person who executes this Agreement on behalf of Seller has full authority to act on behalf of and to bind Seller with respect to this Agreement. The execution, deliver and performance of this Agreement by Seller will not result in the breach of, or constitute a default by Seller under, its Articles of Organization or Operating Agreement or any contract, agreement, mortgage, pledge, note, bond or other instrument to which Seller is a party or by which Seller may be bound or the Premises affected.

8. REMEDY FOR A BREACH OF SECTION 7 Reynolds remedy for a breach of Section 7 of this Agreement shall be limited to recovery through Section 2.2.2 (to the extent such Section is applicable).

9. SURVIVAL All representations, warranties and covenants hereunder have been relied upon as material inducements for entering this Agreement and shall survive the Closing for a period of five (5) years.

10. GUARANTY Principals hereby guaranty the full and prompt performance by Seller of its obligations under this Agreement. This guaranty is one of payment, not collection. In the event of dissolution and liquidation of Seller, members shall automatically and without further action assume all obligations of Seller hereunder and shall receive all rights and benefits of Seller hereunder.

11. NOTICES All notices, requests, demands and other communications hereunder shall be in writing and shall be transmitted (and be deemed given and received) in the manner contemplated by Section 21.2 of the Acquisition Agreement, addressed as follows: (a) is to Seller or Reynolds-to the respective addresses identified in Section 21.2 of the Acquisition Agreement; or (b) if to Principals-to the respective addresses identified in their employment agreements with Reynolds or such other addresses as shall be furnished in writing in accordance with the provisions of this Section by any party to the other parties.

12. HEADINGS The Section headings in this Agreement are inserted solely as a matter of convenience for reference, and shall not in any way affect the meaning or interpretation of any of the provisions of this Agreement.

13. COUNTERPARTS This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14. PRIOR AGREEMENTS This Agreement supersedes all prior agreements, oral and written, among the parties hereto with respect to the subject matter hereunder.

15. AMENDMENT; WAIVER This Agreement may not be amended except by an instrument in writing signed by the parties hereto. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement except by written instrument signed by the party charged with such waiver or estoppel. No such written waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

16. SEVERABILITY Should any provision of this Agreement, or the application thereof, be held invalid or unenforceable by a court of competent jurisdiction, the remainder of this Agreement or alternative applications thereof, other than the provision(s) which shall have been held invalid or unenforceable, shall not be affected thereby and shall continue to be valid and enforceable to the fullest extent permitted by law or equity.

17. ASSIGNMENT This Agreement shall not be assignable by any party without the written consent of the other parties; provided, however, that Reynolds may assign its rights hereunder to a wholly owned subsidiary if Reynolds unconditionally guarantees such subsidiary's performance. Nothing contained in this Agreement, express or implied, is intended to confer upon any person or entity, other than the parties hereto and their permitted successors, assigns, and transferees.

18. BINDING EFFECT This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective permitted successors, assigns, and transferees.

19. TIME OF ESSENCE Time is of the essence in this Agreement.

20. GOVERNING LAW This Agreement will be governed by and construed and enforced in accordance with the laws of the state of Missouri as applied to contracts executed and performed wholly within that state. Any action or proceeding seeking to enforce any provision of or based on any right arising out of this Agreement may be brought against the parties in the United States District Court for the Eastern District of Missouri, and the parties consent to the jurisdiction of such court (and of the appropriate appellate courts) in any such action or proceedings and waive any objection to venue laid therein.

21. MEMORANDUM FILING The parties shall execute and file a Memorandum of Option with five (5) days after execution of this Agreement.

The parties have executed this Agreement as of this 30th day of September, 1999

Acknowledge in the Presence of

_____

/s/ Coletta L. McClain

_____

/s/ Coletta L. McClain

_____

/s/ Coletta L. McClain

_____

/s/ Coletta L. McClain

STERLING PROPERTIES, L.L.C.

By /s/ David T. Hawkins

THE REYNOLDS AND REYNOLDS COMPANY

By /s/ Timothy Schriner

PRINCIPALS:

/s/ David T. Hawkins
David T. Hawkins

/s/ William G. Ziercher
William G. Ziercher

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Public in and for said state, personally appeared David T. Hawkins, member of Sterling Properties, L.L.C. a Missouri limited liability company, known to me to be the person who executed the within instrument on behalf of said limited liability company and acknowledged to me that he executed the same for the purposes therein stated.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

/s/ Coletta L. McClain

My Commission Expires:_____

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS.

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Public in and for said state, personally appeared Timothy Schriner, who, being by me duly sworn, did say that he is G.V.P. Finance of The Reynolds and Reynolds Company, an Ohio corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Director; and said Timothy Schriner acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed by official seal in the County and State aforesaid, the day and year first above written.

/s/ Coletta L. McClain
Notary Public

My Commission Expires: December 13, 2002

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS.

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Pubic in and for said state, personally appeared David T. Hawkins and acknowledged to me that the same for the purposes therein stated.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

/s/ Coletta L. McClain
Notary Public

My Commission Expires: December 13, 2002

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS.

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Public in and for said state, personally appeared William G. Ziercher and acknowledged to me that he executed the same for the purposes therein stated.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

/s/ Coletta L. McClain
Notary Public

My Commission Expires: December 13, 2002

EXHIBIT A

The personal property, equipment and fixtures sold hereunder shall include all of the following to the extent of Seller's interest therein:

a) All lighting fixtures including emergency lighting fixtures and explosion- proof fixtures.

b) All electrical switch gear including free-standing transformers and electrical "drops."

c) All air lines including hard plumbing.

d) All plumbing fixtures including drinking fountains.

e) All fire extinguishers and fire hoses.

f) Any burglar and/or fire alarm systems.

g) All heating, ventilating and air conditioning equipment.

h) All pumps and other mechanical equipment.

i) All time clocks and other clocks.

j) All free standing modular office partitions.

k) All carpeting.

l) All window blinds, drapery rods and all draperies.

m) All elevators and related equipment.

n) All original and/or reproducible architectural, plumbing, HVAC, and electrical drawings for the facility and all installation, operation and service manuals, if available, and maintenance and inspection records for all heating, ventilating and air conditioning (HVAC), electrical, and any other mechanical equipment.

o) All other personal property, equipment and fixtures owned by the Seller and located on the real property at One American Eagle Plaza, Earth City, Missouri.

EXHIBIT B

None.

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE is made as of September 30, 1999, by and between Sterling Properties, L.L.C., a Missouri limited liability company ("Landlord"), and The Reynolds and Reynolds Company, an Ohio corporation ("Tenant").

WITNESSETH:

THAT FOR AND IN CONSIDERATION of the sum of Ten Dollars ($10.00) and other valuable consideration paid by Tenant to Landlord, the receipt and sufficiency of which are hereby acknowledged, the parties desire to give notice of the existence of the following lease:

1. Landlord under lease dated September 22, 1997 (the "Lease") demised and leased to Sterling Direct, Inc., a Missouri corporation ("Sterling Direct"), upon and subject to the terms, covenants and conditions set forth in the Lease, a certain tract of land (the "Premises"), as described on Exhibit A, attached hereto and incorporated herein by reference, located in St. Louis County, Missouri.

2. Sterling Direct assigned its rights in the Lease to Tenant and Tenant has assumed all obligations under the Lease as of the date hereof. The Lease will expire September 30, 2007.

3. The parties hereto by reference incorporate herein all terms, covenants, and conditions contained in the Lease. This Memorandum of Lease is prepared for the purposes of recordation and notice of the Lease, and in no way modifies or otherwise amends the terms and conditions of the Lease. For a complete statement of the rights, privileges and obligations created under and by said instrument and of the terms, covenants and conditions contained therin, reference is hereby made to the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Memorandum of Lease to be duly executed as of the day and year first above written.

LANDLORD:

Sterling Properties, L.L.C., a Missouri
limited liability company

By: /s/ David T. Hawkins

Printed Name: David T. Hawkins

Title: Executive Vice President and Managing Member

TENANT:

The Reynolds and Reynolds Company,
an Ohio Corporation

By: /s/ Timothy Schriner

Printed Name: Timothy Schriner

Title: Group Vice President & Finance-ISG

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Public in and for said state, personally appeared David T. Hawkins, Member of Sterling Properties, L.L.C., a Missouri limited liability company, known to me to be the person who executed the within instrument on behalf of said limited liability company and acknowledge to me that he executed the same for the purposes therein state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

/s/ Coletta L. McClain
Notary Public

My Commission Expires: December 13, 2002

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Public in and for said state, personally appeared Timothy Schriner, who, being by me duly sworn, did say that he is G. V. P. Finance of the Reynolds and Reynolds Company, an Ohio corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and said instrument was signed and sealed in behalf of said corporation, by

authority of its Board of Directors; and said Timothy Schriner acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

/s/ Coletta L. McClain
Notary Public

EXHIBIT A

Premises

Lot 5064B of Lot Split Plat Lots 5064A and 5064B of Lot 5064 of the Amended Plat of Earth City Plat 66, according to the plat thereof recorded in Plat Book 342, Page 63 of the St. Louis County Records.

MEMORANDUM OF OPTION

THIS MEMORANDUM OF OPTION is made as of September 30th, 1999, by and between The Reynolds and Reynolds Company, an Ohio corporation ("Reynolds") and Sterling Properties, L.L.C., a Missouri limited liability company ("Seller").

WITNESSETH:

THAT FOR AND IN CONSIDERATION of the sum of One Dollar ($1.00) and other valuable consideration paid by Seller to Reynolds, the receipt and sufficiency of which are hereby acknowledged, the parties desire to give notice of the existence of the following option:

1. Seller under that certain Option and Reimbursement Agreement dated September 30, 1999 (the "Option Agreement") granted Reynolds an option to purchase Seller's interest in that certain tract of land described in Exhibit A, attached hereto and incorporated herein by reference (the "Premises"), upon and subject to the terms, covenants and conditions set forth in the Option Agreement.

2. The term of the Option Agreement shall terminate upon the occurrence of certain events specified therein, but not later than the termination of the written Lease Agreement dated September 22, 1997 by and between Seller and Sterling Direct, Inc., a Missouri corporation (the "Lease"). The Lease has been assigned by Sterling Direct, Inc. to Reynolds.

3. The parties hereto by reference incorporate herein all terms, covenants, and conditions contained in the Option Agreement. This Memorandum of Option is prepared for the purposes of recordation and notice of the Option Agreement, and in no way modifies or otherwise amends the terms and conditions of the Option Agreement. For a complete statement of the rights, privileges and obligations created under and by said instrument and of the terms, covenants and conditions contained therein, reference is hereby made to the Option Agreement.

IN WITNESS WHEREOF, Seller and Reynolds have caused this Memorandum of Option to be duly executed as of the day and year first above written.

SELLER:

Sterling Properties, L.L.C., a Missouri limited
Liability company

By: /s/ David T. Hawkins
Printed Name: David T. Hawkins
Title: Exec. VP Managing Member

REYNOLDS:

The Reynolds and Reynolds Company, an Ohio Corporation

By: /s/ Timothy Schriner
Printed Name: Timothy Schriner
Title: Group Vice President, Finance – ISG

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Public in and for said state, personally appeared David T. Hawkins, a Member of Sterling Properties, L.L. C., a Missouri limited liability company, known to me to be the person who executed the within instrument on behalf of said limited liability company and acknowledged to me that he executed the same for the purposes therein stated.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

/s/ Coletta L. McClain
Notary Public

My Commission Expires: December 13, 2002

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

On this 30th day of September, 1999, before me Coletta L. McClain, a Notary Public in and for said state, personally appeared Timothy Schriner, who, being by me duly sworn, did say that he is G. V. P. Finance of The Reynolds and Reynolds Company, an Ohio corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Directors; and said Timothy Schriner acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

Notary Public

EXHIBIT A

Premises

Lot 5064B of Lot Split Plat Lots 5064A and 5064B of Lot 5064 of the Amended Plat of Earth City Plat 66, according to the plat thereof recorded in Plat Book 342, Page 63 of the St. Louis County Records.

Exhibit 10.23

ALLIANCE DATA SYSTEMS CORPORATION

EXECUTIVE DEFERRED COMPENSATION PLAN

(Effective January 1, 2005)

ALLIANCE DATA SYSTEMS CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN

TABLE OF CONTENTS

ARTICLE I — PREAMBLE

The Alliance Data Systems Corporation Supplemental Executive Retirement Plan (the "SERP") was established, effective May 1, 1999, to provide an opportunity for a select group of management and highly compensated employees to defer a portion of their regular compensation and bonuses payable for services rendered to Alliance Data Systems Corporation ("ADSC") and its participating affiliates and to receive certain employer contributions. On December 8, 2004, due to changes in the law, the Compensation Committee of the Board of Directors of ADSC took action to freeze the SERP, effective December 31, 2004. Effective January 1, 2005, contributions shall be made to the Alliance Data Systems Corporation Executive Deferred Compensation Plan (the "Plan"), which is simply the SERP amended, restated, and renamed. The provisions of the SERP, as in effect on December 31, 2004, shall govern any compensation or employer contribution that is "deferred," within the meaning of Code Section 409A, prior to January 1, 2005. Compensation and employer contributions deferred on or after such date shall be governed by the provisions of the Plan. The purpose of the Plan continues to be to assist in attracting and retaining qualified individuals to serve as officers and key managers. The Plan is unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE II — DEFINITIONS

2.1 **Account** means the account maintained on the books of an Employer for the purpose of accounting for Associate Contributions and Company Contributions, if any, allocated to a Participant. Each Account shall be a bookkeeping entry only and shall be used solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated beneficiary, pursuant to the Plan.

2.2 **ADSC** means Alliance Data Systems Corporation.

2.3 **Alliance** or **ADSI** means ADS Alliance Data Systems, Inc.

2.4 **Associate** means any person receiving compensation for personal services rendered in the employment of an Employer.

2.5 **Associate Contributions** means both Elective Contributions and Section 415 Contributions.

2.6 **Change in Control** means one of the following events: (i) the merger, consolidation or other reorganization of ADSC in which its outstanding common stock, $0.01 par value, is converted into or exchanged for a different class of securities of ADSC, a class of securities of any other issuer (except a direct or indirect wholly owned subsidiary of ADSC), cash, or other property, (ii) the sale, lease or exchange of all or substantially all of the assets of ADSC to any other corporation or entity (except a direct or indirect wholly owned subsidiary of ADSC), (iii) the adoption by the stockholders of ADSC of a plan of liquidation and dissolution, (iv) the acquisition (other than any acquisition pursuant to any other clause of this definition) by any person or entity other than (*x*) Welsh Carson Anderson & Stowe partnerships and partners or (*y*) Limited Brands, Inc. and its affiliates, including without limitation a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (whether or not such Act is then applicable to ADSC), of beneficial ownership, as contemplated by such Section, of more

than twenty percent (20%) (based on voting power) of ADSC's outstanding capital stock and such person, entity or group either has, or either publicly or by written notice to ADSC states an intention to seek, a representative member on the Board, (v) the acquisition (other than any acquisition pursuant to any other clause of this definition) by any person, entity or group other than (*x*) Welsh Carson Anderson & Stowe partnerships and partners or (*y*) Limited Brands, Inc. and its affiliates, of beneficial ownership of more than thirty percent (30%) (based on voting power) of ADSC's outstanding capital stock, or (vi) as a result of or in connection with a contested election of directors, the persons who were the directors of ADSC before such election shall cease to constitute a majority of the Board.

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

2.8 **Code Section 401(a)(4) Limit** means the limit on the amount of the Retirement Contribution or the Discretionary Profit Sharing Contribution a Participant may receive under the Qualified Plan on account of the nondiscrimination requirements imposed under Code Section 401(a)(4), as determined by the Benefits Administration Committee of the Qualified Plan in its discretion.

2.9 C**ode Section 401(a)(17) Limit** means the limit imposed under Code section 401(a)(17) on the amount of a Participant's compensation that may be taken into account under the Qualified Plan. This limit is subject to adjustment each year.

2.10 **Code Section 415 Limit** means the limit imposed under Code section 415 on the amount that may be contributed with respect to a Participant under the Qualified Plan. This limit is subject to adjustment each year.

2.11 **Committee** means the committee appointed pursuant to Section 10.1 to administer the Plan.

2.12 **Company Contribution** means a contribution made by an Employer to the Plan pursuant to Section 4.3 or Section 4.4.

2.13 **Discretionary Profit Sharing Contribution** means the non-matching contribution made by an Employer to the Qualified Plan pursuant to its section 4.8 in effect as of January 1, 2004.

2.14 **Eligible Compensation** means base salary or wages, performance based cash incentives, and commissions paid annually to an Associate, increased by the amount of any pre-tax contributions to the Qualified Plan or other benefit plans under section 125 of the Code and by the amount of any Elective Contributions. Excluded from Eligible Compensation are Company Contributions, Section 415 Contributions, severance payments, disability payments, workers compensation payments, stock option earnings, restricted stock or other equity-based compensation, referral or sign-on bonuses, service-related cash awards, and gross-up of wages for contest or other earnings. Eligible Compensation in excess of $1 million annually shall not be taken into account under the Plan.

2.15 **Elective Contributions** means contributions directed by a Participant to the Plan pursuant to Section 4.1.

2.16 **Employer** means Alliance and any other entity affiliated with ADSC that has adopted the Plan with the approval of the Committee.

2.17 **ERISA** means the Employee Retirement Income Security Act of 1974, as amended.

2.18 **Incentive Compensation** means that portion of a Participant's Eligible Compensation that is paid as an incentive bonus based on performance, including, but not limited to commissions, spot bonuses, and annual incentive compensation payments.

2.19 **Participant** means an Associate who is eligible to participate in the Plan.

2.20 **Plan** means this Alliance Data Systems Corporation Executive Deferred Compensation Plan.

2.21 **Qualified Plan** means the Alliance Data Systems 401(k) and Retirement Savings Plan.

2.22 **Regular Compensation** means a Participant's base salary or wages.

2.23 **Retirement Contribution** means the non-matching contribution made to the Qualified Plan pursuant to its Section 4.5 in effect as of January 1, 2004.

2.24 **Section 415 Contributions** means contributions made pursuant to Section 4.2.

2.25 **Specified Participant** means a Participant who is a key employee (within the meaning of Code Section 416(i) without regard to paragraph (5) thereof) of an Employer.

ARTICLE III — ELIGIBILITY

3.1 **Eligibility**. All full time Associates who are on the United States payroll of an Employer are eligible to participate in the Plan provided (i) the Associate's Regular Compensation is at least $150,000 on an annual basis, or the Associate's Eligible Compensation was at least $170,000 as of December 31st, 2003, and has not fallen below that amount in any subsequent year, and (ii) the Associate is a participant in the Qualified Plan.

3.2 **Enrollment Procedure**. Each Participant shall be eligible for a Company Contribution and a Section 415 Contribution without application. To be eligible to make Elective Contributions, a Participant must complete and file the Enrollment Form approved by the Committee prior to the beginning of the calendar year in which the Participant performs the services for which the election is to be effective or, in the first calendar year in which an Associate becomes eligible to participate in the Plan, no later than thirty (30) days after the first day of such eligibility and effective for services to be performed subsequent to the election. For this purpose, the first day of eligibility shall be the first day of the month that next follows the date that an Associate first satisfies the criteria of Section 3.1.

3.3 **Modification**. A Participant may terminate an election to make Elective Contributions at any time, but may not decrease or increase the election until the next calendar year. If a Participant elects to stop during the calendar year, he or she may not resume making Elective Contributions until the next January 1st.

3.4 **Ineligible Participant**. Notwithstanding any other provisions of this Plan, if the Committee believes that any Participant may not qualify as a member of a group of "management or highly compensated employees," as determined in accordance with sections 201(2), 301(a)(3), and 401(a)(l) of ERISA, the Committee in its sole discretion may direct that such Participant shall cease to be eligible to participate in this Plan.

ARTICLE IV — CONTRIBUTIONS

4.1 **Elective Contributions.** At the time of enrollment, a Participant may direct an Employer to withhold a percentage of the Regular Compensation and also, provided the enrollment is effective no later than April 1st of the applicable year, the Incentive Compensation earned for services performed in the year for which the enrollment is effective and allocate it to his or her Account. The percentage selected for each type of Compensation may be any whole number percentage up to fifty (50).

4.2 **Section 415 Contributions.** Whether or not a Participant elects to make Elective Contributions, the Employer shall allocate to each Participant any contributions to the Qualified Plan that would otherwise have been returned to the Participant on account of the Code Section 415 Limit, except that any such amount shall be returned to the Participant in cash if it (i) is attributable to after-tax contributions, or (ii) does not exceed $200.00 and the Participant does not have an Account.

4.3 **Make-Up Retirement Contributions.** Whether or not a Participant elects to make Elective Contributions, the Employer shall allocate to each Participant an amount equal to the amount of the Retirement Contribution, if any, that the Employer could not make to such Participant under the Qualified Plan because of either (i) the Code Section 401(a)(4) Limit, or (ii) the Code Section 401(a)(17) Limit, reduced, if necessary, to take into account the $1 million limit on Eligible Compensation, provided, however, that if the Participant does not already have an Account, such allocation shall be made only if the amount to be so allocated exceeds $200.00. If the amount to be allocated does not exceed $200.00, it will be paid in cash.

4.4 **Make-Up Discretionary Profit Sharing Contributions.** Whether or not a Participant elects to make Elective Contributions, the Employer shall allocate to each Participant an amount equal to the amount of the Discretionary Profit Sharing Contribution, if any, that the Employer could not make to such Participant under the Qualified Plan because of either (i) the Code Section 401(a)(4) Limit, or (ii) the Code Section 401(a)(17) Limit, reduced, if necessary, to take into account the $1 million limit on Eligible Compensation, provided, however, if the Participant does not already have an Account, such allocation shall be made only if the amount to be so allocated exceeds $200.00. If the amount to be allocated does not exceed $200.00, it will be paid in cash.

4.5 **Crediting Contributions.** The amount of Eligible Compensation that a Participant elects to defer pursuant to Section 4.1 shall be credited to the Participant's Account as of the date such Compensation would otherwise become payable to the Participant. Section 415 Contributions shall be credited as of the date distributed from the Qualified Plan. Company Contributions shall be credited as of the date such contributions would otherwise have been made under the Qualified Plan.

ARTICLE V — LEAVE OF ABSENCE

5.1 **Paid Leave of Absence.** If a Participant is authorized by an Employer for any reason to take a paid leave of absence, the Participant shall continue to be considered employed by the Employer. Associate Contributions shall continue during such paid leave of absence, and the Participant shall remain eligible for a Company Contribution.

5.2 **Unpaid Leave of Absence.** If a Participant is authorized by the Employer for any reason to take an unpaid leave of absence, the Participant shall continue to be considered employed by the Employer, but may not make Elective Contributions until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, Elective Contributions shall resume. The Participant shall remain eligible for Company Contributions and Section 415 Contributions.

ARTICLE VI — VESTING

6.1 **Vesting**. Participants are always 100% vested in their Associate Contributions and the earnings on these contributions. Participants shall be 100% vested in their Company Contributions and the earnings thereon, after being credited with five (5) Years of Vesting Service under the Qualified Plan, and until then shall be totally unvested. If a Participant separates from service and receives a payout of his vested Account at a time when the Account is not fully vested, the Participant will forfeit the nonvested portion of the Account; and the forfeiture shall not be restored for any reason, including a subsequent reemployment. Forfeitures shall be used to offset future Company Contributions. Upon termination of the Plan, unallocated forfeitures shall be returned to the Employer.

6.2 **Change of Control**. In the event of a Change of Control, all Participants shall be 100% vested in their Company Contributions, notwithstanding Section 6.1.

ARTICLE VII — FUNDING AND INVESTMENT

7.1 **Unfunded Plan.** Neither Associate Contributions nor Company Contributions shall be set aside in a trust or otherwise funded. Any assets of an Employer available to pay Plan benefits shall be subject to the claims of the Employer’s general unsecured creditors and may be used by the Employer in its sole discretion for any purpose. Any payments made to Participants under the Plan will be made from the general assets of the Employer.

7.2 **Change of Control.** In the event of a Change of Control, ADSC will establish the type of trust known as a “rabbi trust,” to which will be contributed sufficient assets to fully fund all Accounts. All assets in the rabbi trust will remain subject to the claims of the Employer’s creditors, and a Participant will continue to have the status of an unsecured creditor with respect to the Employer’s obligation to make benefit payments.

7.3 **Investment of Accounts.** Associate and Company Contributions shall be credited with interest at a rate established by, and adjusted periodically at the sole discretion of, the Committee. The Committee may, in its sole discretion, direct that the Employer invest the amount credited to an Account, in whole or in part, in such property (real, personal, tangible or intangible), as the Committee may select (collectively the “Investments”), or may direct that the

Employer retain the amount credited as cash to be added to its general assets. The Employer shall be the sole owner and beneficiary of all Investments, and all contracts and other evidences of the Investments shall be registered in the name of the Employer.

ARTICLE VIII — DISTRIBUTION OF BENEFITS

8.1 **In-Service Distributions**. A Participant who is actively employed by an Employer generally may not withdraw or otherwise access any amounts credited to an Account. However, at the time a Participant elects to make Elective Contributions, a Participant may elect to have all contributions made pursuant to that election for that year distributed as of January 1 of any subsequent year, subject however, to any restriction imposed under Code Section 409A. The distribution shall be made within 60 days of the specified date or, if earlier, the date required under Section 8.2 Furthermore, amounts may be withdrawn in the event of an "unforeseeable emergency," within the meaning of Code Section 409A(a)(2)(B)(ii). Any such early withdrawal must be approved by the Committee and may not exceed the amount necessary to meet the emergency, taking into account other assets available to the Participant, as well as any taxes incurred as a result of the distribution. If the Committee or its delegate approves a distribution on this basis, the distribution shall be made as soon as practicable thereafter; and the Participant's right to make Elective Contributions shall be suspended until the first day of the following year

8.2 **Other Distributions**. If a Participant has a "separation from service," within the meaning of Code section 409A(a)(2)(A)(i) or becomes "disabled," within the meaning of Code Section 409A(a)(2)(C), the value of the Participant's Associate Contributions, the vested portion of the Company Contributions, and any accrued interest thereon will be distributed. For this purpose an individual who is receiving severance payments from an Employer as part of a separation agreement shall be considered to have separated from the service of the Employer. Payments will be made within sixty (60) days after the end of the quarter in which the Participant becomes eligible for the distribution, but, in the case of a Specified Participant, such distribution date must be at least six months after the date of the separation, unless the Specified Participant dies before then. All benefits will be paid in one (1) lump-sum payment, subject to applicable withholding.

8.3 **Death Benefits**. Any vested, undistributed amount credited to a Participant's Account on the date he or she dies shall be distributed in one lump sum to the Participant's designated beneficiary. If the Committee determines there is no valid beneficiary designation on file, or cannot locate the designated beneficiary, benefits will be paid to the Participant's estate.

8.4 **Withholding**. If the Employer believes it is required to withhold and pay over any taxes or other amounts from a Participant's Eligible Compensation pursuant to any state, federal, or local law, such amounts shall, to the extent possible, be withheld from the Participant's Eligible Compensation before such amounts are credited under the Plan. Any additional withholding amount required shall be paid by the Participant to the Employer as a condition to the crediting of any contributions to the Participant's Account. The Employer shall withhold any required state, federal, or local taxes or other amounts from any benefits payable to a Participant or beneficiary.

ARTICLE IX — AMENDMENT AND TERMINATION

9.1 **Amendment.** ADSC may at any time amend, suspend, or reinstate any or all of the provisions of the Plan, except that no such amendment, suspension, or reinstatement may adversely affect the vested portion of any Participant's Account as it existed as of the effective date of such amendment, suspension, or reinstatement, without such Participant's prior written consent, unless the Committee determines, in its sole discretion, that the amendment is needed to preserve favorable tax treatment. Written notice of any amendment or other action with respect to the Plan shall be given to each Participant.

9.2 **Termination.** ADSC, in its sole discretion, may terminate this Plan at any time and for any reason whatsoever. Upon termination of the Plan, the Committee shall cause to be distributed to each Participant the entire value of the vested portion of his or her Account as soon as the distribution may be made without adverse tax consequences. The Committee shall take such actions as it deems appropriate, in its sole discretion, to administer any Accounts existing prior to such termination distributions.

ARTICLE X — ADMINISTRATION

10.1 **Committee**. The Committee shall administer the Plan. The members of the Committee shall be Associates who are appointed by, and serve at the pleasure of, the ADSC Board. The Committee has complete and absolute authority to interpret any provision of the Plan and, in its sole discretion, decide all questions and issues arising under the Plan including, without limitation, questions of fact, eligibility to participate in the Plan, and the amount of benefits, if any, due under the Plan. Decisions of the Committee are final and binding upon all parties. Additional information about the Plan is available by contacting:

Executive Deferred Compensation Plan Committee
c/o Senior Director, Compensation
Alliance Data Systems
17655 Waterview Parkway
Dallas, TX 75252

10.2 **Claims Procedure**. In the event a Participant or beneficiary has a dispute concerning his or her benefit, the claim for the benefit shall first be submitted in writing to the Senior Director, Compensation, of Alliance. In the event that the Senior Director, Compensation, does not provide a response satisfactory to the Participant within ninety (90) days after receipt of the claim, the Participant or named beneficiary may submit the claim in writing, within sixty (60) days thereafter to the Committee, whose decision regarding the claim shall be final and binding on each Participant or person claiming under the Plan. The claimant shall be notified of the Committee's decision within sixty (60) days, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered within a reasonable period of time, but not later than one hundred twenty (120) days after receipt of a request for review.

10.3 **Participant Statements**. A summary of the status of each Participant's Account, reflecting Associate Contributions, the vested and unvested Company Contributions, and accrued interest, will be prepared and distributed annually.

ARTICLE XI — MISCELLANEOUS

11.1 **Not a Contract of Employment**. This Plan shall not be deemed to constitute a contract between an Employer and any Associate or other person, whether or not in the employ of an Employer. Nothing herein contained shall be deemed to give any Associate or other person, whether or not in the employ of an Employer any right to be retained in the employ of an Employer, nor to interfere with the right of an Employer to discharge any Associate at any time or to treat the Associate without any regard to the effect which such treatment might have upon said Associate as a participant of the Plan.

11.2 **Non-Assignability**. Except as may otherwise be required by law, no distribution or payment under the Plan to any Participant, named beneficiary, heirs and successors shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, whether voluntary or involuntary; and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be void. Nor shall any such distribution or payment be in any way subject to the debts, contracts, liabilities, engagements, or torts of any person entitled to such distribution or payment. If any Participant, named beneficiary, heir, or successor is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge any such distribution or payment, voluntarily or involuntarily, the Committee, in its discretion, may cancel such distribution or payment or may hold or cause to be held or applied such distribution or payment, or any part thereof, to or for the benefit of such Participant, named beneficiary, heir or successor in such manner as the Committee shall direct.

11.3 **Savings Clause**. If any provision of this instrument is finally held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

11.4 **Governing Law**. The provisions of the Plan shall be construed, administered and governed under applicable Federal law and the laws of the State of Delaware.

This Plan is hereby adopted this ___ day of _____, 2005, but effective as of January 1, 2005.

ALLIANCE DATA SYSTEMS CORPORATION

_____

By:
Title:

Exhibit 21

List of Subsidiaries
of
Alliance Data Systems Corporation

Name of Direct Subsidiary	State & Date of Inc.	Doing Business As	Subsidiaries
ADS Alliance Data Systems, Inc.	Delaware 4/22/83	ADS Alliance Data Systems, Inc.	LoyaltyOne, Inc. (Ohio 12/13/00) **Subsidiary** Loyalty RealTime, Inc. (Ohio 12/13/00) Enlogix, Inc. (Canada, amalgamated 03/01/02) **Subsidiary** Alliance Data L.P. (Alberta, Canada 06/01/98) Orcom Solutions, Inc. (Delaware 12/10/96) Conservation Billing Services, Inc. (Florida 06/26/91) Alliance Recovery Management, Inc. (Delaware 02/02/01) Alliance Data Systems, LLC (Delaware 09/05/00) Capstone Consulting Partners, Inc. (Georgia 04/02/02) Epsilon Marketing Services, Inc. (Delaware 07/20/00) **Subsidiary** DMDA, Inc. (Delaware 11/14/02) **Subsidiary** DNCE LLC (Delaware 06/09/03) **Subsidiary** Epsilon Marketing and Creative Services, Inc. (Massachusetts 04/19/94) **Subsidiary**

			Epsilon Data Management, Inc. (Delaware 07/30/70) **Subsidiary** DMDA Holdings, Inc. (Delaware 11/14/02) **Subsidiary** DMDA Massachusetts Business Trust (Massachusetts 12/23/02) **Subsidiary** Interact Connect LLC (Delaware 01/05/99) **Subsidiary** DMDA Limited Partner LLC (Delaware 11/14/02) **Subsidiary** DMDA General Partner LLC (Delaware 11/14/02) **Subsidiary** Epsilon Texas Ltd. LLP (Texas 12/27/02)
World Financial Capital Bank	Utah 04/02/03	World Financial Capital Bank	NONE
World Financial Network National Bank	Federal Charter 05/01/89	World Financial Network National Bank	WFN Credit Company, LLC (Delaware Chartered 05/01/01) WFN Funding Company II, LLC (Delaware Chartered 06/11/03)
Loyalty Management Group Canada, Inc.	Ontario, Canada amalgamated 07/24/98	Loyalty Management Group Canada, Inc.	LMG Travel Services Ltd. (Ontario, Canada 02/21/92) Alliance Data L.P. (Alberta, Canada 06/01/98)
ADS Reinsurance Ltd.	Bermuda 11/26/98	ADS Reinsurance Ltd.	NONE
ADS Commercial Services, Inc.	Delaware 01/18/95	ADS Commercial Services, Inc.	NONE
ADS MB Corporation	Delaware 08/29/01	The Mail Box	NONE
Alliance Travel Services, Inc.	Delaware 11/03/04	Alliance Travel Services, Inc.	NONE

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-106246, 333-68134, and 333-65556 on Form S-8 of our reports dated March 4, 2005, relating to the consolidated financial statements and financial statement schedule of Alliance Data Systems Corporation and management's report of the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Alliance Data Systems Corporation for the year ended December 31, 2004.

/s/ Debitte & Toche LLP

Dallas, Texas
March 4, 2005

Exhibit 31.1

CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, J. Michael Parks, certify that:

1. I have reviewed this annual report on Form 10-K of Alliance Data Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2005

/s/ J. MICHAEL PARKS

J. Michael Parks
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF THE
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, Edward J. Heffernan, certify that:

1. I have reviewed this annual report on Form 10-K of Alliance Data Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2005

/s/ EDWARD J. HEFFERNAN

Edward J. Heffernan
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K for the year ended December 31, 2004 (the "Form 10-K") of Alliance Data Systems Corporation (the "Registrant").

I, J. Michael Parks, the Chief Executive Officer of the Registrant certify that to the best of my knowledge:

(i) the Form 10-K fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 3, 2005

/s/ J. MICHAEL PARKS

Name: J. Michael Parks
Chief Executive Officer

Subscribed and sworn to before me
this 3rd day of March, 2005.

/s/ JANE BAEDKE

Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2008

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K for the year ended December 31, 2004 (the "Form 10-K") of Alliance Data Systems Corporation (the "Registrant").

I, Edward J. Heffernan, the Chief Financial Officer of the Registrant certify that to the best of my knowledge:

(i) the Form 10-K fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 3, 2005

/s/ EDWARD J. HEFFERNAN

Name: Edward J. Heffernan
Chief Financial Officer

Subscribed and sworn to before me
this 3rd day of March, 2005.

/s/ JANE BAEDKE

Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2008

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.