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

Form 8-K

Current Report

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

Date of Report (Date of earliest event reported): 05/23/2008

ALLIANCE DATA SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Commission File Number: 001-15749

Delaware
(State or other jurisdiction of
incorporation)

31-1429215
(IRS Employer
Identification No.)

17655 Waterview Parkway
Dallas, Texas 75252
(Address of principal executive offices, including zip code)

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

(Former name or former address, if changed since last report)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement

On May 28, 2008, Alliance Data Systems Corporation ("ADSC") issued a press release announcing that on May 23, 2008, its Loyalty Services segment secured a comprehensive long-term renewal and expansion agreement with Bank of Montreal ("BMO") as a sponsor in its AIR MILES(R) Reward Program (the "Fourth Amendment"), pursuant to which BMO has transferred to ADSC the responsibility of reserving for costs associated with the redemption of AIR MILES reward miles issued by BMO as a sponsor, both those that are currently outstanding and those to be issued by BMO in the future. Under the terms of the renewal, BMO will pay ADSC approximately US \$370 million by the end of the second quarter, which entire amount will be placed in ADSC's redemption settlement asset account and be utilized to cover the cost of redemptions of outstanding AIR MILES reward miles issued by BMO under the previous arrangement.

The foregoing summary of the Fourth Amendment is qualified in its entirety by reference to the full text of such amendment, a copy of which is attached as Exhibit 10.1 hereto and incorporated by reference herein. A copy of the press release is attached hereto as Exhibit 99.1.

Bank of Montreal also acts as the administrative agent, co-lead arranger, sole bookrunner and a lender under ADSC's \$540.0 million revolving credit facility dated September 29, 2006, as amended, and as administrative agent and lender under ADSC's \$150.0 million bridge loan facility dated January 24, 2007, as amended.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

10.1 Fourth Amendment to Amended and Restated Program Participation Agreement, dated as of May 23, 2008, between Loyalty Management Group Canada Inc. and Bank of Montreal.

99.1 Press release dated May 28, 2008 regarding long-term renewal and expansion agreement with Bank of Montreal.

The information contained in Exhibit 99.1 to this Current Report on Form 8-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such a filing.

Signature(s)

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

ALLIANCE DATA SYSTEMS CORPORATION

Date: May 28, 2008

By: /s/ Edward J. Heffernan

Edward J. Heffernan
Executive Vice President and Chief Financial Officer

Exhibit Index

Exhibit No.	Description
EX-99.1	Press release dated May 28, 2008 regarding long-term renewal and expansion agreement with Bank of Montreal.
EX-10.1	Fourth Amendment to Amended and Restated Program Participation Agreement, dated as of May 23, 2008, between Loyalty Management Group Canada Inc. and Bank of Montreal.

Alliance Data

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ALLIANCE DATA SECURES LONG-TERM RENEWAL AND EXPANSION AGREEMENT WITH LARGEST CLIENT, BANK OF MONTREAL (BMO)

New Structure Benefits both Alliance Data and BMO

Dallas, Texas (May 28, 2008) - Alliance Data Systems Corporation (NYSE: ADS), a leading provider of loyalty and marketing solutions derived from transaction-rich data, today announced that its Canadian loyalty business, the AIR MILES(R) Reward Program, secured a comprehensive long-term renewal and expansion agreement with the Bank of Montreal ("BMO").

BMO is currently the largest client of the AIR MILES Reward Program as well as being the largest client of Alliance Data overall. BMO was an original launch sponsor for the AIR MILES Reward Program more than 15 years ago and has continued to significantly expand its commitment as a sponsor - most recently with the re-launch of its Mosaik Gold AIR MILES MasterCard(R). BMO customers earn AIR MILES reward miles on a vast array of BMO products, including the BMO Mosaik AIR MILES MasterCard and BMO debit card. Additionally, when BMO customers utilize either the BMO Mosaik AIR MILES MasterCard or the BMO debit card for purchases at other participating AIR MILES sponsors (or retailers), they double their rewards as both BMO and the participating retailer will issue the identical reward currency, AIR MILES reward miles.

Aside from the contract renewal, the nature and terms of the expanded contract reflect a significant new structure, which benefits both BMO as well as Alliance Data. Historically, BMO paid Alliance Data a fee for the marketing and servicing of each AIR MILES reward mile issued. Under the previous agreement, BMO (not Alliance Data) was responsible for the costs associated when AIR MILES reward miles were redeemed. Upon redemption, BMO would pay Alliance Data a fee for those AIR MILES reward miles actually redeemed, and Alliance Data, in turn, would supply the reward to the member. In this scenario, BMO had the risk and potential benefits associated with estimating the AIR MILES reward miles that will ultimately be redeemed.

Under the terms of the revised contract, BMO has transferred this responsibility to Alliance Data, and Alliance Data will now be responsible for estimating the redemption rate and maintaining an adequate reserve for each AIR MILES reward mile issued by BMO. This new structure eliminates the need for BMO to maintain its own separate reserve for these redemptions, making their agreement consistent with virtually all other program sponsors who rely on Alliance Data to appropriately manage this task. Note that the change in structure will be transparent to members.

A key point to highlight is that the redemption rate for BMO's issued AIR MILES reward miles is much higher than Alliance Data's historical redemption rate of 67 percent for other AIR MILES reward miles. Because of the higher velocity of collection related to AIR MILES reward miles earned using BMO credit cards, Alliance Data will be required to set aside a higher percentage of the cash received for each AIR MILES reward mile issued by BMO to cover the expected redemption cost. Once BMO transfers its responsibility for redemption of its AIR MILES reward miles to Alliance Data, Alliance Data's estimated redemption rate rises from 67 to 72 percent, and Alliance Data's estimated breakage decreases from 33 to 28 percent.

The pricing in the new agreement has been adjusted to reflect Alliance Data's responsibility for redemption. BMO will pay Alliance Data approximately U.S. \$370 million by the end of the second quarter, which will be placed entirely in Alliance Data's redemption settlement asset account. This cash will be used to cover the cost of any redemptions related to outstanding AIR MILES reward miles issued by BMO under the previous arrangement and will increase the balance of the account to an amount in excess of \$650 million.

Alliance Data Benefits

The key benefits to Alliance Data are four-fold:

1. The revised terms appropriately accommodate the needs of Alliance Data's largest client;

2. The \$370 million of cash from BMO will allow Alliance Data to establish an appropriate reserve for the future redemption of AIR MILES reward miles issued with those of the higher redeeming BMO related AIR MILES reward miles while having virtually no impact to Alliance Data's P&L;
3. Future amounts received from BMO reflect an appropriate level of incremental compensation for managing redemptions; and
4. Alliance Data's deferred revenue balance will also increase from \$800 million to just under \$1.2 billion, further increasing the financial transparency of Loyalty Services' business.

Bryan Pearson, president of Alliance Data Loyalty Services, noted that "this transaction provides BMO with an opportunity to transfer its responsibility for the redemptions associated with the AIR MILES Reward Program, which allows for increased consistency in how we manage the redemption settlement assets and the majority of our AIR MILES sponsor relationships."

"Alliance Data's 67-percent redemption rate has always been related to those AIR MILES reward miles issued that carry a lower redemption rate than the BMO-issued reward miles," said Ed Heffernan, chief financial officer, Alliance Data. "The payment by BMO will allow Alliance Data to assume this responsibility without any adverse financial impact while raising our overall redemption rate to an estimated 72 percent. This will result in increased financial transparency across the business."

Key Attributes of the AIR MILES Reward Program

The AIR MILES Reward Program is Canada's premier coalition loyalty program, with over two-thirds of all Canadian households actively collecting AIR MILES reward miles. Members earn AIR MILES reward miles when paying with cash, credit cards or check at participating sponsors and can redeem their AIR MILES reward miles for more than 800 different rewards. The coalition nature of the program allows a member to earn AIR MILES reward miles on everyday spend (e.g., gas, grocery, pharmacy, home improvement). Members aggregate the same "currency" (i.e., reward miles) such that valuable rewards are attained more easily and faster than a stand-alone loyalty program.

For a majority of the AIR MILES reward miles issued Alliance Data receives cash for each AIR MILES reward mile issued for both the marketing and servicing and redemption component of each AIR MILES reward mile. Alliance Data then sets aside cash at a rate of approximately two-thirds of miles issued to cover what it has estimated to be the eventual cost of fulfilling the redemption of those rewards by its members. This cash is segregated into a redemption settlement account, which currently has a balance of over \$300 million. The remaining cash is retained as free cash and represents a large portion of the Loyalty Services segment operating cash flow. This residual amount is reflected as deferred revenue and amortized over several years, i.e. the estimated life of an AIR MILES reward mile.

About Bank of Montreal

Established in 1817 as Bank of Montreal, BMO Financial Group is a highly diversified North American financial services organization. With total assets of CDN\$375 billion as at April 30, 2008 and 37,000 employees, BMO provides a broad range of retail banking, wealth management and investment banking products and solutions to more than 8 million customers and clients across Canada and the United States.

About Alliance Data

Alliance Data (NYSE: ADS) is a leading provider of marketing, loyalty and transaction services, managing over 120 million consumer relationships for some of North America's most recognizable companies. Using transaction-rich data, Alliance Data creates and manages customized solutions that change consumer behavior and that enable its clients to create and enhance customer loyalty to build stronger, mutually beneficial relationships with their customers. Headquartered in Dallas, Alliance Data employs over 9,000 associates at more than 60 locations worldwide. Alliance Data's brands include AIR MILES(R), North America's premier coalition loyalty program, and Epsilon(R), a leading provider of multi-channel, data-driven technologies and marketing services. For more information about the Company, visit its website, www.AllianceData.com.

Alliance Data's Safe Harbor Statement/Forward Looking Statements

This release may 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 our filings with the Securities and Exchange Commission.

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 presentation 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. These risks, uncertainties and assumptions include those made with respect to and any developments related to the termination of the proposed merger with an affiliate of The Blackstone Group, including risks and uncertainties arising from actions that the parties to the merger agreement or third parties may take in connection therewith. 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.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this presentation regarding Alliance Data Systems Corporation's business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report on Form 10-K for the most recently ended fiscal year. Risk factors may be updated in Item 1A in each of the Company's Quarterly Reports on Form 10-Q for each quarterly period subsequent to the Company's most recent Form 10-K.

LOYALTY MANAGEMENT GROUP CANADA INC.

- and -

BANK OF MONTREAL

Fourth Amendment

to

Amended and Restated Program Participation Agreement

Dated as of May 23, 2008

FOURTH AMENDMENT TO AMENDED AND RESTATED

PROGRAM PARTICIPATION AGREEMENT

This agreement is made as of **May 23, 2008** between **LOYALTY MANAGEMENT GROUP CANADA INC.** and **BANK OF MONTREAL**.

RECITALS:

- A. The Parties entered into the Amended and Restated Program Participation Agreement made as of November 1, 2003, pursuant to which the Bank participates in the AIR MILES(R) Reward Program operated by LM;
- B. The Parties entered in to Amending Agreements made as of March 9, 2004, March 1, 2006 and June 1, 2007;
- C. The Parties now wish to further amend the Agreement;
- D. Capitalized terms used but not defined herein have the meanings set out in Annex A to the Agreement, and the rules of interpretations set out in Annex A apply to this agreement.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 **PRE-PAYMENT OF REDEMPTION FEES**

1.1 Definitions.

"**Buyout Amount**" means the sum of the Initial Buyout Amount and the Residual Buyout Amount.

"**Initial Buyout Amount**" means the amount to be paid by the Bank to LM pursuant to Section 1.4, calculated as shown in Schedule 1.4 hereto.

"**Buyout Date**" means May 31, 2008.

1.2 **Release.** The Bank agrees to pay the Buyout Amount to LM in accordance with the provisions of this Article in full and final satisfaction of the amount owing by the Bank to LM on account of the Fees which would be payable if all the BankCard AM outstanding on the Buyout Date were deemed to have been redeemed on such date. LM agrees that payment of the Buyout Amount will fully discharge and satisfy the Bank's obligation to pay the Fees payable upon the redemption of all BankCard AM that are not deemed to have been redeemed prior to the Buyout Date.

1.3 **Two Stages.** The Buyout Amount will be calculated by LM and paid by the Bank in two stages according to the formula set out in Schedules 1.4 and 1.5. The parties acknowledge that the figures shown in Schedule 1.5 are as of April 30, 2008, which are included to illustrate the calculation.

1.4 **First Payment.** The Bank will pay to LM the Initial Buyout Amount, plus GST, on May 30, 2008.

1.5 **Second Payment.** As soon as practicable after the Buyout Date but no later than June 15, 2008, LM will prepare a final statement in the form of Schedule 1.5 hereto showing the actual Buyout Amount as of the close of business on the Buyout Date and the difference between that amount and the Initial Buyout Amount (the "**Residual Buyout Amount**"). By no later than June 27, 2008, BMO shall pay LM, or LM shall pay BMO, as the case may be, the Residual Buyout Amount, plus GST.

1.6 **Method of Payment.** The Bank shall ensure that all amounts payable by it hereunder are received by and available to LM in same day funds, not later than 11:00 o'clock a.m. (Toronto time) on the due date, by deposit to such account with the Bank as LM shall specify in writing. LM shall make any payment to the Bank by issuing a credit note for the balance due which the Bank will apply against its next payment.

1.7 **Disposition of Funds.** LM shall contribute the Initial Buyout Amount and the Residual Buyout Amount, in each case less applicable taxes, to the Reserve Fund maintained by LM in accordance with the provisions of the Redemption Reserve Agreement as soon as practicable (and in any event no more than one Business Day) after receiving such amounts from the Bank.

1.8 **Amendment to Reserve Fund Agreements.** By no later than May 29, 2008, LM will enter into agreements with RBC Dexia Investor Services Trust, substantially in the form of Schedules 1.8(a) and 1.8(b) hereto, in order to amend (a) the Redemption Reserve Agreement and (b) the Security Agreement.

1.9 **Verification.** Prior to December 31, 2008, LM will, at the Bank's request, permit a nationally recognized firm of chartered accountants, engaged by the Bank, to have such access to LM's business records as is necessary in order to review LM's business records for the purposes of verifying the calculation of the Buyout Amount. LM shall be entitled to limit the access of any such accounting firm to such information as is strictly required in order for such accounting firm to verify the calculation. LM may require any such accounting firm to enter into a confidentiality agreement with LM (in a form satisfactory to LM acting reasonably) before being permitted to have access to any information or records of LM or relating to the AM Program, which confidentiality

agreement may, without limitation, require such accounting firm to hold strictly confidential all information acquired as part of any such access, and not use any such information for any purpose other than for the purpose of providing a report to the Bank of the type contemplated in this Section. The only information that such accounting firm shall be permitted to convey to the Bank shall be a report as to the calculation of the Buyout Amount. Any additional information learned by the Bank from such accounting firm will, without limitation, constitute Confidential Information for the purposes of this Agreement. Such accounting firm shall, at least 10 days prior to providing its report to the Bank, provide a draft of such report to LM, and if LM disagrees with the calculation of the Buyout Amount made by such accounting firm, such accounting firm shall be instructed to, in good faith, consider any additional information LM wishes to provide prior to such accounting firm delivering their final report to the Bank. The Bank shall deliver to LM a copy of the report of such accounting firm promptly following receipt thereof by the Bank. The Bank will pay the fees charged by such accounting firm in respect of such verification unless the verification reveals that the amount determined by LM was overstated by 10% or more, in which case LM will pay the fees charged in respect of that verification. The Parties shall forthwith make any necessary adjustments to the Buyout Amount on a retroactive basis, and in particular, but without limitation, if the amount of the Buyout Amount as so calculated by the accounting firm is greater than the sum of the amounts paid by the Bank pursuant to Sections 1.4 and 1.5, the Bank shall forthwith pay the difference to LM.

ARTICLE 2 **CONFIRMATION**

2.1 **Confirmation.** All other terms and conditions of the Agreement, as amended by the Amendment, shall remain in full force and effect except as amended hereby.

IN WITNESS WHEREOF this agreement has been executed by the Parties by their authorized signing officers as of the date first above-mentioned.

LOYALTY MANAGEMENT GROUP CANADA INC.

By: /s/ Bryan A. Pearson

Name: Bryan A. Pearson

Title: President and Chief Executive Officer

Alliance Data Loyalty Services

By: /s/ Bruce Kerr

Name: Bruce Kerr

Title: Senior Vice President & Chief Client Officer

AIR MILES[®] Reward Program

BANK OF MONTREAL

By: /s/ Mike Kitchen

Name: Mike Kitchen

Title: Senior Vice-President, Card and Retail Payment Services

By: /s/ Maurice Hudon

Name: Maurice Hudon

Title: Senior Executive Vice-President, Personal and Commercial Banking
Canada