AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 7, 2001

REGISTRATION NO. 333-94623

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 4
TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ALLIANCE DATA SYSTEMS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	7374	31-1429215
(State or Other Jurisdiction of Incorporation or Organization)	(Primary standard industrial classification code number)	(I.R.S. Employer Identification Number)

17655 WATERVIEW PARKWAY
DALLAS, TEXAS 75252
TELEPHONE: (972) 348-5100

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

J. MICHAEL PARKS
CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER AND PRESIDENT
17655 WATERVIEW PARKWAY
DALLAS, TEXAS 75252
TELEPHONE: (972) 348-5100

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

WITH A COPY TO:

TERRY M. SCHPOK, P.C.	KENNETH M. DORAN, ESQ.
Akin, Gump, Strauss, Hauer & Feld, L.L.P.	Gibson, Dunn & Crutcher LLP
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE ON OR AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _________

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED FEBRUARY 7, 2001

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

13,000,000 SHARES

[LOGO]

COMMON STOCK

This is an initial public offering of 13,000,000 shares of our common stock. We anticipate the initial public offering price will be between $12.00 and $14.00 per share. We are selling all the shares offered under this prospectus.

We are applying to have our common stock listed on the New York Stock Exchange under the symbol "ADS".

SEE "RISK FACTORS" BEGINNING ON PAGE 9 TO READ ABOUT RISKS THAT YOU SHOULD CONSIDER BEFORE BUYING SHARES OF OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may purchase up to an additional 1,950,000 shares of our common stock from us at the initial public offering price less the underwriting discounts, solely to cover over-allotments.

The underwriters are severally underwriting the shares being offered. Bear, Stearns & Co. Inc. expects to deliver the shares in New York, New York on , 2001.

BEAR, STEARNS & CO. INC. MERRILL LYNCH & CO.

CREDIT SUISSE FIRST BOSTON

THE DATE OF THIS PROSPECTUS IS , 2001.

Inside front cover

- Half gatefold with a four colored schematic depicting a "multiple transaction and communications points" process. The schematic show's our client's customer; our client's distribution channel; our process and our target markets including our logo.

The gatefold has the following test: "We provide electronic transactions services, credit services and loyalty and database marketing services. We help our clients manage their customer relationships by:

- Facilitating transactions with their customers through multiple channels including in-store, internet and catalog
- Assisting them in identifying and acquiring new customers
- Increasing both the loyalty and profitability of existing customers

TABLE OF CONTENTS

PROSPECTUS SUMMARY

THIS SUMMARY CONTAINS BASIC INFORMATION ABOUT US AND THE OFFERING. BECAUSE IT IS A SUMMARY, IT DOES NOT CONTAIN ALL THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY, INCLUDING THE RISK FACTORS AND OUR FINANCIAL STATEMENTS AND THE RELATED NOTES TO THOSE STATEMENTS INCLUDED IN THIS PROSPECTUS.

OUR COMPANY

We are a leading provider of transaction services, credit services and marketing services. We create value for our clients by assisting them in managing their customer relationships. Specifically we:

- assist our clients in identifying and acquiring new customers;

- facilitate and manage transactions between our clients and their customers through multiple distribution channels including in-store, catalog and the Internet; and

- increase the loyalty and profitability of our clients' existing customers.

We had revenue of $678.2 million in 2000. We have a client base in excess of 300 companies. Our five largest clients, based on their contribution to revenue for 2000, are:

- the retail affiliates of The Limited, including Victoria's Secret, Express, Lane Bryant, Bath & Body Works, Lerner New York, Henri Bendel and Structure;

- Brylane;

- Bank of Montreal;

- Equiva Services, LLC, which is the service provider to Shell-branded locations in the U.S.; and

- CITGO.

The Limited, together with its retail affiliates, is our largest client, representing approximately 25.3% of our 2000 revenue. Limited Commerce Corp., an affiliate of The Limited, owns approximately 25.5% of our common stock, before giving effect to this offering. After this offering, Limited Commerce Corp. will have the right to designate up to two nominees for election to our board of directors, depending on its percentage ownership of our common stock.

OUR MARKET OPPORTUNITY

Our services are applicable to the full spectrum of commerce opportunities involving companies that sell products and services to individual consumers. We currently target our service offerings to select market sectors, including specialty retailers, petroleum retailers, supermarkets and financial services providers, as well as companies in market sectors with rapidly evolving electronic payment and customer management needs such as gas and electric utilities, mass transit, tollways and parking.

Common challenges to our clients are the rapid development of new competitors and sales channels, the intensifying competition for customers and the erosion of consumer brand loyalty. The Internet has accelerated these trends by providing consumers with almost instant access to a multitude of competing products and services without traveling to an actual store location. As a result, companies are looking for tools to facilitate transactions and improve customer communications across all channels.

Companies increasingly seek services that compile and analyze customer purchasing behavior, enabling them to more effectively communicate with their customers. The continuing shift to electronic payment systems, namely credit, debit, stored value and pre-paid cards, generates highly valuable information on individual consumers and their purchasing preferences, while the dramatic proliferation of computer technology has enabled companies to capture, access and use this information easily and almost instantaneously. Many retailers, however, lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure and credit card operations, including the extension of credit. In addition, many retailers seek to outsource the development and management of loyalty programs and database marketing services. We believe we are well-positioned to provide these services to meet the evolving needs of our clients and potential clients.

OUR PRODUCTS AND SERVICES

Our products and services are centered around three core capabilities--Transaction Services, which represents 49.5% of our 2000 revenue, Credit Services, which represents 30.3% of our 2000 revenue, and Marketing Services, which represents 20.2% of our 2000 revenue.

TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES
- Transaction Processing	- Underwriting	- Loyalty Programs
- Network Services	- Risk Management	- Air Miles-TM- Reward Program
- Bankcard Settlement		- Private Label Cards
- Account Processing and Servicing		- One-to-One Loyalty
- Card Processing		- Database Marketing Services
- Billing and Payment Processing		- Direct Marketing
- Customer Care		- Enhancement Services

We market and sell our services on both a stand-alone and bundled basis. By providing services that span our three core offerings, we believe we can become a key element in our clients' success.

TRANSACTION SERVICES

We facilitate and manage transactions between our clients and their customers through multiple distribution channels, including in-store, catalog and the Internet, through our state-of-the-art, highly scalable processing systems. Providing flexible, convenient, rapid customer payment options is fundamental to customer satisfaction and retention. Our services include instantaneous authorizations, efficient payment processing and billing services and effective customer care. Through our predecessor company, we have provided these services since 1983.

We are a leading provider of transaction services, processing 2.5 billion transactions in 2000. According to the Faulkner and Gray Card Industry report, we were ranked fifth among U.S. payment processors in 1999. According to the Nilson Report, there were approximately 27.7 billion electronic payment transactions in the U.S. in 1999, and that number is projected to climb to 50 billion by 2005. By fully integrating our transaction services with our marketing services, we are able to execute more effective customer acquisition and retention strategies for our clients. Our clients within this segment are made up primarily of specialty retailers and petroleum retailers.

CREDIT SERVICES

We have demonstrated to many of our existing clients that a private label credit card is one of the most effective loyalty and marketing tools available. As part of our service, we offer our clients the experience and flexibility to provide a funding vehicle for private label credit card receivables. Through our predecessor company, we have owned and managed private label receivables since 1986. This service appeals to those clients that choose to focus their financial and operational resources on their core operations and prefer a single-source integrated solution. Clients who utilize this service are predominantly specialty retailers. As part of this service, we currently provide underwriting and risk management services to 45 of our 49 private label card clients, representing approximately 56.3 million cardholders. We finance substantially all our credit card receivables through asset securitization transactions.

MARKETING SERVICES

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. Since 1992 we have created and managed loyalty programs that have successfully resulted in securing more frequent and sustained customer purchasing. For example:

- in Canada, we have developed and operate the Air Miles reward program, which we believe to be the largest loyalty marketing program in Canada. The program has over 100 brand names represented by the program sponsors. Based upon the most recent census data available, in 1999 our active participants represented 58% of all Canadian households. We have issued over seven billion Air Miles reward miles since the program's inception in 1992.

- as discussed above, a private label credit card is one of the most effective loyalty and marketing tools available. We manage 49 distinct credit card programs for specialty and petroleum retailers, representing 72.0 million cardholders. Our private label programs can be further enhanced by our ability to provide database marketing services, which enable us to capture unique and proprietary item-level transaction data and use it to target customers.

- we have also developed an on-line, electronic loyalty program that recognizes, acknowledges and rewards customers at the point of sale. Using the retailer's existing point-of-sale terminal or cash register and our network services, we can capture points, communicate program status and issue targeted awards at the point of sale.

Our marketing programs provide our clients with tools to help drive customer acquisitions and reward customer loyalty while providing us with the ability to better understand the purchasing behavior of our clients' customers. As a result of these programs and our marketing database programs, we have captured detailed purchase information on approximately 85.7 million U.S. consumers. In Canada, our loyalty program has captured the Air Miles collection information of approximately 6.5 million Canadian households. By combining this data with our proprietary data mining algorithms and our experience in developing and executing marketing campaigns, we provide our clients with highly successful and sophisticated targeted marketing solutions. Our clients within this segment are specialty retailers, petroleum retailers, supermarkets and financial services providers.

CLIENT CASE STUDY

Victoria's Secret provides an example of our ability to integrate our products and services to assist our clients in facilitating transactions and communications with their customers, whether in stores, through catalogs or through web sites. We provide transaction services, credit services and database marketing services to Victoria's Secret. The Victoria's Secret private label credit card that we issue allows us to capture customer name and address as well as transaction data in any channel the consumer chooses to shop. We deliver the information to our marketing database, which is supplemented with additional data from Victoria's Secret as well as from external sources. This gives us a detail-rich database that we, together with Victoria's Secret, use in developing customer acquisition strategies and managing customer relationships. We also utilize the information we collect and manage for the private label credit card program to enhance the transaction services we provide to Victoria's Secret, which include transaction processing, billing, payment processing and customer care.

OUR STRATEGY

Our strategy is to become a critical component in our clients' success by helping them build loyal customer relationships. We will do this by continuing to build and enhance our consumer databases, marketing capabilities and processing efficiencies. To execute this strategy we intend to:

- increase the penetration of products and services we provide to our existing client base;

- expand our client base in our existing market sectors;

- continue to expand our services and capabilities to help our clients succeed in multi-channel commerce--in-store, catalog and the Internet; and

- consider focused, strategic acquisitions and alliances to enhance our core capabilities or increase our scale.

OUR HISTORY AND OWNERSHIP

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 The Limited's credit card bank operation, World Financial Network National Bank. Since then, we have made the following acquisitions, each accounted for as a purchase, with the results of operations of the acquired businesses included from the respective closing dates:

- In July 1998, we acquired Loyalty Management Group Canada Inc.

- In September 1998, we acquired Harmonic Systems Incorporated.

- In July 1999, we acquired the network services business of SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corporation.

As of December 31, 2000, Welsh, Carson, Anderson & Stowe beneficially owned 74.3% of our common stock, and The Limited, through its wholly owned subsidiary Limited Commerce Corp., beneficially owned approximately 25.5% of our common stock. After this offering, Welsh Carson will have the right to designate up to three nominees for election to our board of directors and Limited Commerce Corp. will have the right to designate up to two nominees, depending on their percentage ownership of our common stock.

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

THE OFFERING

Common stock offered	13,000,000 shares
Common stock to be outstanding after the offering	70,619,893 shares
Use of proceeds	We intend to use approximately $92.9 million of the net proceeds from the offering to repay outstanding debt, and the balance for general corporate purposes, including potential acquisitions and working capital.
Proposed New York Stock Exchange symbol	"ADS"

Unless otherwise indicated, all information in this prospectus:

- gives effect to the 1-for-9 reverse stock split of our common stock effected on March 15, 2000; and

- assumes the conversion of all outstanding shares of our Series A cumulative convertible preferred stock into common stock. As of December 31, 2000, these shares of Series A preferred stock were convertible into 10,074,524 shares of common stock, assuming an initial public offering price of $13.00 per share.

The number of shares of common stock described as being outstanding after this offering excludes the following:

- 4,882,626 shares that we may issue upon the exercise of stock options outstanding as of December 31, 2000 at a weighted average exercise price of $12.45 per share;

- 3,052,999 additional shares that we may issue under our stock option and restricted stock plan;

- 1,500,000 shares that we may issue under our employee stock purchase plan; and

- up to 1,950,000 additional shares that we may issue upon exercise of the underwriters' over-allotment option.

SUMMARY UNAUDITED CALENDAR YEAR AND PRO FORMA CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

Prior to December 31, 1998, our fiscal year was based on a 52/53-week fiscal year ending on the Saturday closest to January 31. We have since changed our fiscal year end to December 31. In order to provide a better basis of comparison, we have recast our historical operating results to a calendar year basis for the year ended December 31, 1998. In our opinion, the recast historical financial statements reflect all normal recurring adjustments necessary for a fair presentation of such financial statements.

We have also included the following unaudited pro forma information, which we derived from our unaudited pro forma consolidated financial information included in this prospectus. The data contained in the pro forma columns give effect to the following completed acquisitions as if those acquisitions had been consummated on January 1, 1998:

- the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998;

- the acquisition of Harmonic Systems Incorporated on September 15, 1998; and

- the acquisition of the network transaction processing business of SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corporation, on July 1, 1999.

The supplemental pro forma loss per share data give effect to the conversion of all outstanding shares of our Series A preferred stock and the exercise of all outstanding warrants as if the conversion and the exercise had occurred at the beginning of the period. The pro forma as adjusted data give effect to this offering as if it occurred on December 31, 2000. The unaudited pro forma data do not purport to present what our results of operations or financial position would actually have been, or to project our results of operations or financial position for any future period. You should read the following pro forma information along with the information contained throughout this prospectus, including the financial statements and the related notes that are included in this prospectus.

The other financial data include operating EBITDA, which is equal to operating income plus depreciation and amortization and the change in deferred revenue less the change in redemption settlement assets. We have presented operating EBITDA because we use operating EBITDA to monitor compliance with the financial covenants in our amended credit agreement and to measure the performance and liquidity of our reportable segments. Also, we use it as an integral part of our internal reporting and performance evaluation for senior management. In addition, operating EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. Operating EBITDA is not intended to be a performance measure 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 the statement of cash flows as a measure of liquidity. In addition, operating EBITDA is 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 generally accepted accounting principles. The operating EBITDA measure presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

	FOR THE YEARS ENDED DECEMBER 31, RECAST 1998	1999	2000	FOR THE YEARS ENDED DECEMBER 31, PRO FORMA 1998	1999
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA					
Total revenue	$ 451,537	$ 583,082	$ 678,195	$ 552,180	$ 607,404
Cost of operations	344,369	456,908	522,833	443,029	477,036
General and administrative	39,870	45,919	57,353	39,870	45,919
Depreciation and other amortization	8,782	16,183	26,265	10,035	16,183
Amortization of purchased intangibles	46,977	61,617	49,879	81,571	67,546
Total expenses	439,998	580,627	656,330	574,505	606,684
Operating income (loss)	11,539	2,455	21,865	(22,325)	720
Other non-operating expense	--	--	2,477	--	--
Interest expense	29,295	42,785	38,870	38,519	42,785
Income tax expense (benefit)	(2,622)	(6,538)	1,841	(13,390)	(7,510)
Loss from continuing operations	(15,134)	(33,792)	(21,323)	(47,454)	(34,555)
Income (loss) from discontinued operations, net of taxes	(3,948)	7,688	--	(3,948)	7,688
Loss on disposal of discontinued operations, net of taxes	--	(3,737)	--	--	(3,737)
Net loss	$ (19,082)	$ (29,841)	$ (21,323)	$ (51,402)	$ (30,604)
Loss per share from continuing operations--basic and diluted	$ (0.37)	$ (0.78)	$ (0.60)	$ (1.01)	$ (0.88)
Loss per share--basic and diluted	$ (0.46)	$ (0.86)	$ (0.60)	$ (1.09)	$ (0.80)
Weighted average shares used in computing per share amounts--basic and diluted	41,308	47,498	47,538	46,969	47,498
Supplemental pro forma loss per share from continuing operations--basic and diluted				$ (0.84)	$ (0.61)
Supplemental pro forma loss per share--basic and diluted				$ (0.91)	$ (0.54)
Weighted average shares used in computing supplemental pro forma per share amounts--basic and diluted				56,367	56,896
OTHER FINANCIAL DATA					
Calculation of Operating EBITDA:					
Operating income (loss)	$ 11,539	$ 2,455	$ 21,865	$ (22,325)	$ 720
Depreciation and other amortization	8,782	16,183	26,265	10,035	16,183
Amortization of purchased intangibles	46,977	61,617	49,879	81,571	67,546
EBITDA	67,298	80,255	98,009	69,281	84,449
Change in deferred revenue	20,729	91,149	40,845	51,615	91,149
Less:					
Change in redemption settlement assets	11,838	63,472	18,357	34,111	63,472
Operating EBITDA	$ 76,189	$ 107,932	$ 120,497	$ 86,785	$ 112,126
Operating EBITDA as a percentage of revenue	16.9%	18.5%	17.8%	15.7%	18.5%
SEGMENT OPERATING DATA					
Air Miles reward miles:					
issued	611,824	1,594,594	1,903,793	1,361,013	1,594,594
redeemed	158,281	529,327	737,054	376,161	529,327
Transactions processed	1,134,902	1,839,857	2,519,535	1,814,271	2,104,554
Statements generated	130,895	132,817	127,217	130,895	132,817
Securitized portfolio (at period end)	$2,135,340	$2,232,375	$2,319,704	$2,135,340	$2,232,375
Credit sales	$3,049,151	$3,132,520	$3,685,069	$3,049,151	$3,132,520

	FOR THE YEARS ENDED DECEMBER 31, 2000
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
INCOME STATEMENT DATA	
Total revenue	$ 678,195
Cost of operations	522,833
General and administrative	57,353
Depreciation and other amortization	26,265
Amortization of purchased intangibles	49,879

Total expenses	656,330
Operating income (loss)	21,865
Other non-operating expense	2,477
Interest expense	38,870
Income tax expense (benefit)	1,841
Loss from continuing operations	(21,323)
Income (loss) from discontinued operations, net of taxes	--
Loss on disposal of discontinued operations, net of taxes	--
Net loss	$ (21,323)
Loss per share from continuing operations--basic and diluted	$ (0.60)
Loss per share--basic and diluted	$ (0.60)
Weighted average shares used in computing per share amounts--basic and diluted	47,538
Supplemental pro forma loss per share from continuing operations--basic and diluted	$ (0.37)
Supplemental pro forma loss per share--basic and diluted	$ (0.37)
Weighted average shares used in computing supplemental pro forma per share amounts--basic and diluted	56,936
OTHER FINANCIAL DATA	
Calculation of Operating EBITDA:	
Operating income (loss)	$ 21,865
Depreciation and other amortization	26,265
Amortization of purchased intangibles	49,879
EBITDA	98,009
Change in deferred revenue	40,845
Less:	
Change in redemption settlement assets	18,357
Operating EBITDA	$ 120,497
Operating EBITDA as a percentage of revenue	17.8%
SEGMENT OPERATING DATA	
Air Miles reward miles:	
issued	1,903,793
redeemed	737,054
Transactions processed	2,519,535
Statements generated	127,217
Securitized portfolio (at period end)	$2,319,704
Credit sales	$3,685,069

	AS OF DECEMBER 31,			
	1998	1999	2000	PRO FORMA AS ADJUSTED 2000
	(AMOUNTS IN THOUSANDS)			
BALANCE SHEET DATA				
Cash and cash equivalents......	$ 47,036	$ 56,546	$ 116,941	$ 177,453
Credit card receivables and seller's interest.........	139,458	150,804	137,865	137,865
Redemption settlement assets...........	70,178	133,650	152,007	152,007
Intangibles and goodwill.........	362,797	493,609	444,549	444,549
Total assets.......	1,075,707	1,301,263	1,420,606	1,479,618
Deferred revenue--product and service......	158,192	249,341	290,186	290,186
Certificates of deposit and other receivable funding debt.....	147,984	116,900	139,400	139,400
Long-term and subordinated debt.............	332,000	318,236	296,660	203,750
Total liabilities......	780,902	921,791	1,058,215	965,305
Series A preferred stock............	--	119,400	119,400	--
Total stockholders' equity...........	294,805	260,072	242,991	514,313

RISK FACTORS

BEFORE MAKING AN INVESTMENT DECISION, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISKS. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY ONES THAT WE FACE. ANY OF THE FOLLOWING RISKS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS. ADDITIONAL RISKS AND UNCERTAINTIES OF WHICH WE ARE UNAWARE OR CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE DUE TO ANY OF THESE RISKS, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT IN OUR COMMON STOCK. BEFORE MAKING AN INVESTMENT DECISION, YOU SHOULD ALSO READ THE OTHER INFORMATION INCLUDED IN THIS PROSPECTUS, INCLUDING OUR FINANCIAL STATEMENTS AND THE RELATED NOTES.

RISKS RELATED TO OUR BUSINESS

OUR BUSINESS IS DEPENDENT ON A SMALL NUMBER OF LARGE CLIENTS.

Our 10 largest clients were responsible for approximately 63.4% of our consolidated revenues during the year ended December 31, 2000.

TRANSACTION SERVICES. Our 10 largest clients in this segment were responsible for approximately 71.3% of our Transaction Services revenue in 2000. The Limited and its retail affiliates were the largest Transaction Services client in 2000, representing in excess of 10% of this segment's 2000 revenue. Our contracts with The Limited and its retail affiliates expire in 2006.

CREDIT SERVICES. Our two largest clients in this segment were responsible for 80.3% of our Credit Services revenue in 2000. The Limited and its retail affiliates and Brylane were the largest Credit Services clients in 2000. Our contracts with these clients expire in 2006.

MARKETING SERVICES. Our 10 largest clients in this segment were responsible for approximately 61.4% of our Marketing Services revenue in 2000. Bank of Montreal and Canada Safeway were the two largest Marketing Services clients in 2000, each representing in excess of 10% of this segment's 2000 revenue. Our contracts with these clients expire within the next two years. We can give no assurance that these contracts will be renewed on similar terms or at all.

A significant decrease in revenues attributable to any of our significant clients for any reason, including a decline in pricing or activity, or a decision to either utilize another service provider or to no longer outsource the services we provide, could have a material adverse effect on our business, financial condition and operating results in general, and those of the affected operating segment, in particular. In addition, if any of our significant clients were acquired and the client's new management team elected to phase-out or discontinue the client's business relationship with us, we could suffer a material adverse effect. This risk is particularly germane as many of our significant clients are in market sectors such as petroleum, specialty retail, supermarkets and financial services, which have recently experienced, and are experiencing, fairly considerable consolidation.

We provide transaction processing services to Equiva Services, LLC, which is the service provider to Shell-branded locations in the U.S. Equiva is one of our 10 largest clients both in the Transaction Services segment and on a consolidated basis. We recently began renegotiating our contract with Equiva, which expires in December 2001. We have been informed by Equiva that it would like to discontinue a portion of the services we currently provide effective upon termination of the existing contract in December 2001. As a result of this termination, our revenue and profitability attributable to Equiva for periods beyond 2001 will decrease. We are now in the process of negotiating with Equiva regarding the other services we currently provide. With respect to the services under negotiation, we can give no assurance that we will successfully reach an agreement with Equiva on similar terms to those currently existing, or at all. If our negotiations with Equiva result in a decrease in pricing or in the number and types of the transaction services we provide to Equiva, our revenue and profitability attributable to Equiva would be further adversely affected, which could have a material adverse effect on us.

A LARGE NUMBER OF OUR CLIENTS ARE AFFILIATES OF LIMITED COMMERCE CORP., OUR SECOND LARGEST STOCKHOLDER.

A large number of our clients are affiliates of Limited Commerce Corp., a wholly owned subsidiary of The Limited, which beneficially owned approximately 25.5% of our common stock as of December 31, 2000 and has two designees on our board of directors. The Limited, together with its affiliates, is our largest client, representing approximately 25.3% of our 2000 consolidated revenue. The Limited and its retail affiliates represented our largest Transaction Services client in 2000, and together with Brylane were our largest Credit Services clients in 2000. As a significant stockholder, The Limited, unlike our other clients, is able to exercise significant influence over matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. In addition, Limited Commerce Corp., through a stockholders agreement, has the right to designate up to two members of our board of directors.

DEFAULTS AND BANKRUPTCIES RELATED TO OUR CONSUMER UNSECURED LENDING COULD ADVERSELY AFFECT US.

The primary risk associated with unsecured lending is the risk of default or bankruptcy of consumers, resulting in accounts being charged-off as uncollectible. In addition, general economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies and credit losses among consumers. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. Also, we cannot assure you that our pricing strategy can offset the negative impact on profitability caused by increases in delinquencies and losses. Increases in charge-offs could have a material adverse effect on our business, financial condition and operating results.

THE FAILURE TO EFFECTIVELY INTEGRATE RECENT ACQUISITIONS AND TO FAVORABLY NEGOTIATE AND INTEGRATE FUTURE ACQUISITIONS COULD ADVERSELY AFFECT OUR BUSINESS.

Since August 1996, we have made several acquisitions, principally of Loyalty Management Group Canada Inc., Harmonic Systems Incorporated and the network transaction processing business of SPS Payment Systems, Inc. We are currently in the process of integrating the operations of the network transaction processing business of SPS, acquired in July 1999. We expect this integration process to continue through 2001. We intend to acquire additional complementary businesses as part of our growth strategy. We may not be able to successfully integrate them in a timely manner or at all. If we are unable to successfully integrate the SPS operations or any other acquired businesses, 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 acquisitions may divert management's attention from our existing business and could damage our relationships with key clients and employees.

To finance future acquisitions, we may issue equity securities that could be dilutive to our stockholders. We may also incur debt and additional amortization expenses related to goodwill and other intangible assets in future acquisitions. The interest expense related to this debt and additional amortization expense may significantly reduce our profitability and could have a material adverse effect on our business, financial condition and operating results.

AS THE AVERAGE AGE OF OUR LOAN PORTFOLIO INCREASES, WE WILL LIKELY EXPERIENCE INCREASING OR FLUCTUATING LEVELS OF DELINQUENCY AND LOAN LOSSES.

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 at any point in time are affected by, among other factors, the credit risk of credit card receivables and the average age of our various credit card account portfolios. The average age of credit card receivables affects the stability of delinquency and loss rates of the portfolio because delinquency and loss rates typically increase as the average age of accounts in a credit card portfolio increases. At December 31, 2000, 19.2% of securitized accounts and 38.6% of securitized loans were less than 24 months old. Accordingly, we believe that our loan portfolio will experience increasing or fluctuating levels of delinquency and loan losses as the average age of our accounts increases. The net charge-off ratio reflects the percentage of the average securitized receivables at the beginning of each month in the period indicated consisting of principal losses from cardholders unwilling or unable to pay their credit card balances, as well as bankrupt and deceased cardholders, less current period recoveries. Our securitized net charge-off ratio was 7.6% for 2000 compared to 7.2% for 1999 and 7.8% for 1998. We believe that this ratio will continue to fluctuate but generally rise over the next year, and over future years, as the average age of our accounts increases. Any material increases in delinquencies and losses beyond our expectations could have a material adverse impact on us and the value of our net retained interests in loans securitized.

WE ARE SUBSTANTIALLY DEPENDENT UPON AIR CANADA, THE DOMINANT DOMESTIC AIR CARRIER IN CANADA, AS A MAJOR SUPPLIER OF AIRLINE TICKETS THAT WE ISSUE TO COLLECTORS OF AIR MILES REWARD MILES.

Air Canada, as a result of its December 1999 acquisition of Canadian Airlines, is the dominant Canadian domestic air carrier. Air Canada has merged the operations of Canadian Airlines and consolidated routes resulting in the reduction of routes, flights and seats offered by the merged airline. As a result of the acquisition, we entered into a new supply agreement with Air Canada that runs through 2004, superseding our prior agreement with Canadian Airlines. The new supply agreement with Air Canada contains periodic reductions in capacity guarantees on certain routes after December 31, 2002. Notwithstanding our agreement with Air Canada, we cannot predict what impact route consolidation or elimination or changes in the merged airlines' operations will have on our ability to satisfy and retain active collectors and sponsors of the Air Miles reward program. In addition, our Air Miles reward program would be disrupted and adversely affected in the event of any interruption or curtailment of Air Canada's operations.

WE ARE DEPENDENT UPON A MAJOR SUPPLIER FOR DATA TRANSMISSION SERVICES AND POINT-OF-SALE DIAL-UP TRANSMISSION SERVICES.

We are dependent on a major supplier for data transmission services and point-of-sale dial-up transmission services for our transaction processing business. This supplier's parent company is currently undergoing significant liquidity and cashflow shortfalls, and will require substantial additional capital, the availability of which is uncertain. In the first quarter of 2001, we intend to complete the migration of a large percentage of our data and point-of-sale dial-up transmission needs for our network services business to this supplier. We also use a backup supplier of these services. Given our dependence on the supplier, if the supplier were to fail to perform its obligations or its services were otherwise interrupted, for financial or other reasons, our network services business could be materially and adversely affected. Additionally, if this were to occur, any new contract we might enter into for the long-term provision of those services may be at a price and on terms substantially less favorable to us than the terms of our current arrangement.

LOSS OF DATA CENTER CAPACITY OR INTERRUPTION OF TELECOMMUNICATION LINKS COULD ADVERSELY AFFECT OUR BUSINESS.

Our ability to protect our data centers against damage from fire, power loss, telecommunications failure and other disasters is critical to our future. Our services depend on links to telecommunication providers. Any damage to our data centers or any failure of our telecommunication links that causes interruptions in our operations could have a material adverse effect on our ability to meet our clients' requirements, which could adversely effect our business, financial condition and operating results.

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 interruption or loss of these capabilities from a computer malfunction or other reasons could have a material adverse effect on our business, financial condition and operating results.

WE ARE SUBJECT TO INTENSE COMPETITION, AND WE EXPECT TO FACE INCREASED COMPETITION IN THE FUTURE.

GENERAL. The markets for our products and services are highly competitive. We compete with traditional and online marketing companies, credit card issuers and data processing companies, as well as with current and potential in-house operations of our clients. Many of our current and potential competitors have greater resources than we do, which may impair our ability to compete. Many of our current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than we do. In addition, these companies may have existing relationships with our potential clients and may be able to respond to changes in market dynamics and technology faster than we can. We cannot assure you that we will be able to compete successfully against our current and potential competitors.

TRANSACTION SERVICES. The payment processing industry is highly competitive, especially among the five largest payment processors in the U.S. Such competition requires that we continue to invest resources in technological developments and restricts the prices we can charge for certain services. The market requires that payment processors provide advanced and efficient technology, causing some financial institutions and other payment processors to either leave the business or merge with other providers, resulting in significant consolidation in the payment processing industry. Industry consolidation has enabled a few of our competitors to gain access to significant capital, management, marketing and technological resources that are equal to or greater than ours. We cannot assure you that we will continue to be able to compete successfully with such payment processors.

CREDIT SERVICES. We also face intense and increasing competition from numerous financial services providers, some of which have greater resources than we do. We compete against third-party private label credit card issuers who may offer lower discount fees and greater incentives to secure new business. Additionally, our private label cards compete with other payment methods, primarily general-purpose credit cards like Visa, MasterCard and American Express, as well as cash, checks and debit cards.

MARKETING SERVICES. As a provider of loyalty and marketing products and 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 loyalty and marketing products and 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 reward miles collectors as well as draw rewards from our rewards suppliers. Due to the significant funding requirements to establish such a program, we have decided not to operate a program in the U.S. similar to the Air Miles reward miles program we operate in Canada. Rather, our existing stockholders have decided to pursue such a program in the U.S. through the creation and funding of a separate and distinct company called U.S. Loyalty Corp. Given the proximity of the U.S. and Canada and the number of companies that have operations in, and target consumers in, both countries, U.S. Loyalty Corp. may in the future become a competitor of ours for the marketing budgets of existing and potential clients. Over the past year, over half of the Air Miles reward program revenues came from the top 10-15% of our Air Miles reward miles collectors. The loss of these collectors 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. For our database marketing services, our ability to continue collecting detailed transaction data on consumers is critical in providing effective customer strategies for our clients.

FAILURE TO SAFEGUARD OUR DATABASE AND CONSUMER PRIVACY COULD AFFECT OUR REPUTATION AMONG OUR CLIENTS AND THEIR CUSTOMERS.

An important feature of our loyalty and marketing programs and credit services is our ability to develop and maintain individual consumer profiles. As part of our reward miles redemption and credit services, we maintain a marketing database containing information on consumers' account balances. 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. With respect to our loyalty and marketing programs, security and privacy concerns may cause consumers to resist providing the personal data necessary to support this profiling capability. The use of our loyalty and marketing programs or credit services could decline if any well-publicized compromise of security occurred. We could also be subject to legal claims from consumers. Any public perception that we released consumer information without authorization would adversely affect our ability to attract and retain consumers.

FLUCTUATIONS IN THE TIMING OR QUANTITY OF REWARD MILES REDEEMED BY COLLECTORS COULD INCREASE OUR NEED FOR WORKING CAPITAL.

We cannot control the timing of a collector's decision to redeem Air Miles reward miles or the quantity of reward miles redeemed. We could experience a need for increased working capital to fund redemptions if collectors redeem Air Miles reward miles at a rate that is more rapid than we anticipated, which could have a material adverse effect on our business, financial condition and operating results. We currently maintain cash, cash equivalents and fixed-income securities in a separate reserve account--redemption settlement assets--which we believe are adequate to fund this obligation.

WE MAY FACE DAMAGES AS A RESULT OF EXISTING LITIGATION.

World Financial, our wholly owned subsidiary, is a party to a lawsuit filed by Service Merchandise, Inc. in U.S. Bankruptcy Court for the Middle District of Tennessee. Service Merchandise, which is in voluntary Chapter 11 bankruptcy, alleges that World Financial breached certain contractual provisions of an agreement regarding a private label credit card program by, among other things, unilaterally revising the credit standards applicable to existing cardholders and withholding monthly program payments owed to Service Merchandise. In addition, Service Merchandise alleges that certain actions taken by World Financial violated the automatic stay provisions of the U.S. Bankruptcy Code. In a separate action, a group of World Financial cardholders recently filed a putative class action complaint against World Financial in U.S. District Court in the Southern District of Florida, Miami Division, alleging that World Financial's billing practices are false, misleading and deceptive, and therefore in breach of state and federal laws and cardholder contracts. We believe that both of these actions are without merit and we intend to defend them vigorously. See "Business--Litigation." Due to the uncertainty inherent in litigation, however, we cannot provide assurance that an ultimate result against World Financial in either of these actions would not have a material adverse effect on our business, financial condition or operating results.

LITIGATION RELATING TO INTELLECTUAL PROPERTY RIGHTS COULD HARM OUR BUSINESS.

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 misappropriation or infringement 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 attention. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims.

BILLING DISPUTES BETWEEN A CARDHOLDER AND A MERCHANT AND FRAUDULENT TRANSACTIONS SUBMITTED BY A MERCHANT INVOLVING ELECTRONIC PAYMENT CARDS SUCH AS CREDIT CARDS, DEBIT CARDS OR STORED VALUE CARDS PRESENT RISKS TO OUR PROFITABILITY.

In our bank card processing business, when a billing dispute between a cardholder and a merchant is resolved in favor of the cardholder, or, when a card issuer detects fraudulent transactions submitted by a merchant, we charge back the amount of the transaction to the merchant. We then credit the amount of the transaction to the cardholder's account. These billing disputes or chargebacks relate to, among others:

- nonreceipt of merchandise or services;

- unauthorized use of a credit card; and

- general disputes between a customer and a merchant as to the quality of the goods purchased or the services rendered by the merchant.

If we or our clearing banks are unable to collect amounts charged back to a merchant's account, and if the merchant refuses or is unable due to bankruptcy or other reasons to reimburse us for the chargeback, we bear the loss for the amount of the refund paid to the cardholder. Our contingent liability is greater in certain industries, such as the direct response marketing industry, where the cardholder is not present to provide a signature. We attempt to reduce our exposure to such losses by performing initial and periodic credit reviews of our merchant clients, by adjusting our rates based, in part, on the merchant's credit risk, business and industry, and by requiring merchants to create escrow accounts for the purpose of satisfying amounts charged back to the merchant. We face chargeback risks with respect to the private label credit card programs we fund that are similar to the risks we face in our bankcard processing programs. We cannot assure you that we will not experience significant losses from chargebacks in the future. Increases in chargebacks not paid by merchants could have a material adverse effect on our business, financial condition and operating results.

CHANGES IN ASSUMPTIONS OVER TIME, SUCH AS THE AMOUNT OF PREPAYMENTS FROM AND DEFAULTS BY CARDHOLDERS, MAY CAUSE A DECREASE IN THE ESTIMATED VALUE OF THE INTEREST ONLY STRIPS, AND THE RESIDUAL INTEREST WE RETAIN IN THE CREDIT CARD RECEIVABLES WE SELL IS ILLIQUID.

ASSUMPTIONS REGARDING FUTURE PREPAYMENTS AND DEFAULT ASSUMPTIONS ARE SUBJECT TO VOLATILITY THAT COULD MATERIALLY AFFECT OPERATING RESULTS. We finance substantially all our credit card receivables through asset securitization transactions in which we sell our credit card receivables to a master trust that holds the receivables as trustee for third-party investors. We retain the right to service the receivables we sell. We maintain a residual interest in the credit card receivables and retain an interest only strip representing the present value of the right to the excess cash flows generated by the securitized receivables. We calculate the gain on the sale of receivables and the value of the interest only strips based on the present value of the anticipated cash flow stream from the securitized receivables, which is the difference between (1) interest and other fees paid by cardholders and (2) the sum of the following:

- pass-through interest paid to third-party investors;

- trustee fees;

- servicing fees that we receive from the trust; and

- estimated loan portfolio losses.

A significant factor affecting the level of anticipated cash flows is the rate at which the underlying principal of the securitized credit card receivables is reduced. Prepayments represent principal reductions in excess of the contractually scheduled reductions. Additional assumptions include estimated future credit losses and a discount rate commensurate with the risks involved. The rate of cardholder prepayments 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 prepayments to increase, thereby requiring a write down of the interest only strips.

Assumptions regarding future prepayments and credit losses are subject to volatility that could materially affect 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 prepayments 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.

THE RESIDUAL INTEREST WE RETAIN IN THE CREDIT CARD RECEIVABLES WE SELL IS ILLIQUID. In addition, we cannot assure you that the interest only strips could in fact be sold at their stated value on the balance sheet, if at all, due to the lack of a known market for interest only strips.

We recognize a gain on sale and the related interest only strip in the period during which we sell the credit card receivables, while we actually receive cash payments from our pooling and servicing agreements and servicing fees from the trusts over the lives of the receivables we sell. This difference in the timing of cash flows could cause a cash shortfall, which could have a material adverse effect on our financial condition.

WE DEPEND ON OUR ABILITY TO SELL AND SECURITIZE OUR CREDIT CARD RECEIVABLES TO FUND NEW RECEIVABLES.

Since January 1996, we have used a program involving the sale and securitization of our credit card receivables as our primary funding vehicle for credit card receivables. A number of factors affect securitization transactions, some of which are beyond our control, including:

- conditions in the securities markets in general;

- conditions in the asset-backed securitization market;

- conformity of credit card receivables to rating agency requirements and changes in those requirements; and

- availability of credit enhancement.

These factors could adversely affect our ability to effect securitization transactions or the benefits to us of securitization transactions, including the value of our interest only strips or our ability to sell interest only strips or portions of our interest in the receivables.

In addition, we have overcollateralized and maintained an interest in our securitizations in order to achieve better credit ratings. Failure to obtain acceptable credit ratings or more stringent credit enhancement requirements could decrease the efficiency of or have an adverse effect on the timing of, or our ability to effect, future securitizations. Securitization transactions subject us to covenants such as receivables performance and the continued solvency of private label program participants. If we do not satisfy these covenants, an early amortization event could occur. In an early amortization event, the trustee would hold our interest in the related receivables and excess interest income until such time as the securization investors are fully repaid. The occurrence of an early amortization event would significantly limit our ability to securitize additional receivables.

We intend to continue public securitizations of our credit card receivables. The inability to securitize credit card receivables due to changes in the market, the unavailability of credit enhancements, an early amortization event, or any other circumstance or event would have a material adverse effect on our business, financial condition and operating results.

THE TRUST MAY TERMINATE OUR SERVICING RIGHTS.

The pooling and servicing agreements related to our securitizations provide that the trustee may terminate our servicing rights if we fail to perform our servicing obligations under those agreements, such as the failure to make timely payments to certificate holders. As of the date of this prospectus, no servicing rights had been terminated. However, we cannot assure you that we will be able to perform our servicing obligations and, if we are unable to perform those obligations, that our servicing rights will not be terminated. A termination of our servicing rights would have a material adverse effect on our business, financial conditions and operating results.

WE EXPECT GROWTH IN OUR CREDIT SERVICES SEGMENT RESULTING FROM NEW AND ACQUIRED PRIVATE LABEL CARD PROGRAMS, WHOSE CREDIT CARD RECEIVABLE PERFORMANCE MAY NOT BE CONSISTENT WITH THAT OF OUR EXISTING PROGRAMS.

An important source of growth in our private card operations is expected to come from the acquisition of existing private label programs and from initiating new private label programs at retailers that previously did not operate a program. 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 start-up programs, there can be no assurance that the loss experience on newly acquired and start-up plans will be consistent with our more established programs. The failure to successfully underwrite these private label programs may result in increased portfolio losses and reduce our profitability and could have a material adverse effect on our business, financial condition and operating results.

INTEREST RATE FLUCTUATIONS IMPACT THE YIELD ON OUR ASSETS AND FUNDING EXPENSE.

An increase or decrease in market interest rates could have a negative impact on the amount we realize from the net interest 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. We try to minimize the impact of changes in market interest rates on our cash flow, asset value and net income primarily by funding fixed-rate assets with fixed-rate funding sources and by using interest-rate derivatives to match asset and liability repricings. Nonetheless, changes in market interest rates may have a negative impact on us.

OUR HEDGING ACTIVITY SUBJECTS US TO OFF-BALANCE SHEET RISK.

The interest rate swap and treasury lock agreements we use to reduce our exposure to fluctuations in interest rates subject us to off-balance sheet risk. These off-balance sheet financial instruments involve elements of credit and interest rate risk in excess of the amount recognized on our balance sheet. Our hedging policy subjects us to risks relating to the creditworthiness of the commercial banks with whom we contract in our hedging transactions. If one of these banks cannot honor its obligations, we may suffer a loss. The purpose of our hedging policy is to reduce the effect of interest rate fluctuations on our results of operations. Therefore, while our hedging policy reduces our exposure to losses resulting from unfavorable changes in interest rates, it also reduces or eliminates our ability to profit from favorable changes in interest rates.

POSTAL RATE INCREASES COULD LEAD TO REDUCED VOLUME OF BUSINESS.

Postal rate increases have negatively impacted the direct marketing industry during the past years. Any future increases may force us and our clients that are direct mailers to mail fewer pieces. This response by direct mailers could decrease the amount of processing services purchased from us, which could have a material adverse effect on our business, financial condition and operating results.

FLUCTUATIONS IN THE EXCHANGE RATES BETWEEN THE U.S. DOLLAR AND CANADIAN DOLLAR MAY AFFECT OUR OPERATING RESULTS.

A large portion of our Marketing Services revenue relates to the Air Miles reward program and is in Canadian dollars. We are exposed to fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar through our operations in Canada. Although we have entered into cross-currency hedge transactions to fix the exchange rate on any Canadian debt repayment due to a U.S. counter party, we do not hedge our net investments in foreign operations. Significant changes in the exchange rate could have a material adverse effect on our business, financial condition and operating results.

IF OUR BANK SUBSIDIARY FAILS TO MEET CREDIT CARD BANK CRITERIA, WE MAY BECOME SUBJECT TO REGULATION UNDER THE BANK HOLDING COMPANY ACT.

Our bank subsidiary, World Financial, 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. World Financial is subject to regulation and examination by the Office of the Comptroller of the Currency, its primary regulator, and is also subject to regulation by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, as back-up regulators. World Financial 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 failed to meet the credit card bank criteria described above, World Financial would be a "bank" as defined by the Bank Holding Company Act, subjecting us to the provisions, requirements and restrictions of the Bank Holding Company Act as a bank holding company. We believe that becoming a bank holding company would 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.

OUR BUSINESS MAY SUFFER IF WE ARE UNABLE TO RETAIN KEY PERSONNEL.

Our future success is substantially dependent upon the continued services of our senior management team. The loss of the services of any of our executive officers could have a material adverse effect on our business. Many of our executive officers have only been employed by us for a short time. We do not currently have "key person" life insurance policies on any of our employees, and we generally do not enter into employment agreements with our employees. Our future success also depends on our ability to attract and retain highly qualified personnel. The competition for qualified personnel in our markets is intense, and we may be unable to attract or retain highly qualified personnel in the future.

SOME OF OUR STOCKHOLDERS OWN A SIGNIFICANT AMOUNT OF OUR COMMON STOCK.

As of December 31, 2000, Limited Commerce Corp. and the affiliated entities of Welsh, Carson, Anderson & Stowe, in the aggregate beneficially owned approximately 99.8% of our outstanding common stock and would have owned 81.4% of our common stock as of that date after giving pro forma effect to this offering. As a result, these stockholders are able to exercise significant influence over, and in most cases control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Their continued concentration of ownership after this offering may also have the effect of delaying, preventing or deterring a change in control that may otherwise be beneficial to you.

DELAWARE LAW AND OUR CHARTER DOCUMENTS COULD PREVENT A TAKEOVER 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 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.

RISKS RELATED TO OUR INDUSTRY

THE MARKETS FOR THE SERVICES THAT WE OFFER MAY FAIL TO EXPAND OR MAY CONTRACT.

Our growth and continued profitability relies 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. The use of loyalty and database marketing by retailers is in its early stages and we cannot guarantee that merchants will continue to use these types of 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, which could have a material adverse effect on our business, financial condition and operating results.

INDUSTRY RISKS RELATED TO CONSUMER CREDIT PRODUCTS COULD NEGATIVELY IMPACT US.

We face a number of risks associated with unsecured lending, including the following:

- delinquencies and credit losses will increase because of future economic downturns;

- an increasing number of consumers will default on the payment of their outstanding balances or seek protection under bankruptcy laws;

- fraud by cardholders and third parties will increase;

- increased criticism from consumer advocates and the media could hurt consumer acceptance of our products; and

- litigation, including class action litigation, challenging our product terms, rates, disclosures, collections or other practices, under state and Federal consumer protection statutes and other laws, could adversely affect our lending practices.

Our business, financial condition and operating results could be materially adversely affected if we have underestimated any of these risks or are unable to adjust our pricing for such changes.

LEGISLATION RELATING TO CONSUMER PRIVACY MAY AFFECT OUR ABILITY TO COLLECT DATA.

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.

The Gramm-Leach-Bliley Act, which became law in November 1999, requires financial institutions to comply with various notice procedures in order to disclose nonpublic personal information about their consumers to nonaffiliated third parties and restricts their ability to share account numbers. The requirements of this law also apply to the disclosure of any list, description or other grouping of consumers derived from nonpublic personal information. This law makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. This law also requires us to disclose our privacy policies and practices to consumers. New regulations under the Gramm-Leach-Bliley Act that take effect in July 2001 will give credit card customers the ability to opt out of having information generated by their credit card purchases shared with other parties or the public.

On April 13, 2000, the Canadian federal government and Minister of Industry of Canada enacted the Personal Information Protection and Electronic Documents Act. This act, which became effective on January 1, 2001, comprises comprehensive private sector privacy legislation that applies to organizations engaged in any commercial activities in Canada. It enacted into law 10 privacy principles from the Canadian Standards Association's Model Privacy Code. This act also requires organizations to obtain consent to the collection, use or disclosure of personal information. The nature of the required consent will depend on the sensitivity of the personal information and will permit personal information to be used only for the purposes for which it was collected. The Province of Quebec has had similar privacy legislation applicable to the private sector in that province since 1994, and other provinces are considering further privacy legislation. We have taken steps with the Air Miles reward miles program to comply with the new law.

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 customers, 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 business, financial condition and operating results.

STATE TAX ISSUES COULD HAVE A NEGATIVE EFFECT ON OUR BUSINESS.

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, our business, financial condition and operating results could be adversely affected.

LAWS AND REGULATIONS PERTAINING TO THE INTERNET MAY ADVERSELY AFFECT OUR BUSINESS.

An increasing number of laws and regulations pertain to the Internet. These laws and regulations relate to liability for information retrieved from or transmitted over the Internet, on-line content regulation, user privacy, taxation and the quality of products and services. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. Any new law or regulation pertaining to the Internet, or the application or interpretation of existing laws, could decrease the demand for our promotional services, increase our cost of doing business or otherwise have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATED TO THIS OFFERING

IF THE PRICE OF OUR COMMON STOCK FLUCTUATES SIGNIFICANTLY, YOUR INVESTMENT COULD LOSE VALUE.

Prior to this offering, there has been no public market for our common stock. Although we have applied to have our common stock listed on the New York Stock Exchange, we cannot assure you that an active public market will develop for our common stock or that our common stock will trade in the public market subsequent to this offering at or above the initial public offering price. If an active public market for our common stock does not develop, the trading price and liquidity of our common stock will be materially and adversely affected. Negotiations between us and the underwriters will determine the initial offering price, which may not be indicative of the trading price for our common stock after this offering. In addition, the stock market is subject to significant price and volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

- our quarterly operating results;

- changes in our earnings estimates;

- additions or departures of key personnel;

- changes in the business, earnings estimates or market perceptions of our competitors;

- changes in general market or economic conditions; and

- announcements of legislative or regulatory change.

WE HAVE A LARGE NUMBER OF SHARES THAT ARE ELIGIBLE FOR FUTURE SALE AND, IF THESE SHARES ARE SOLD IN THE FUTURE, YOUR INVESTMENT WILL BE DILUTED.

If a large number of shares of our common stock are sold in the open market after this offering, or the market perceives that such sales could occur, the trading price of our common stock could decrease. After this offering, we will have an aggregate of 119,127,107 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 may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions.

Upon consummation of the offering, we will have 70,619,893 shares of our common stock outstanding. Of these shares, all shares sold in the offering, other than shares, if any, purchased by our affiliates, will be freely tradable. Of the remaining 57,619,893 shares, 10,625 shares will be freely transferable and 57,609,268 shares will be "restricted securities" as that term is defined in Rule 144 under the Securities Act.

We have reserved 1,500,000 shares of common stock for issuance under our employee stock purchase plan. We have also reserved 8,753,000 shares of our common stock for issuance under our stock option and restricted stock plan, of which 4,882,626 shares are issuable upon exercise of options granted as of December 31, 2000, including options to purchase 1,232,353 shares exercisable as of December 31, 2000 or that will become exercisable within 60 days after such date. Any shares issued in connection with the exercise of currently outstanding stock options or otherwise would further dilute your investment in our common stock.

OUR MANAGEMENT'S BROAD DISCRETION IN THE USE OF THE PROCEEDS OF THIS OFFERING MAY ADVERSELY AFFECT YOUR INVESTMENT.

Our management can spend a significant portion of the proceeds from this offering in ways with which our stockholders may not agree. We intend to use approximately $92.9 million of the net proceeds from the offering to repay outstanding debt. We expect that the remaining net proceeds will be available for general corporate purposes, including potential acquisitions and working capital.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents included in this prospectus may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to those discussed under the section "Risk Factors" and elsewhere in this prospectus.

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 prospectus 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. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified under the section "Risk Factors" and elsewhere in this prospectus which could cause actual results to differ before making an investment decision.

USE OF PROCEEDS

The net proceeds from this offering will be approximately $153.4 million, or $178.9 million if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and commissions and estimated offering expenses. We intend to use approximately $92.9 million to repay in full the amount outstanding under a $130.0 million term loan, which is part of our $330.0 million credit agreement entered into in July 1998 and amended in September 2000 and January 2001. We intend to use the balance of the net proceeds for potential acquisitions and general corporate purposes. Although we are currently considering acquisition candidates in the transaction services field and we continue to monitor and evaluate acquisition opportunities on an ongoing basis, we have no present agreements, commitments or understandings with respect to the acquisition of any business at this time. Pending such uses, we intend to invest the net proceeds in short-term interest-bearing, investment-grade instruments, such as certificates of deposit or direct or guaranteed obligations of government agencies of the United States.

The foregoing represents our best estimate of the use of the net proceeds of this offering based on the current status of our business. Our estimates and current expectations are subject to significant change, based on numerous factors, including certain factors beyond our control. If we do not utilize the net proceeds of the offering as set forth above, or if we utilize different amounts than presently contemplated, we could use any remaining cash for other corporate purposes, including working capital.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock. We do not anticipate paying any cash dividends 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 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 agreement, we cannot declare or pay dividends or return capital to our stockholders, nor can we authorize or make any other distribution, payment or delivery of property or cash to our stockholders.

DILUTION

Our pro forma net deficit in tangible book value as of December 31, 2000 was approximately $82.2 million, or approximately $1.43 per share of common stock, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock. Pro forma net deficit in tangible book value per share represents the amount of tangible assets, less intangibles assets and goodwill and total liabilities, divided by the number of shares of common stock outstanding, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of our common stock in this offering and the pro forma net tangible book value per share of our common stock immediately after the offering. After giving effect to our sale of 13,000,000 shares of common stock in this offering at an assumed initial public offering price of $13.00 per share and after deduction of the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of December 31, 2000 would have been approximately $69.8 million, or $0.99 per share. This represents an immediate increase in pro forma net tangible book value to existing stockholders attibutable to new investors of $2.41 per share and the immediate dilution of $12.01 per share to new investors.

Assumed initial public offering price per share		$13.00
Pro forma net deficit in tangible book value per share before offering	$(1.43)	
Increase per share attributable to new investors	2.41	
Pro forma net tangible book value per share after the offering		0.99
Dilution per share to new investors		$12.01

The following table sets forth as of December 31, 2000, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock, the total consideration paid and the average price per share paid by our existing stockholders and by new investors, before deducting underwriting discounts and commissions and estimated offering expenses payable by us at an assumed initial public offering price of $13.00 per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
			(AMOUNTS IN THOUSANDS)		
Existing stockholders	57,620	81.6%	$346,115	67.2%	$ 6.01
New investors	13,000	18.4	169,000	32.8	13.00
Total	70,620	100.0%	$515,115	100.0%	

This table assumes no options were exercised after December 31, 2000. As of December 31, 2000, there were outstanding options to purchase a total of 4,882,626 shares of common stock at a weighted average exercise price of $12.45 per share and 8,753,000 shares of common stock reserved for issuance under our stock option and restricted stock plan. If all outstanding options were exercised on the date of the closing of the offering, new investors purchasing shares in this offering would suffer dilution per share of $12.08.

CAPITALIZATION

Capitalization is the amount invested in a company and is a common measurement of a company's size. The table below shows our capitalization as of December 31, 2000 as follows:

- on an actual basis;
- on a pro forma basis to reflect the conversion of all of our Series A preferred stock into common stock; and
- on a pro forma as adjusted basis to give effect to the sale of the 13,000,000 shares of our common stock offered by this prospectus at an assumed initial public offering price of $13.00 per share and the application of the net proceeds from the sale, having deducted underwriting discounts and commissions and estimated offering expenses.

You should read this table in conjunction with the consolidated financial statements and related notes that are included in this prospectus.

	AT DECEMBER 31, 2000		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Cash and cash equivalents	$116,941	$116,941	$177,453
Certificates of deposit	$115,600	$115,600	$115,600
Short-term debt	46,125	46,125	14,125
Total short-term debt	$161,725	$161,725	$129,725
Long-term debt, excluding current portion:			
Certificates of deposit	$ 23,800	$ 23,800	$ 23,800
Senior credit facility	148,535	148,535	87,625
Subordinated notes	102,000	102,000	102,000
Total long-term debt	274,335	274,335	213,425
Series A cumulative convertible preferred stock, $0.01 par value; 120 shares authorized, issued and outstanding, actual; none issued or outstanding, pro forma and pro forma as adjusted	119,400	--	--
Stockholders' equity:			
Common stock, $0.01 par value; 200,000 shares authorized, actual, pro forma and pro forma as adjusted; 47,529 shares issued and outstanding, actual; 57,620 shares issued and outstanding, pro forma; 70,620 shares issued and outstanding, pro forma as adjusted	475	576	706
Additional paid-in capital	226,323	345,622	498,914
Retained earnings	16,193	16,193	14,693
Total stockholders' equity	242,991	362,391	514,313
Total capitalization	$636,726	$636,726	$695,738

At the closing of this offering, as set forth in an agreement between us and the holder of a warrant to purchase 167,084 shares of our common stock, we will purchase the unexercised warrant from the warrantholder at a purchase price equal to the initial public offering price set forth on the cover page of this prospectus less the exercise price of $9.00 per share. Assuming an initial offering price of $13.00 per share, that would result in a payment to the warrantholder at closing of approximately $668,336. There are no other warrants outstanding to purchase our common stock.

We estimate that there will be 70,619,893 shares of common stock outstanding after this offering. In addition to the shares of common stock to be outstanding after this offering, we may issue additional shares of common stock.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated financial information is based on the financial statements of Alliance Data Systems Corporation, Loyalty Management Group Canada Inc., Harmonic Systems Incorporated, and the network transaction processing business of SPS Payment Systems, Inc. The unaudited pro forma adjustments are based upon certain assumptions that we believe are reasonable. The unaudited pro forma consolidated financial information and accompanying notes should be read in conjunction with the historical financial statements of Alliance Data Systems Corporation and SPS Network Services, Inc., the network transaction processing business of SPS Payment Systems, Inc., and the respective notes to those statements, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

The data contained in the pro forma columns give effect to the following completed acquisitions, each accounted for under the purchase method of accounting, as if those acquisitions had been consummated on January 1, 1998:

- the acquisition of Loyalty Management Group Canada Inc., effective July 24, 1998;

- the acquisition of Harmonic Systems Incorporated, effective September 15, 1998; and

- the acquisition of the network transaction processing business of SPS Payment Systems, Inc., effective July 1, 1999.

The unaudited pro forma consolidated financial information does not purport to be indicative of the results that would have been obtained had the transactions been completed as of the assumed dates and for the periods presented or that may be obtained in the future. The unaudited pro forma consolidated financial information is included in this prospectus for informational purposes, and while we believe that it may be helpful in understanding our combined operations for the periods indicated, you should not unduly rely on the information.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	CALENDAR YEAR ENDED DECEMBER 31, 1998						
	ADSC	LOYALTY(1)	HARMONIC SYSTEMS(1)	SPS(1)	SUBTOTAL	ADJUSTMENTS	PRO FORMA
Total revenue	$451,537	$40,879	$12,090	$47,674	$552,180	$ --	$552,180
Cost of operations	344,369	44,741	16,328	37,591	443,029	--	443,029
General and administrative	39,870	--	--	--	39,870	--	39,870
Depreciation and other amortization	8,782	805	448	--	10,035	--	10,035
Amortization of purchased intangibles	46,977	2,020	--	--	48,997	32,574 (2)	81,571
Total operating expenses	439,998	47,566	16,776	37,591	541,931	32,574	574,505
Operating income (loss)	11,539	(6,687)	(4,686)	10,083	10,249	(32,574)	(22,325)
Interest expense	29,295	203	221	--	29,719	8,800 (3)	38,519
Income tax (benefit) expense	(2,622)	(3,699)	--	3,710	(2,611)	(10,779)(4)	(13,390)
Income (loss) from continuing operations	$(15,134)	$(3,191)	$(4,907)	$ 6,373	$(16,859)	$(30,595)	$(47,454)
Earnings (loss) per share from continuing operations -- basic and diluted	$ (0.37)						$ (1.01)
Weighted average shares used in computing per share amounts -- basic and diluted	41,308					5,661	46,969

See the accompanying notes on page 28.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 1999				
	ADSC	SPS(1)	SUBTOTAL	ADJUSTMENTS	PRO FORMA
Total revenue	$583,082	$24,322	$607,404	$ --	$607,404
Cost of operations	456,908	20,128	477,036	--	477,036
General and administrative	45,919	--	45,919	--	45,919
Depreciation and other amortization	16,183	--	16,183	--	16,183
Amortization of purchased intangibles	61,617	--	61,617	5,929 (2)	67,546
Total operating expenses	580,627	20,128	600,755	5,929	606,684
Operating income (loss)	2,455	4,194	6,649	(5,929)	720
Interest expense	42,785	--	42,785	--	42,785
Income tax (benefit) expense	(6,538)	1,543	(4,995)	(2,515)(4)	(7,510)
Income (loss) from continuing operations	$(33,792)	$ 2,651	$(31,141)	$(3,414)	$(34,555)
Loss per share from continuing operations--basic and diluted	$ (0.78)				$ (0.88)
Weighted average shares used in computing per share amounts--basic and diluted	47,498				47,498

See the accompanying notes on page 28.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS (AMOUNTS IN THOUSANDS)

The Unaudited Pro Forma Consolidated Statements of Operations for the two years ended December 31, 1999 reflect the pro forma adjustments for the acquisitions previously mentioned. The 1998 statements are presented on a recast calendar-year basis so as to provide a better basis of comparison to the 1999 statements.

(1) Represents operating activity for each of the respective acquired businesses for the periods set forth below:

	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999
Loyalty	7 months	--
Harmonic Systems	9 months	--
SPS	12 months	6 months

(2) Represents pro forma adjustments to goodwill and other purchased intangibles' amortization in connection with the acquisitions as follows:

	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999
Loyalty	$15,925	$ --
Harmonic Systems	4,792	--
SPS	11,857	5,929
	$32,574	$5,929

We amortize goodwill over a 20 to 25 year life. We amortize other purchased intangibles over a three to five year period.

(3) Represents pro forma adjustments to interest expense related to debt incurred in connection with the Loyalty and Harmonic Systems acquisitions. The interest expense is as follows:

	YEAR ENDED DECEMBER 31, 1998
Loyalty	$4,900
Harmonic Systems	3,900
	$8,800

(4) Represents the:

- tax effect of pro forma adjustments including amortization expense related to the SPS acquisition but excluding amortization expense related to the Loyalty and Harmonic Systems acquisitions; and

- recognition of tax expense for the acquired businesses which had not recorded tax expense.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

We are the result of a 1996 merger of two entities acquired by Welsh, Carson, Anderson & Stowe--J.C. Penney's transaction services business, BSI Business Services, Inc., and The Limited's credit card bank operation, World Financial. Prior to December 31, 1998, our fiscal year was based on a 52/53 week fiscal year ending on the Saturday closest to January 31. We have since changed our fiscal year end to December 31. The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. Information is derived from financial statements that were audited by Deloitte & Touche LLP. You should read the following historical financial information along with the information contained throughout this prospectus, including the financial statements and related notes that are included in this prospectus.

	FISCAL				
	1996(1)	1997(2)	1998(3)	1999(4)	2000(5)
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA					
Total revenue	$ 280,935	$ 353,399	$ 410,913	$ 583,082	$ 678,195
Cost of operations	207,896	256,222	319,806	456,908	522,833
General and administrative expenses	25,695	32,225	33,587	45,919	57,353
Depreciation and other amortization	6,318	7,402	8,270	16,183	26,265
Amortization of purchased intangibles	15,900	28,159	43,766	61,617	49,879
Total operating expenses	255,809	324,008	405,429	580,627	656,330
Operating income	25,126	29,391	5,484	2,455	21,865
Other non-operating expenses(6)	--	--	--	--	2,477
Interest expense	5,649	15,459	27,884	42,785	38,870
Income (loss) from continuing operations before income taxes	19,477	13,932	(22,400)	(40,330)	(19,482)
Income tax expense (benefit)	5,704	5,236	(4,708)	(6,538)	1,841
Income (loss) from continuing operations	13,773	8,696	(17,692)	(33,792)	(21,323)
Income (loss) from discontinued operations, net of taxes	(3,823)	(8,247)	(300)	7,688	--
Loss on disposal of discontinued operations, net of taxes	--	--	--	(3,737)	--
Net income (loss)	$ 9,950	$ 449	$ (17,992)	$ (29,841)	$ (21,323)
Earnings (loss) from continuing operations--basic and diluted	$ 0.38	$ 0.24	$ (0.42)	$ (0.78)	$ (0.60)
Earnings (loss) per share--basic and diluted	$ 0.27	$ 0.01	$ (0.43)	$ (0.86)	$ (0.60)
Weighted average shares used in computing per share amounts--basic and diluted	36,521	36,612	41,729	47,498	47,538
OTHER FINANCIAL DATA					
Calculation of operating EBITDA:					
Operating income	$ 25,126	$ 29,391	$ 5,484	$ 2,455	$ 21,865
Depreciation and other amortization	6,318	7,402	8,270	16,183	26,265
Amortization of purchased intangibles	15,900	28,159	43,766	61,617	49,879
EBITDA	47,344	64,952	57,520	80,255	98,009
Change in deferred revenue	--	--	20,729	91,149	40,845
Less:					
Change in redemption settlement assets	--	--	11,838	63,472	18,357
Operating EBITDA(7)	$ 47,344	$ 64,952	$ 66,411	$ 107,932	$ 120,497
Operating EBITDA as a percentage of revenue	16.9%	18.4%	16.2%	18.5%	17.8%
Cash flows from operating activities	67,696	(30,678)	9,311	251,638	87,183
Cash flows from investing activities	(148,721)	(103,746)	(145,386)	(309,451)	(24,457)
Cash flows from financing activities	82,011	104,870	163,282	74,929	1,144

	FISCAL				
	1996(1)	1997(2)	1998(3)	1999(4)	2000(5)
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
SEGMENT OPERATING DATA					
Air Miles reward miles:					
issued	--	--	611,824	1,594,594	1,903,793
redeemed	--	--	158,281	529,327	737,054
Transactions processed	881,316	929,274	1,073,040	1,839,857	2,519,535
Statements generated(8)	126,114	113,940	117,672	132,817	127,217
Securitized portfolio(9)	$1,685,622	$2,021,599	$2,135,340	$2,232,375	$2,319,704
Credit sales	$2,402,881	$3,001,029	$2,866,062	$3,132,520	$3,685,069

	AS OF				
	FEBRUARY 1, 1997	JANUARY 31, 1998	DECEMBER 31, 1998	DECEMBER 31, 1999	DECEMBER 31, 2000
	(AMOUNTS IN THOUSANDS)				
BALANCE SHEET DATA					
Cash and cash equivalents	$ 50,149	$ 20,595	$ 47,036	$ 56,546	$ 116,941
Redemption settlement assets	--	--	70,178	133,650	152,007
Credit card receivables and seller's interest	161,686	144,440	139,458	150,804	137,865
Intangibles and goodwill	103,261	93,909	362,797	493,609	444,549
Total assets	498,355	619,901	1,091,008	1,301,263	1,420,606
Deferred revenue--product and service	--	--	158,192	249,341	290,186
Certificates of deposit	68,400	50,900	49,500	116,900	139,400
Short-term debt	80,811	82,800	98,484	--	--
Long-term and subordinated debt	50,000	180,000	332,000	318,236	296,660
Total liabilities	294,144	415,145	796,203	921,791	1,058,215
Series A preferred stock	--	--	--	119,400	119,400
Total stockholders' equity	204,211	204,756	294,805	260,072	242,991

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(1) Fiscal 1996 represents the operating results of World Financial Network Holding Corporation and BSI Business Services, Inc. for the 52 weeks ended February 1, 1997.

(2) Fiscal 1997 represents the operating results of the merged entities under current management for the 53 weeks ended January 1, 1998 and Financial Automation Limited for two months.

(3) Fiscal 1998 represents the operating results of the merged entities under current management for the 11 months ended December 31, 1998, Loyalty for five months, and Harmonic Systems for three months.

(4) Fiscal 1999 represents the operating results of the merged entities under current management for the year ended December 31, 1999, and SPS for six months.

(5) Fiscal 2000 represents the operating results for the year ended December 31, 2000.

(6) Other expenses represents a non-operating loss on disposal of equity securities.

(7) Operating EBITDA is equal to operating income plus depreciation and amortization and the change in deferred revenue less the change in redemption settlement assets. We have presented operating EBITDA because we use operating EBITDA to monitor compliance with the financial covenants in our amended credit agreement and to measure the performance and liquidity of our reportable segments. Also, we use it as an integral part of our internal reporting and performance evaluation for senior management. In addition, operating EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. Operating EBITDA is not intended to be a performance measure 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 the statement of cash flows as a measure of liquidity. In addition, operating EBITDA is 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 generally accepted accounting principles. The operating EBITDA measure presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

(8) Statements generated represents the number of billing statements generated for both securitized cardholders and cardholders and customers serviced on behalf of other clients.

(9) Securitized portfolio represents outstanding credit card receivables at the end of the period that we have originated or purchased, and have been securitized.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORMATION OF ALLIANCE DATA SYSTEMS CORPORATION

Although our predecessor companies have long operating histories, we have largely been built by acquisition and therefore have a relatively short operating history as a combined entity. 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 The Limited's credit card bank operation, World Financial. Since then, we have made the following acquisitions, each accounted for as a purchase, with the results of operations of the acquired businesses included from their respective closing dates:

- in July 1998, we acquired Loyalty Management Group Canada Inc.

- in September 1998, we acquired Harmonic Systems Incorporated.

- in July 1999, we acquired the network services business of SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corporation.

FISCAL YEAR

In order to have more consistent reporting periods, we changed our year end to a calendar year end basis during 1998. Prior to December 31, 1998, we operated on a 52/53 week fiscal year that ended on the Saturday nearest January 31. Accordingly, fiscal 1998 represents the 11 months ended December 31, 1998, fiscal 1999 represents the year ended December 31, 1999 and fiscal 2000 represents the year ended December 31, 2000. In addition to discussing the results of operations on a historical basis, we are also providing a discussion of our results of operations on a pro forma recast basis for the year ended December 31, 1998 compared to a pro forma basis for the year ended December 31, 1999, and a pro forma basis for the year ended December 31, 1999 compared to the year ended December 31, 2000.

REVENUE AND EXPENSES

TRANSACTION SERVICES. Our Transaction Services segment primarily generates revenue based on the number of transactions processed, statements mailed and customer calls handled. Operating costs include salaries and employee benefits, processing and servicing expense, such as data processing, postage and telecommunications, and equipment lease expense.

CREDIT SERVICES. 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. As a result, our Credit Services segment derives its revenue from the servicing fees and net financing income it receives from the securitization trusts, as well as merchant fees from the processing of private label credit cards for our private label clients.

We record gains or losses on the securitization of credit card receivables on the date of sale based on the estimated fair value of assets retained and liabilities incurred in the sale. Gains represent the present value of the anticipated cash flows we have retained over the estimated outstanding period of the receivables. This anticipated excess cash flow essentially represents an interest only strip, consisting of the excess of finance charges and past-due fees net of the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. The interest only strip is carried at fair value, with changes in the fair value reported as a component of cumulative other comprehensive loss. Factors outside our control influence estimates inherent in the determination of fair value of the interest only strip, and as a result, such estimates could materially change in the near term. Net financing charges include the gains on securitizations and other income from securitizations.

Operating expenses for this segment include salaries and employee benefits, processing and servicing expense, which includes credit bureau, postage, telephone and data processing expense, and a portion of interest expense. A portion of our interest expense relates to the funding of our seller's interest in credit card receivables and other securitization assets.

MARKETING SERVICES. Our Marketing Services segment generates the majority of its revenue from our Air Miles reward miles program. Under this program, we receive proceeds from our sponsors based on the number of Air Miles reward miles issued to collectors. The proceeds from issuances of Air Miles reward miles are allocated into two components based on the relative fair value of the related element: the redemption element and the service element.

- Redemption element: the redemption element is the larger of the two components. For this component, we recognize revenue at the time an Air Mile reward mile is redeemed, or, for those miles that we estimate will go unredeemed by the collector base, known as "breakage," over the estimated life of an Air Miles reward mile.

- Service element: For this component, which consists of direct marketing and administrative services provided to sponsors, we recognize revenue ratably over the estimated life of an Air Miles reward mile.

On certain of our contracts, a portion of the proceeds is paid at the issuance of Air Miles reward miles and a portion is paid at the time of redemption. The proceeds received at issuance are initially deferred as service revenue and the revenue is recognized ratably over the estimated life of an Air Miles reward mile.

In addition to our Air Miles reward miles program described above, we generate database and direct marketing revenue from building and maintaining marketing databases, as well as managing and marketing campaigns or projects we perform for our clients.

Operating costs for this segment include salaries and employee benefits, redemption costs of the Air Miles reward program, marketing, data processing and postage.

INTER-SEGMENT SALES. Our Transaction Services segment performs 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 expense to our Credit Services segment and a corresponding revenue for Transaction Services.

USE OF EBITDA. We evaluate operating performance based on several factors of which the primary financial measure is operating income plus depreciation and amortization, or "EBITDA." EBITDA is presented because it is an integral part of our internal reporting and performance evaluation for senior management. EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. In addition, we use operating EBITDA to monitor compliance with the financial covenants in our amended credit agreement and to measure the performance and liquidity of our reportable segments. EBITDA and operating EBITDA are not intended to be a performance measure 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 the statement of cash flows as a measure of liquidity. In addition, 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 generally accepted accounting principles. The EBITDA and operating EBITDA are measures presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1999 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

	REVENUE		EBITDA		OPERATING INCOME	
	1999	2000	1999	2000	1999	2000
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 381,027	$ 437,980	$41,828	$54,763	$ 13,014	$ 13,017
Credit Services	247,824	268,183	29,803	25,319	17,743	24,059
Marketing Services	138,310	178,214	8,624	17,927	(28,302)	(15,211)
Other and eliminations	(184,079)	(206,182)	--	--	--	--
Total	$ 583,082	$ 678,195	$80,255	$98,009	$ 2,455	$ 21,865

	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1999	2000	1999	2000	1999	2000
Transaction Services	65.4%	64.6%	11.0%	12.5%	3.4%	3.0%
Credit Services	42.5	39.5	12.0	9.4	7.2	9.0
Marketing Services	23.7	26.3	6.2	10.1	(20.5)	(8.5)
Other and eliminations	(31.6)	(30.4)	--	--	--	--
Total	100.0%	100.0%	13.8%	14.5%	0.4%	3.2%

REVENUE. Total revenue increased $95.1 million, or 16.3%, to $678.2 million for 2000 from $583.1 million for 1999. The increase was due to a 14.9% increase in Transaction Services, an 8.2% increase in Credit Services and a 28.9% increase in Marketing Services as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $57.0 million, or 14.9%, due primarily to an increase in the number of transactions processed. Revenue related to transactions processed increased approximately $30.0 million as a result of a 36.9% increase in the number of transactions processed, partially offset by a decrease in the average price per transaction. The increase in the number of transactions is primarily related to the July 1999 acquisition of SPS with the remaining increase resulting from an increase in the number of transactions processed for existing customers. A significant portion of the increase in transactions processed occurred among the large volume clients in the petroleum industry with a lower price per transaction. Fees related to account processing and servicing increased $26.0 million during 2000 from 1999 primarily due to increased inter-segment sales of $22.1 million during 2000 as a result of increased account processing and servicing for our Credit Services segment due to an increase in the number of private label cardholders. The remaining portion of the increase resulted from new sales related to our utilities business offset by a decrease in the number of statements generated as a result of a lost client in the petroleum sector.

- CREDIT SERVICES. Credit Services revenue increased $20.4 million, or 8.2%, due to increases in merchant discount fees, servicing fees and finance charges, net. Servicing fee income increased by $3.5 million, or 10.4%, during 2000 due to an increase in the average outstanding balance of the securitized credit card receivables we service. Finance charges, net, increased $14.3 million, or 10.0%, during 2000 as a result of a 3.4% higher average outstanding securitized portfolio. The net yield for 2000 was 45 basis points higher than in 1999. Private label merchant discount fee income increased by $3.2 million, or 4.7%, during 2000 as a result of increased charge volumes. This increase was offset by a change in a specific program for one of our clients, where merchant discount fee revenue from this client is now recorded as finance charge income.

- MARKETING SERVICES. Marketing Services revenue increased $39.9 million, or 28.9%, primarily due to an increase in reward revenue related to a 39.2% increase in the redemption of Air Miles reward miles. Additionally, services revenue increased 15.5% as a result of a 19.4% increase in the number of Air Miles reward miles issued and the recognition of deferred revenue balances. As a result of the increased issuance activity, our deferred revenue balance increased 16.4% to $290.2 million at December 31, 2000 from the balance at December 31, 1999.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $77.4 million, or 15.4%, to $580.2 million for 2000 from $502.8 million for 1999. Total EBITDA margin increased to 14.5% for 2000 from 13.8% for 1999. The increase in EBITDA margin is due to increases in Transaction Services and Marketing Services margins, partially offset by a decrease in the Credit Services margin.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $44.0 million, or 13.0%, to $383.2 million for 2000 from $339.2 million for 1999, and EBITDA margin increased to 12.5% for 2000 from 11.0% for 1999. The increase in EBITDA margin is primarily the result of operational efficiencies achieved in our network business related to the SPS acquisition.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $24.9 million, or 11.4%, to $242.9 million for 2000 from $218.0 million for 1999, and EBITDA margin decreased to 9.4% for 2000 from 12.0% for 1999. The decrease in EBITDA margin is the result of increased processing costs from our Transaction Services segment of $22.1 million associated with a higher number of private label cardholders. Additionally, the EBITDA margin was adversely impacted by the previously mentioned change in a client's program. The new program is financed off-balance sheet in a securitization trust, which generates lower EBITDA margin than the previous program.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $30.6 million, or 23.6%, to $160.3 million for 2000 from $129.7 million for 1999, and EBITDA margin increased to 10.1% for 2000 from 6.2% for 1999. The increase in the margin is attributable to increased revenue and the leveraging of the marketing, payroll and other operating costs in 2000. Non-redemption expenses decreased to 47.8% of revenue for 2000 from 52.9% for 1999. The EBITDA margin increase was offset by the approximate $7.0 million in non-recurring redemption costs as a result of the transition of primary reward suppliers from Canadian Airlines to Air Canada following their merger. Normally, we are able to purchase airline tickets at a contractually determined discount. Prior to the Air Canada merger, we had a long-term supply contract with Canadian Airlines. During the second quarter of 2000, we entered into a new supply agreement with Air Canada in order to help maintain a supply of airline seats for our collectors of Air Miles reward miles. For a portion of the first six months of 2000, we redeemed rewards without a supply contract with either Air Canada or Canadian Airlines.

  In January 2000, we increased the number of Air Miles reward miles required to redeem some air travel rewards. We periodically review our reward offers to collectors and will continue to seek ways to contain the overall cost of the program and make changes to enhance the program's value to collectors. We believe that, based on the new supply agreement and other factors, redemption costs will return to their historical levels. Excluding the $7.0 million of additional redemption costs, EBITDA margin for 2000 would have been 14.0%.

  EBITDA margin for 1999 was affected by approximately $2.0 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased $1.7 million, or 2.2%, to $76.1 million for 2000 from $77.8 million for 1999 due to increases in capital expenditures in 1999, especially software development costs that have relatively short amortization periods. Amortization of purchased intangibles decreased $11.7 million as a result of a decrease in amortization expense for some of the intangibles related to the acquisition of the former J. C. Penney businesses and the premium on a purchased credit card portfolio that was fully amortized, partially offset by amortization related to the SPS acquisition.

OPERATING INCOME. Operating income increased $19.4 million, or 776.0%, to $21.9 million for 2000 from $2.5 million for 1999. Operating income increased primarily from revenue gains with modest expansion of EBITDA margins and a decrease in depreciation and amortization.

INTEREST EXPENSE. Interest expense decreased $3.9 million, or 9.1%, to $38.9 million for 2000 from $42.8 million for 1999 due to a decrease in average debt. This decrease in average debt was primarily due to the termination of a receivable financing program in the fourth quarter of 1999.

TAXES. Income tax expense increased $8.3 million to a $1.8 million income tax expense for 2000 from a $6.5 million income tax benefit in 1999 due to an increase in taxable income.

DISCONTINUED OPERATIONS. During September 1999, we discontinued our subscriber services business when our principal customer for this service was acquired by a third party. For 1999, discontinued operations had income of $4.0 million, net of income tax.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant and database marketing fees, increased $100,000 to $46.7 million for 2000 from $46.6 million for 1999. The increase was primarily the result of increased database marketing fees offset by a small decrease in merchant discount fees.

PRO FORMA YEAR ENDED DECEMBER 31, 1999 (UNAUDITED) COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

	YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1999	2000	1999	2000	1999	2000
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 405,349	$ 437,980	$46,022	$54,763	$ 11,280	$ 13,017
Credit Services	247,824	268,183	29,803	25,319	17,742	24,059
Marketing Services	138,310	178,214	8,624	17,927	(28,302)	(15,211)
Other and eliminations	(184,079)	(206,182)	--	--	--	--
Total	$ 607,404	$ 678,195	$84,449	$98,009	$ 720	$ 21,865

	YEAR ENDED DECEMBER 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1999	2000	1999	2000	1999	2000
Transaction Services	66.7%	64.6%	11.4%	12.5%	2.8%	3.0%
Credit Services	40.8	39.5	12.0	9.4	7.2	9.0
Marketing Services	22.8	26.3	6.2	10.1	(20.5)	(8.5)
Other and eliminations	(30.3)	(30.4)	--	--	--	--
Total	100.0%	100.0%	13.9%	14.5%	0.1%	3.2%

REVENUE. Total revenue increased $70.8 million, or 11.7%, to $678.2 million for 2000 from $607.4 million for pro forma 1999. The increase was due to an 8.1% increase in Transaction Services, an 8.2% increase in Credit Services and a 28.9% increase in Marketing Services as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $32.6 million, or 8.1%, due primarily to an increase in the number of transactions processed. Revenue related to transactions processed increased approximately $5.6 million as a result of a 19.7% increase in the number of transactions processed, partially offset by a decrease in the average price per transaction. A significant portion of the increase in transactions processed occurred among the large volume clients in the petroleum industry with a lower price per transaction. Fees related to account processing and servicing increased $26.0 million during 2000 from pro forma 1999 primarily due to increased inter-segment sales of $22.1 million during 2000 as a result of increased account processing and servicing for our Credit Services segment due to an increase in the number of private label cardholders. The remaining portion of the increase resulted from new sales related to our utilities business offset by a decrease in the number of statements generated as a result of a lost client in the petroleum sector.

- CREDIT SERVICES. Credit Services revenue increased $20.4 million, or 8.2%, due to increases in merchant discount fees, servicing fees and finance charges, net. Servicing fee income increased by $3.5 million, or 10.4%, during 2000 due to an increase in the average outstanding balance of the securitized credit card receivables we service. Finance charges, net, increased $14.3 million, or 10.0%, during 2000 as a result of a 3.4% higher average outstanding securitized portfolio. The net yield for 2000 was 45 basis points higher than in pro forma 1999. Private label merchant discount fee income increased by $3.2 million, or 4.7%, during 2000 as a result of increased charge volumes. This increase was offset by a change in a specific program for one of our clients, where merchant discount fee revenue from this client is now recorded as finance charge income.

- MARKETING SERVICES. Marketing Services revenue increased $39.9 million, or 28.9%, primarily due to an increase in reward revenue related to a 39.2% increase in the redemption of Air Miles reward miles. Additionally, services revenue increased 15.5% as a result of a 19.4% increase in the number of Air Miles reward miles issued and the recognition of deferred revenue balances. As a result of the increased issuance activity, our deferred revenue balance increased 16.4% to $290.2 million at December 31, 2000 from the balance at December 31, 1999.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $57.2 million, or 10.9%, to $580.2 million for 2000 from $523.0 million for pro forma 1999. Total EBITDA margin increased to 14.5% for 2000 from 13.9% for pro forma 1999. The increase in EBITDA margin is due to increases in Transaction Services and Marketing Services margins, partially offset by a decrease in the Credit Services margin.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $23.9 million, or 6.7%, to $383.2 million for 2000 from $359.3 million for pro forma 1999, and EBITDA margin increased to 12.5% for 2000 from 11.4% during pro forma 1999. The increased EBITDA margin is primarily the result of operational efficiencies achieved in our network business related to the SPS acquisition.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $24.9 million, or 11.4%, to $242.9 million for 2000 from $218.0 million for pro forma 1999, and EBITDA margin decreased to 9.4% for 2000 from 12.0% for pro forma 1999. The decrease in EBITDA margin is the result of increased processing costs from our Transaction Services segment of $22.1 million associated with a higher number of private label cardholders. Additionally, the EBITDA margin was adversely impacted by the previously mentioned change in a client's program. The new program is financed off-balance sheet in a securitization trust, which generates lower EBITDA margin than the previous program.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $30.6 million, or 23.6%, to $160.3 million for 2000 from $129.7 million for pro forma 1999, and EBITDA margin increased to 10.1% for 2000 from 6.2% for pro forma 1999. The increase in the margin is attributable to increased revenue and the leveraging of the marketing, payroll and other operating costs in 2000. Non-redemption expenses decreased to 47.8% of revenue for 2000 from 52.9% for pro forma 1999. The EBITDA margin increase was offset by the approximate $7.0 million in non-recurring redemption costs as a result of the transition of primary reward suppliers from Canadian Airlines to Air Canada following their merger. Normally, we are able to purchase airline tickets at a contractually determined discount. Prior to the Air Canada merger, we had a long-term supply contract with Canadian Airlines. During the second quarter of 2000, we entered into a new supply agreement with Air Canada in order to help maintain a supply of airline seats for our collectors of Air Miles reward miles. For a portion of the first six months of 2000, we redeemed rewards without a supply contract with either Air Canada or Canadian Airlines.

  In January 2000, we increased the number of Air Miles reward miles required to redeem some air travel rewards. We periodically review our reward offers to collectors and will continue to seek ways to contain the overall cost of the program and make changes to enhance the program's value to collectors. We believe that, based on the new supply agreement and other factors, redemption costs will return to their historical levels. Excluding the $7.0 million of additional redemption costs, EBITDA margin for 2000 would have been 14.0%.

  EBITDA margin for pro forma 1999 was affected by approximately $2.0 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased $7.6 million, or 9.1%, to $83.7 million for 2000 from $77.8 million for pro forma 1999 due to increases in capital expenditures in 1999, especially software development costs that have relatively short amortization periods. Amortization of purchased intangibles decreased $17.7 million as a result of a decrease in amortization expense for some of the intangibles related to the acquisition of the former J. C. Penney businesses and the premium on a purchased credit card portfolio that was fully amortized, partially offset by amortization related to the SPS acquisition.

OPERATING INCOME. Operating income increased $21.2 million to $21.9 million for 2000 from $720,000 for pro forma 1999. Operating income increased primarily from revenue gains with modest expansion of EBITDA margins and a decrease in depreciation and amortization.

INTEREST EXPENSE. Interest expense decreased $3.9 million, or 9.1%, to $38.9 million for 2000 from $42.8 million for pro forma 1999 due to a decrease in average debt. This decrease in average debt was primarily due to the termination of a receivable financing program in the fourth quarter of 1999.

TAXES. Income tax expense increased $9.3 million to a $1.8 million income tax expense for 2000 from a $7.5 million income tax benefit in pro forma 1999 due to an increase in taxable income.

DISCONTINUED OPERATIONS. During September 1999, we discontinued our subscriber services business when our principal customer for this service was acquired by a third party. For pro forma 1999, discontinued operations had income of $4.0 million, net of income tax.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant and database marketing fees, increased $100,000 to $46.7 million for 2000 from $46.6 million for pro forma 1999. The increase was primarily the result of increased database marketing fees offset by a small decrease in merchant discount fees.

RECAST YEAR ENDED DECEMBER 31, 1998 (UNAUDITED) COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

	YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 325,944	$ 381,027	$26,116	$ 41,828	$ (1,641)	$ 13,015
Credit Services	242,377	247,824	37,841	29,803	25,041	17,742
Marketing Services	62,824	138,310	3,341	8,624	(11,861)	(28,302)
Other and eliminations	(179,608)	(184,079)	--	--	--	--
Total	$ 451,537	$ 583,082	$67,298	$ 80,255	$ 11,539	$ 2,455

	YEAR ENDED DECEMBER 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services	72.2 %	65.4 %	8.0%	11.0%	(0.5)%	3.4 %
Credit Services	53.7	42.5	15.6	12.0	10.3	7.2
Marketing Services	13.9	23.7	5.3	6.2	(18.9)	(20.5)
Other and eliminations	(39.8)	(31.6)	--	--	--	--
Total	100.0 %	100.0 %	14.9%	13.8%	2.6 %	0.4 %

REVENUE. Total revenue increased $131.6 million, or 29.1%, to $583.1 million for 1999 from $451.5 million for 1998. The increase was principally due to a 16.9% increase in Transaction Services revenue, a 2.2% increase in Credit Services revenue and a 120.2% increase in Marketing Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $55.1 million, or 16.9%, due to the acquisitions of Harmonic Systems in 1998 and SPS in 1999. Fees related to servicing of private label credit card statements increased $11.9 million during 1999 due to an 11.7% increase in price per statement, a $4.5 million termination fee from a client and a 1.5% increase in the number of statements processed. The revenue for transaction processing increased 41.4% mainly due to acquisition activity offset by a decrease in average price per transaction.

- CREDIT SERVICES. Credit Services revenue increased $5.4 million, or 2.2%, due to increases in merchant and servicing fees and finance charges, net. Merchant fee income increased $2.5 million, or 3.9%, due to a 2.7% increase in credit sales on our private label credit cards. Additionally, servicing fee income increased by $3.1 million, or 10.1%, during 1999 due to an increase in the average outstanding balance of the securitized credit card receivables we service. Finance charges, net, increased $600,000 during 1999. We recognized a $16.2 million gain on sale of receivables during 1998 related to two securitization transactions with no comparable securitization transactions in 1999. Finance charges, net, increased $16.8 million, or 13.5%, during 1999, excluding the $16.2 million gain on sale of receivables, as a result of a 4.6% higher average outstanding securitized portfolio and an approximate 75 basis point increase in yield.

- MARKETING SERVICES. Marketing Services revenue increased $75.5 million, or 120.2%, due to the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998. Revenue from January 1, 1998 until the date of acquisition was approximately $40.9 million. The remaining increase is primarily related to an increase in Air Miles reward miles issuance and redemption activity, which increased 17.2% and 40.7%, respectively, on a pro forma basis in 1999 compared to 1998.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $118.6 million, or 30.9%, to $502.8 million for 1999 from $384.2 million for 1998. Total EBITDA margin decreased to 13.8% for 1999 from 14.9% for 1998. The decrease in EBITDA margin is due to a decrease in Credit Services margins, partially offset by increases in Marketing Services and Transaction Services margins.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $39.4 million, or 13.1%, to $339.2 million for 1999 from $299.8 million for 1998, and EBITDA margin increased to 11.0% for 1999 from 8.0% for 1998. EBITDA margin increased due to the newly acquired SPS network services business which carries a higher margin than our historical processing business. Additionally, the margin increased due to a shift in the mix of business to higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $13.5 million, or 6.6%, to $218.0 million for 1999 from $204.5 million for 1998, and EBITDA margin decreased to 12.0% for 1999 from 15.6% for 1998 due to a $16.2 million gain on sale of receivables in 1998 related to two securitization transactions, with no comparable securitization transactions in 1999.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $70.2 million, or 118.0%, to $129.7 million for 1999 from $59.5 million for 1998, and EBITDA margin increased to 6.2% for 1999 from 5.3% for 1998. The increased margin was partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased $22.0 million, or 39.4%, to $77.8 million for 1999 from $55.8 million for 1998 due to increases in capital expenditures in 1998 and 1999, especially software development costs that have relatively short amortization periods. Amortization of purchased intangibles increased $14.9 million as a result of recent acquisitions, partially offset by a decrease in amortization expense for some of the intangibles related to the acquisition of the former J.C. Penney business which were fully amortized.

OPERATING INCOME. Operating income decreased $9.0 million, or 78.3%, to $2.5 million for 1999 from $11.5 million for 1998. Operating income decreased primarily from a lower consolidated EBITDA margin and increased depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $13.5 million, or 46.1%, to $42.8 million for 1999 from $29.3 million for 1998 due to an increase in average debt associated with acquisitions and an increase in debt to fund receivables.

TAXES. Income tax benefit increased $3.9 million to $6.5 million for 1999 from $2.6 million for 1998 due to an increase in pre-tax loss.

DISCONTINUED OPERATIONS. In September 1999, we discontinued our subscriber services business when our principal customer for this service was acquired by a third party. As a result of discontinuing our subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. In 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $3.9 million for 1998. The difference is largely related to additional fees we received in connection with services performed for the former customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant discount and database marketing fees, increased $3.4 million, or 7.9%, to $46.6 million for 1999 from $43.2 million for 1998. The increase was primarily the result of increased merchant discount fees from increased credit sales activity.

PRO FORMA YEAR ENDED DECEMBER 31, 1998 (UNAUDITED) COMPARED TO PRO FORMA YEAR ENDED DECEMBER 31, 1999 (UNAUDITED)

The following is a comparison based on pro forma results of operations presented on pages 25 to 28 in this prospectus. The results are presented as if the Loyalty, Harmonic Systems and SPS acquisitions had been consummated on January 1, 1998.

	PRO FORMA FOR THE YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 385,708	$ 405,349	$31,961	$ 46,022	$(12,851)	$ 11,280
Credit Services	242,377	247,824	37,841	29,803	25,041	17,742
Marketing Services	103,702	138,310	(521)	8,624	(34,515)	(28,302)
Other and eliminations	(179,607)	(184,079)	--	--	--	--
Total	$ 552,180	$ 607,404	$69,281	$ 84,449	$(22,325)	$ 720

	PRO FORMA FOR THE YEAR ENDED DECEMBER 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services	69.8 %	66.7 %	8.3%	11.4%	(3.3)%	2.8%
Credit Services	43.9	40.8	15.6	12.0	10.3	7.2
Marketing Services	18.8	22.8	(0.5)	6.2	(33.3)	(20.5)
Other and eliminations	(32.5)	(30.3)	--	--	--	--
Total	100.0 %	100.0 %	12.5%	13.9%	(4.0)%	0.1 %

REVENUE. Total revenue increased $55.2 million, or 10.0%, to $607.4 million for 1999 from $552.2 million for 1998. The increase was principally due to a 5.1% increase in Transaction Services, a 2.2% increase in Credit Services and a 33.4% increase in Marketing Services as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $19.6 million, or 5.1%, due to an increase in the number of transactions processed and statements generated, partially offset by a decrease in the average price per transaction. Fees related to servicing of private label credit card statements increased $11.9 million during 1999 due to an 11.7% increase in price per statement, a $4.5 million termination fee from a client and a 1.5% increase in the number of statements processed. The increase in the number of private label credit card statements processed was due primarily to the addition of new client programs and internal growth. The volume of transactions processed increased 13.8% offset by a decrease in price per transaction processed. The revenue for Transaction Services is affected by a mix of transaction processing and card processing and servicing.

- CREDIT SERVICES. Credit Services revenue increased $5.4 million, or 2.2%, due to increases in merchant and servicing fees and finance charges, net. Merchant fee income increased $2.5 million, or 3.9%, due to a 2.7% increase in credit sales on our private label credit cards. Additionally, servicing fee income increased $3.1 million, or 10.1%, during 1999 due to an increase in the average outstanding balance of the securitized credit card receivables we service. Finance charges, net, increased $600,000 in 1999. We recognized a $16.2 million gain on sale of receivables during 1998 related to two securitization transactions with no comparable securitization transactions in 1999. Finance charges, net, increased $16.8 million, or 13.5%, in 1999 over 1998, excluding the $16.2 million gain on sale of receivables, as a result of a 4.6%

higher average outstanding securitized portfolio and an approximate 75 basis point increase in yield.

- MARKETING SERVICES. Marketing Services revenue increased $34.6 million, or 33.4%, primarily due to an increase in Air Miles reward program revenue, which was principally due to a 17.2% increase in the issuance of Air Miles reward miles and a 40.7% increase in redemptions of Air Miles reward miles. The increase in Air Miles activity was due to a 15.7% increase in the average number of active collectors, partially offset by the loss of a significant sponsor at the end of 1998. Other increases are related to higher direct marketing fees during 1999 as a result of an increased number of campaigns for clients, mostly related to Loyalty clients.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $40.1 million, or 8.3%, to $523.0 million for 1999 from $482.9 million for 1998. Total EBITDA margin increased to 13.9% for 1999 from 12.5% for 1998. The increase in EBITDA margin is due to increases in Transaction Services and Marketing Services margins, partially offset by a decrease in the Credit Services margin.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $5.6 million, or 1.6%, to $359.3 million for 1999 from $353.7 million for 1998, and EBITDA margin increased to 11.4% for 1999 from 8.3% for 1998 partially due to a one-time termination fee received from a client and an increase in our higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $13.5 million, or 6.6%, to $218.0 million for 1999 from $204.5 million for 1998, and EBITDA margin decreased to 12.0% for 1999 from 15.6% for 1998 due to the timing of a $16.2 million gain on sale of receivables in 1998 related to two securitization transactions with no comparable securitization transactions in 1999.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $25.5 million, or 24.4%, to $129.7 million for 1999 from $104.2 million for 1998, and EBITDA margin increased to 6.2% for 1999 from a negative 0.5% for 1998. The increased margin is a result of leveraging of non-redemption related costs partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased $7.9 million, or 8.6%, to $83.7 million for 1999 from $91.6 million for 1998 due to increases in capital expenditures in 1998 and 1999, especially software development costs that have relatively short amortization periods. Amortization of purchased intangibles decreased $14.0 million as a result of the expiration of intangibles related to the former J.C. Penney business which were fully amortized.

OPERATING INCOME (LOSS). Operating loss decreased $23.0 million, or 103.1%, from an operating loss of $22.3 million for 1998 to operating income of $720,000 for 1999. This improvement was the result of revenue gains, improved margins and reduced depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $4.3 million, or 11.2%, to $42.8 million for 1999 from $38.5 million for 1998 due to increased borrowings for acquisitions and operations.

TAXES. Income tax benefit decreased $5.9 million, or 44.0%, to $7.5 million for 1999 from $13.4 million for 1998 due to an increase in taxable income.

DISCONTINUED OPERATIONS. In September 1999, we discontinued our subscriber services business when our principal customer for this service was acquired by a third party. As a result of discontinuing our subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. In 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $3.9 million during 1998. The difference is due to additional fees we received in connection with services performed for the former customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant, database and direct marketing fees, increased $3.4 million, or 7.9%, to $46.6 million for 1999 from $43.2 million for 1998. The increase was primarily the result of increased merchant discount fees from increased credit sales activity.

ELEVEN MONTHS ENDED DECEMBER 31, 1998 (FISCAL 1998) COMPARED TO YEAR ENDED DECEMBER 31, 1999 (FISCAL 1999)

Due to the change in our fiscal year, fiscal 1998 is one month shorter than fiscal 1999.

	HISTORICAL FISCAL PERIODS					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services...........	$ 303,186	$ 381,027	$29,825	$ 41,828	$ 4,406	$ 13,014
Credit Services................	212,663	247,824	24,297	29,803	12,883	17,743
Marketing Services.............	60,892	138,310	3,398	8,624	(11,805)	(28,302)
Other and eliminations.........	(165,828)	(184,079)	--	--	--	--
Total........................	$ 410,913	$ 583,082	$57,520	$ 80,255	$ 5,484	$ 2,455

	HISTORICAL FISCAL PERIODS					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services...........	73.8 %	65.4 %	9.8%	11.0%	1.5 %	3.4 %
Credit Services................	51.8	42.5	11.4	12.0	6.1	7.2
Marketing Services.............	14.8	23.7	5.6	6.2	(19.4)	(20.5)
Other and eliminations.........	(40.4)	(31.6)	--	--	--	--
Total........................	100.0 %	100.0 %	14.0%	13.8%	1.3 %	0.4 %

REVENUE. Total revenue increased $172.2 million, or 41.9%, to $583.1 million for fiscal 1999 from $410.9 million for fiscal 1998. The increase was principally due to a 25.7% increase in Transaction Services, a 16.5% increase in Credit Services and a 127.1% increase in Marketing Services as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $77.8 million, or 25.7%, due to the acquisitions of Harmonic Systems in 1998 and SPS in 1999. Fees related to servicing of private label credit card statements increased $15.7 million during fiscal 1999 due to a 12.9% increase in price per statement, a $4.5 million termination fee from a client and a 7.8% increase in the number of statements processed. The revenue for transaction processing increased 52.7% mainly due to acquisition activity and as a result of fiscal 1998 being one month shorter than fiscal 1999, partially offset by a decrease in average price per transaction.

- CREDIT SERVICES. Credit Services revenue increased $35.2 million, or 16.5%, due to increases in merchant and servicing fees and finance charges, net. Merchant fee income increased $6.3 million, or 10.1%, due to a 9.3% increase in credit sales on our private label credit cards and fiscal 1998 being one month shorter than fiscal 1999. Additionally, servicing fee income increased by $5.8 million, or 20.9%, during fiscal 1999 due to an increase in the average outstanding balance of the securitized credit card receivables we service and fiscal 1998 being one month shorter than fiscal 1999. Finance charges, net, increased $22.6 million during fiscal 1999. We recognized a $7.2 million gain on sale of receivables during fiscal 1998 related to a securitization transaction with no comparable securitization transaction in fiscal 1999.

- MARKETING SERVICES. Marketing Services revenue increased $77.4 million, or 127.1%, due to the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998. Revenue from February 1, 1998 until the date of acquisition was approximately $35.6 million. The remaining increase is primarily related to an increase in Air Miles reward miles activity and fiscal 1998 being one month shorter than fiscal 1999. The increase in Air Miles activity is primarily related to an increase in the number of reward miles collectors.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $149.4 million, or 42.3%, to $502.8 million during fiscal 1999 from $353.4 million for fiscal 1998. Total EBITDA margin decreased to 13.8% for fiscal 1999 from 14.0% for fiscal 1998.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $65.8 million, or 24.1%, to $339.2 million for fiscal 1999 from $273.4 million for fiscal 1998, and EBITDA margin increased to 11.0% for fiscal 1999 from 9.8% for fiscal 1998. EBITDA margin increased due to the newly acquired SPS network services business which carries a higher margin than our historical processing business, as well as a shift in the mix of business to higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $29.6 million, or 15.7%, to $218.0 million for fiscal 1999 from $188.4 million for fiscal 1998, and EBITDA margin increased to 12.0% for fiscal 1999 from 11.4% for fiscal 1998. Fiscal 1998 includes a $7.2 million gain on sale of receivables related to the timing of a securitization transaction with no comparable securitization transaction in fiscal 1999.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $72.2 million, or 125.6%, to $129.7 million for fiscal 1999 from $57.5 million for fiscal 1998, and EBITDA margin increased to 6.2% for fiscal 1999 from 5.6% for fiscal 1998. The increased margin was partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during fiscal 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased $25.8 million, or 49.6%, to $77.8 million for fiscal 1999 from $52.0 million for fiscal 1998 due to increases in capital expenditures for fiscal 1998 and fiscal 1999, especially software development costs that have relatively short amortization periods. Amortization of purchased intangibles increased $17.9 million as a result of recent acquisitions, partially offset by a decrease in amortization expense for some of the intangibles related to the acquisition of the former J.C. Penney business which were fully amortized.

OPERATING INCOME. Operating income decreased $3.0 million, or 54.5%, to $2.5 million for fiscal 1999 from $5.5 million during fiscal 1998. Operating income declined primarily due to lower margins as the result of increased inter-segment charges and increased depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $14.9 million, or 53.4%, to $42.8 million for fiscal 1999 from $27.9 million for fiscal 1998 due to an increase in average debt associated with acquisitions and an increase in debt to fund receivables.

TAXES. Income tax benefit increased $1.8 million, or 38.3%, to $6.5 million for fiscal 1999 from $4.7 million for fiscal 1998 due to an increase in taxable loss.

DISCONTINUED OPERATIONS. In September 1999, we discontinued our subscriber services business when the principal customer for this service was acquired by a third party. As a result of discontinuing our subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. For fiscal 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $300,000 for fiscal 1998. The difference is largely related to additional fees we received in connection with services performed for the former customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant discount and database marketing fees, increased $6.0 million, or 14.8%, to $46.6 million for fiscal 1999 from $40.6 million for fiscal 1998. The increase was primarily the result of increased volume of credit sales and database marketing fees.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. We generated cash flow from operating activities of $87.2 million for 2000 compared to $251.6 million for 1999 and $9.3 million for fiscal 1998. Operating cash flow in 2000 decreased compared to 1999 primarily due to changes in working capital. Working capital changes for 2000 were $54.2 million compared to $220.7 million in 1999. 1999 was positively influenced by a large decrease in trade accounts receivable associated with a change in a specific program for one of our clients, whereby the receivables were moved off-balance sheet to a securitization trust. 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 the holidays. We utilize our operating cash flow for ongoing business operations and to pay interest expense.

INVESTING ACTIVITIES. We utilized cash flow from investing activities of $24.5 million for 2000 compared to $309.5 million for 1999 and $145.4 million for fiscal 1998. Three significant components of investing activities are as follows:

- ACQUISITIONS. Net cash outlays for acquisitions in 2000 was zero compared to $171.4 million for 1999 and $134.0 million for fiscal 1998.

- 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, 2000, we had over $2.3 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread accounts and additional receivables. The credit enhancement is principally based on the outstanding balances of the private label credit cards in the securitization trust and their related performance. During the period from November to January, we are required to maintain a credit enhancement level of 6% as compared to 4% for the remainder of the year. Accordingly as of December 31, we typically have our highest balance of credit enhancement assets. We intend to utilize our securitization program for the foreseeable future.

- RESERVE FUND. Redemption settlement assets on our balance sheet at December 31, 2000 are related to a reserve fund we established in connection with funding future redemptions by collectors under the Air Miles reward program. We believe the reserve fund is sufficient to meet redemptions for the foreseeable future. We currently intend to set aside a portion of future transaction fees received to fund future redemption obligations. Based on various factors, we may reduce the amount of the reserve fund and utilize future cash flows and excess cash for general corporate purposes.

FINANCING ACTIVITIES. Net cash borrowings was $1.0 million for 2000 compared to net cash payments on borrowings of $44.8 million for 1999 and net cash borrowings of $56.2 million for fiscal 1998. Our financing activities relate primarily to funding working capital requirements and the securitization program. We issued $119.4 million of preferred stock to finance a portion of our acquisition of SPS in 1999 and $107.0 million of common stock to fund a portion of our acquisition of the Loyalty Group during fiscal 1998.

LIQUIDITY SOURCES. We have two main sources of liquidity to finance working capital and securitization requirements: certificates of deposit and a credit agreement.

CERTIFICATE OF DEPOSITS. We utilize certificates of deposit to finance the operating activities of our credit card bank subsidiary, World Financial, and to fund securitization requirements. Securitization requirements are generally in the form of credit enhancements and retained interests in the credit card receivables. From mid-November to late January, we experience increased needs for working capital due to increased credit card usage during the holiday season. For additional credit enhancement during this period, our securitization program requires us to maintain a higher percentage of securitized assets through increased seller's interest or excess funding deposits.

World Financial issues certificates of deposit in denominations of $100,000 in various maturities ranging between three months and two years and with effective annual fixed rates ranging from 5.45% to 7.45%. As of December 31, 2000, we had $139.4 million of certificates of deposit outstanding. World Financial is limited in the amounts that it can dividend to us. Certificate of deposit borrowings are subject to regulatory capital requirements.

CREDIT AGREEMENT. As of December 31, 2000, we had $194.7 million outstanding under our amended credit agreement with $184.7 million outstanding under term loans and $10.0 million outstanding under the revolving loan commitment. Approximately $34.0 million of the term loan is payable in the next six months and is expected to be repaid from the net proceeds of this offering. Interest is generally payable quarterly. The term loans, except for $48.0 million that matures on July 25, 2005, and the revolving loan commitment mature on July 25, 2003. One of our financial covenants is borrowing capacity which is defined as four times operating EBITDA. Borrowing capacity as of December 31, 2000 was $480.0 million compared to outstanding borrowings of $436.1 million, allowing for the availability of an additional $43.9 million of borrowings on the revolving loan commitment. In addition, we had $116.9 million of cash and cash equivalents as of December 31, 2000. During 2000, the highest outstanding balance on the revolving loan commitment was $69.0 million. As of December 31, 2000, there was $10.0 million outstanding under the revolving loan commitment.

On September 29, 2000 and January 10, 2001, we amended our credit agreement to change the administrative agent and to adjust certain covenants related to consolidated EBITDA, the senior secured leverage ratio, adjusted consolidated net worth and the interest coverage ratio.

ACQUISITION FINANCING. We have incurred debt to finance our acquisitions. We have $102.0 million of subordinated notes outstanding related to our August 1996 merger and our acquisition of Harmonic Systems. These subordinated notes were issued to affiliates of our stockholders, bear interest at 10% and are due between 2005 and 2008. To finance the Loyalty acquisition, we borrowed $100.0 million under our credit agreement, consisting of a $50.0 million Canadian Term Loan with an effective fixed interest rate of 8.99% and a $50.0 million Canadian Term Loan with a floating rate of London Interbank Offered Rate plus the Euro-dollar margin. Additionally, we issued $107.0 million in common stock to fund the Loyalty acquisition.

To fund the SPS acquisition, we used $50.0 million in working capital and $120.0 million from the issuance of Series A preferred stock. The Series A preferred stock has a 6% dividend rate payable at the discretion of our board of directors or upon conversion.

The net proceeds from this offering will be approximately $153.4 million. We intend to use the net proceeds to repay approximately $92.9 million outstanding under the term loans under our credit agreement, including $34.0 million of the amount due in the next six months. Following this $92.9 million debt repayment, we will record an extraordinary loss on early extinguishment of debt of approximately $1.5 million, net of tax.

We believe that our current level of cash and financing capacity, along with future cash flows from operations, will provide sufficient liquidity to meet the needs of our existing businesses for the foreseeable future. However, we may from time to time seek longer term financing to support additional cash needs, reduce short-term borrowings or raise funds for acquisitions.

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 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 material adverse effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, World Financial 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.

Quantitative measures established by regulations to ensure capital adequacy require World Financial 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 six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, World Financial is considered well capitalized. As of December 31, 2000, World Financial's Tier 1 capital ratio was 14.1%, total capital ratio was 14.4% and leverage ratio was 44.8%, and World Financial was not subject to a capital directive order.

MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. Our primary market risks include interest rate risk, credit risk and foreign currency exchange rate 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 financial instruments used to reduce the interest rate sensitivity of our securitization transactions. We enter into interest rate swap and treasury lock agreements in the management of interest rate exposure. These off-balance sheet financial instruments involve elements of credit and interest rate risk in excess of the amount recognized on our balance sheet. These instruments also result in certain credit, market, legal and operational risks. We have established credit policies for off-balance sheet instruments consistent with those established for on-balance sheet instruments.

INTEREST RATE RISK. Interest rate risk affects us directly in our lending and borrowing activities. Our total interest expense was approximately $161.8 million for 2000. Of this total, $38.9 million of the interest expense for 2000 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, caps and treasury locks to mitigate our interest rate risk on a related financial instrument or to effectively 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, 2000, approximately 9.1% of our outstanding debt was subject to fixed rates with a weighted average interest rate of 8.3%. An additional 58.2% of our outstanding debt at December 31, 2000 was effectively locked at an interest rate of 6.6% through interest rate swap agreements and treasury locks with notional amounts totalling $1.5 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%. Assuming we do not take any counteractive measures, a 1.0% increase in interest rates would result in a decrease to pretax income of approximately $8.6 million. Conversely, a corresponding decrease in interest rates would result in a comparable improvement 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-off, 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. Although we have entered into cross currency hedges to fix the exchange rate on any Canadian debt repayment due to a U.S. counter party, we do not hedge our net investment exposure in our Canadian subsidiary.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and for hedging activities, and requires companies to recognize all derivatives as either assets or liabilities on their balance sheet and measure such instruments at fair value. The statement, as amended by SFAS No. 137 and No. 138, will be effective for our fiscal 2001 first quarter financial statements. In January 2001 we recorded an immaterial cumulative transition adjustment to earnings, primarily related to interest rate swaps.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which replaced SFAS No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Disclosures relating to securitization transactions are required for fiscal years ending after December 15, 2000. Management is currently evaluating the impact on our financial position and results of operations when SFAS No. 140 is adopted, but does not anticipate any material changes.

The Emerging Issues Task Force ("EITF") is reviewing an issue, Issue No. 00-22, "Accounting for 'Point' and Other Loyalty Programs," that is closely related to our Air Miles reward program and the way revenue is recognized for these types of programs. We understand that the EITF will provide guidance on this issue sometime in 2001, but a specific date has not been set. When Issue 00-22 is issued, if it requires modification of our present revenue recognition policy, we will adhere to the guidance provided. Without knowing how the EITF will rule on this issue, we are unable to assess the impact of Issue 00-22 at this time.

BUSINESS

GENERAL

We are a leading provider of transaction services, credit services and marketing services. The programs that we develop and execute create value by assisting our clients in managing their customer relationships.

We target select market sectors that typically involve companies who sell products and services to individual consumers. These market sectors include specialty retailers, petroleum retailers, supermarkets and financial services providers. Additionally, we target market sectors that we believe have rapidly evolving needs for electronic payment processing and customer management. The mass transit, tollway and parking sectors' increasing acceptance of electronic payments is enabling them to improve customer convenience while at the same time reduce operating expenses. We have also expanded our market sectors to include electric and gas utilities as we see an increasing demand in products and services that help them compete in their evolving marketplace.

Our client base includes over 300 companies from these market sectors. Our top five clients, based on their contribution to our 2000 revenues, are:

- the retail affiliates of The Limited, including Victoria's Secret, Express, Lane Bryant, Bath & Body Works, Lerner New York, Henri Bendel and Structure;
- Brylane;
- Bank of Montreal;
- Equiva Services, LLC, which is the service provider to Shell-branded locations in the U.S.; and
- CITGO.

We market and sell our service offerings on both a stand-alone and bundled basis. Our products and services are centered around three core capabilities--Transaction Services, Credit Services and Marketing Services. All three offerings support our goal of building loyalty through transaction-based customer management solutions.

TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES
- Transaction Processing	- Underwriting	- Loyalty Programs
- Network Services	- Risk Management	- Air Miles Reward Program
- Bankcard Settlement		- Private Label Cards
- Account Processing and Servicing		- One-to-One Loyalty
- Card Processing		- Database Marketing Services
- Billing and Payment Processing		- Direct Marketing
- Customer Care		- Enhancement Services

INDUSTRY DYNAMICS

The growing demand for integrated marketing solutions targeting consumers has been fueled by rapid development of new competitors and sales channels, intensifying competition for customers and an erosion of consumer brand loyalty. The Internet has accelerated these trends by providing consumers with almost instant access to a multitude of competing products and services without traveling to an actual store location. As a result, companies are looking for tools aimed at retaining existing customers as well as identifying and targeting new groups of potential customers through any or all distribution channels.

We believe that companies understand the value of gathering and using transaction data to:

- manage the interactions they have with their customers;

- increase sales; and

- increase customer loyalty.

Companies increasingly seek services that compile and warehouse transaction data and analyze consumer behavior to more effectively interact with their customers. The increasing acceptance of electronic payment systems, including credit, debit and stored value cards, generates highly valuable transaction data on individual consumers, while the dramatic proliferation of technology has enabled companies to capture, access and use this information easily and almost instantaneously.

While companies recognize the significant benefit of capturing and using purchasing data, many lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure and credit card operations, including the extension of credit. In addition, many companies look externally for the expertise to develop and manage their loyalty and database marketing services. Thus, companies that provide the infrastructure to create, manage and facilitate electronic payment systems can create a database of valuable information on the purchasing behavior of consumers that is critical for developing more targeted and effective marketing programs. For example, the use of private label credit cards creates an opportunity for retailers to strengthen consumer brand loyalty by encouraging repeat purchases through discounts and other special promotions.

We believe that in today's competitive economy, retailers will find an increasing need to differentiate their products and services from those of their competitors through comprehensive, innovative marketing strategies. These strategies will likely use technology to analyze and predict consumer behavior and to provide the information necessary to execute direct marketing and promotional campaigns more effectively to existing and potential customers.

STRATEGY AND OPPORTUNITIES FOR GROWTH

Consistent with our goal of becoming a critical component in the success of our clients' businesses, we will continue to build and enhance our consumer databases, marketing capabilities and processing efficiencies. We plan to continue to employ our consumer databases, marketing capabilities and processing efficiencies in efforts to help our clients target, acquire and retain loyal, profitable customers. We believe that by assisting our clients in building loyal customer relationships, our clients will view our services as an integral part of their business operations. To accomplish this strategy of becoming a critical component in our clients' relationships with their customers we intend to:

INCREASE THE PENETRATION OF PRODUCTS AND SERVICES WE PROVIDE TO OUR EXISTING CLIENT BASE. We plan to further increase the number and types of products and services we provide to our existing client base with a focus on marketing services.

EXPAND OUR CLIENT BASE IN EXISTING MARKET SECTORS. We plan to acquire new clients in our traditional markets by continuing to distinguish ourselves as a provider of transacton-based customer relationship management services. We will further benefit by what we believe will be a continued trend toward outsourcing as our existing clients and potential new clients have increasing needs for new technology and new skill sets. As retailers continue to search for the tools to increase loyal, profitable customer relationships, we believe that our integrated and comprehensive offering of marketing services and transaction services will appeal to retailers, including e-commerce businesses, faced with increasing competition and decreasing profit margins.

CONTINUE TO EXPAND OUR SERVICES AND CAPABILITIES TO HELP OUR CLIENTS SUCCEED IN MULTI-CHANNEL COMMERCE. We plan to help our clients be successful in all channels they choose for distribution--whether in-store, catalog or the Internet. Our current client base is predominantly traditional store front and catalog-based retailers. However, our clients recognize the importance of using the Internet as an additional distribution channel. We can apply the systems and marketing programs we have built to support our store and catalog clients using the Internet. As an added benefit we believe our private label credit card system provides additional protection against fraud. Our vision is to provide our clients with a comprehensive view of each customer across all distribution channels and to utilize this information to execute marketing programs through multiple distribution channels.

CONSIDER FOCUSED, STRATEGIC ACQUISITIONS AND ALLIANCES TO ENHANCE OUR CORE CAPABILITIES OR INCREASE OUR SCALE. As we identify new opportunities or product gaps, we may consider focused acquisitions and alliances to enhance our competencies or increase our scale.

PROGRAMS AND PRODUCTS

Our program and product offerings are centered around three core offerings--Transaction Services, Credit Services and Marketing Services.

TRANSACTION SERVICES

Effectively managing critical interactions with customers is required to conduct everyday business--whether the business involves store, catalog or Internet commerce. Our services include instantaneous authorizations, efficient payment processing, billing services and effective customer care. By fully integrating our transaction services with our marketing services, we are able to execute more effective customer acquisition and retention strategies for our clients. Our clients within this segment are made up primarily of specialty retailers and petroleum retailers.

TRANSACTION PROCESSING. We are a leading provider of transaction processing, processing 2.5 billion transactions in 2000 through approximately 138,000 of our point-of-sale terminals. According to the Faulkner and Gray Card Industry report, we were ranked fifth among U.S. payment processors in 1999. We believe we are the largest transaction processor to the retail petroleum industry and we have a significant presence in the specialty retail and transportation industries.

NETWORK SERVICES. We have built a fast and highly reliable network that enables us to process all electronic payment types including credit card, debit card, prepaid card, electronic benefits and fleet and check transactions. Our acquisition of SPS's network transaction processing business has enabled us to offer our existing products to new market segments as well as provide additional products to existing clients. The network services we provide include authorization, data capture and financial settlement of transactions. We also provide merchants with on-line, two-way mail messaging that allows our clients to improve communications with their individual locations by broadcasting and receiving messages through their terminal devices. We support our clients with a comprehensive help desk, operating 24 hours per day and seven days per week, as well as terminal deployment and servicing.

We believe that we are one of the leaders in delivering new applications at the point-of-sale, including video and audio electronic frequency and loyalty programs, instant credit applications, and transponder and radio frequency payment devices. We are active participants in establishing industry point-of-sale standards.

MERCHANT BANKING SERVICES. Our merchant banking services include fast and accurate financial settlement of MasterCard, Visa, Discover, American Express and other electronic card transactions, including credit, debit and stored value cards. By providing merchant banking services, we offer our clients the flexibility to maintain their current settlement provider or to streamline their end-to-end transaction processing with one provider. The merchant banking services we provide also include daily deposit verification and accounting reports.

ACCOUNT PROCESSING AND SERVICING. As reported in the Faulkner & Gray Card Industry report, based on the number of accounts on file we were the second largest outsourcer of retail private label card programs in the U.S. in 1999, with 52.5 million accounts on file. We assist clients in issuing credit cards branded with the retailer's name or logo that can be used by customers at the client's store locations. We also provide service and maintenance to our clients' private label card programs and assist our clients in acquiring, retaining and managing valuable repeat customers. Our commercial card processing and servicing capabilities are specifically designed to handle the unique requirements associated with providing a credit card program to businesses. Our services include new account processing, risk management, card embossing, credit authorization, statement and invoice printing and mailing, and customer service. We also provide billing and payment processing and customer care services in new markets, such as for regulated and de-regulated utility companies.

CARD PROCESSING. We have developed a proprietary credit card system designed specifically for retailers that offers significant flexibility in processing accounts. We are able to make changes to accommodate our clients' specific needs easily and quickly. We have also built into the system marketing tools to assist our clients in increasing sales. Customer service screens have prompts that, based on information from our client and the private label card program, direct the customer service representative to extend a promotional message. We provide credit card production services in a secured environment, embossing 9.5 million new cards in 2000.

CUSTOMER CARE. Our retail heritage lies at the core of our culture and is evident in our customer care operations. 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. We have over 5,000 call center seats in 11 locations, handling over 115 million customer inquiries in 2000. We believe that we answer calls faster than the industry average. Our call centers are equipped to handle phone, mail, fax and Internet inquiries. We also provide collection activities to support our retail private label programs, where we demonstrate our merchant mentality in our approach to maintaining the customer relationship, within reasonable parameters, even when charge privileges have been suspended.

BILLING AND PAYMENT PROCESSING. We use highly automated technology for bill preparation, printing and mailing. Comingling statements, presorting and bar coding allow us to take advantage of postal discounts. We generated on behalf of our clients approximately 127.0 million statements in 2000. In addition, we also process customer payments using state-of-the-art technology to maximize efficiency. By doing so, we can improve the funds availability for both our clients and for those private label receivables that we own or securitize.

CREDIT SERVICES

We believe that a private label credit card is one of the most effective loyalty and marketing tools available. Our private label credit card program allows our clients to make private label credit cards available for their customers and offers our clients a funding vehicle for the credit card receivables. We have been able to demonstrate the effectiveness of a private label credit card program to our clients by making it a part of their complete customer loyalty and marketing strategy. We believe that our ability to provide a private label credit card program in a way that allows our clients to focus their financial and operational resources on their core business is an important part of our private label credit card service. As part of our private label credit card service, we currently provide underwriting and risk management services to 45 of our 49 private label credit clients, representing 56.2 million cardholders and $2.3 billion of receivables as of December 31, 2000. Tracing back to our predecessor company, we have gained significant experience and expertise in successfully managing private label portfolios since 1986. Clients who utilize our credit services are predominantly specialty retailers.

ACCOUNT UNDERWRITING AND CREDIT GUIDELINES. Our underwriting process involves the purchase of credit bureau information for each credit applicant. We obtain a credit report from one of the major credit bureaus based on the applicant's mailing address and the perceived strength of each credit bureau in that geographic region. In our initial credit evaluation process, we use one of our six proprietary scorecards that have been refined to reflect performance of the various retail programs. We continuously validate, monitor and maintain the scorecards, and we use resulting data to ensure optimal risk performance.

RISK MANAGEMENT. We monitor and control the quality of our portfolio by using behavioral scoring models to score each active account on its monthly cycle date. The behavioral scoring models dynamically evaluate credit limit assignments to determine whether credit limits should be increased, decreased or maintained based on the credit worthiness of the individual cardholder. Our proprietary scoring models consider such factors as how long the account has been on file, credit utilization, shopping patterns and trends, payment history and account delinquency.

DELINQUENCY AND COLLECTIONS PROCEDURES. We consider an account delinquent if the minimum payment due is not received by the billing due date. At that time, we assign the account a status of 30 days delinquent. We print a message requesting payment on a consumer cardholder's billing statement after a scheduled payment has been missed. 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.

MARKETING SERVICES

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. We create and manage loyalty and marketing programs that have successfully resulted in securing more frequent and sustained customer purchasing. Our loyalty programs include the Air Miles reward program, private label cards and one-to-one loyalty. We utilize the information gathered through our loyalty programs to help our clients design and implement effective marketing programs. Our clients within this segment are specialty retailers, petroleum retailers, supermarkets and financial services providers.

AIR MILES REWARD PROGRAM. We operate what we believe to be the largest coalition loyalty program in Canada. This program, marketed under the Air Miles brand name, 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 program has over 100 brand names represented by the program sponsors, including Shell Canada, Canada Safeway, Amex Bank of Canada (American Express), Bank of Montreal, Goodyear Canada and A&P Canada. Air Miles reward miles collectors can redeem reward miles for products and services such as plane tickets, gift certificates for groceries, movie and theater tickets, and free long distance phone calls. We make these reward opportunities available through over 180 rewards suppliers, including Canadian Airlines and Air Canada, the Toronto Blue Jays, Marine Land and A&P Canada. The Air Miles reward program has enabled sponsors to use this tool to effectively increase revenues by bringing new customers to the sponsor, retaining existing customers and increasing the amount spent by customers. Based upon the most recent census data available, in 1999 our active participants represented over 58% of all Canadian households. We have issued over seven billion Air Miles reward miles since the program's inception in 1992.

We deal with three primary parties in connection with our Air Miles reward program:

- sponsors--our clients who enter the Air Miles reward program to build their customers' loyalty and increased sales from those customers;

- collectors--customers of our clients who enroll in the Air Miles reward program and become collectors of Air Miles reward miles; and

- suppliers--suppliers of the rewards that we offer collectors, such as airlines and merchandise providers.

SPONSORS

The size of our collector base provides incentives for current sponsors to remain with the Air Miles reward program and prospective sponsors to join the Air Miles reward program. A sponsor enters into an agreement with us to secure exclusive rights for its particular region and product or service category, and to reward customers for changing their shopping behavior. We believe the Air Miles reward program offers sponsors a source of sustainable competitive advantage and an opportunity to develop customer loyalty over a broader consumer group than might be available to participants in a stand-alone rewards program. Over a number of years, we have been able to develop a membership, or collector base, of 6.5 million active collectors. Through the interaction of the Air Miles reward program's appeal to both sponsors and collectors, we are able to increase collector spending at, and loyalty to, participating sponsors.

COLLECTORS

The major benefits of the Air Miles reward program to collectors are that they:

- receive a common currency from multiple sponsors--Air Miles reward miles;

- are able to generate additional Air Miles reward miles through their choice of sponsors in the Air Miles reward program; and

- can redeem Air Miles reward miles at one location--through us.

The Air Miles reward program offers a reward structure that provides a quick and easy way to earn a broad selection of travel, entertainment and other lifestyle rewards simply by shopping at participating sponsors. By virtue of the increasing number of sponsors who join the Air Miles reward program, collectors are able to accumulate Air Miles reward miles on much of their weekly spending, from gasoline to groceries to department store purchases to bank deposits. To increase the program's attractiveness to collectors and potential collectors, we have developed a variety of rewards, and continue to add suppliers, for which the accumulated Air Miles reward miles can be redeemed.

SUPPLIERS

We enter into supply agreements with suppliers of rewards to the program such as airlines, movie theaters and manufacturers of consumer electronics. These supply agreements allow us to purchase goods at a set price from the suppliers. At the time we issue Air Miles reward miles, we record a redemption obligation on our balance sheet in connection with our estimated cost for future redemptions of reward miles. We make payments to suppliers pursuant to the contractual supply arrangement when a collector redeems the Air Miles reward miles.

PRIVATE LABEL CARDS. As discussed above, a private label credit card can be one of the most effective loyalty and marketing tools available. By providing a program that has meaningful benefits to the customer, we can assist the retailer in strengthening its relationship with the customer. Our experience indicates that long-term, retail card customers typically remain more loyal to the retailer than general purpose users, both in the number of visits to the retail establishment and the amount spent per visit. With our integrated marketing tools, we can quantify the value of the private label card customer for our clients. Additionally, our private label programs can be further enhanced by our database marketing services that enable us to capture item-level transaction data that are used to enhance communications with customers and create successful customer relationship management strategies, such as targeted promotions and cross-selling opportunities.

DATABASE MARKETING SERVICES. We have built and manage a large database containing information on approximately 85.7 million U.S. consumers. This database contains nearly five years of purchase information as well as details and results of marketing programs conducted over the last five years. In addition, we provide database management services for our Air Miles reward miles program for over 6.5 million Canadian households. This database contains Air Miles collection information and the results of marketing programs conducted over the last seven years. Through these databases we have developed a suite of data mining and profiling products that enable our clients to better understand their customers and aim their marketing dollars toward the optimum opportunities for developing customer relationships.

We develop and execute programs designed to acquire and retain customers. We provide total program management using direct mail, telemarketing, in-store and on-line marketing strategies. Our services include strategy development, creative services, production and mailshop coordination. Selected programs include:

- QUICK CREDIT. The cornerstone of our ability to cost effectively acquire customers for our clients is our "Quick Credit" product, which allows us to quickly process new applications at point-of-sale terminals, cash register devices or web sites. We view this product as a competitive advantage to our private label card processing and servicing.

- SMART STATEMENTS. Through our Smart Statement capabilities, we have transformed the traditional billing statement into a powerful marketing tool by targeting individual customers with billing statements containing personalized messages. Additionally, we can promote to small, specially defined groups of the customer base to cross-sell specific products and services. Additionally, our "smart insert" function allows us to include a promotional incentive or coupon with the statement.

- ON-LINE PRE-SCREEN. For catalog clients we offer a pre-approved card by soliciting customers when they place an order over the phone. The product, which works similarly to Quick Credit, enables us to extend a credit offer to a catalog customer at the completion of the order process.

ENHANCEMENT SERVICES. We develop programs designed to maintain active customers while generating new revenue streams for our clients by cross-selling products and services to their existing customers. Services include sourcing, promoting and fulfillment of products. These products are non-competitive with the clients' merchandise offering and include merchandise, travel clubs and credit life insurance programs.

ONE-TO-ONE LOYALTY. We have developed a number of one-to-one, real-time electronic loyalty programs that enable our clients to increase the frequency of customer purchasing. Through our programs, our clients can recognize, acknowledge and reward good customers with instant reward programs that can be implemented at the point of sale. Using the retailer's existing point-of-sale terminal or cash register and our network services, we can capture points, communicate program status and issue awards to the consumer at the point of sale. Our stored value product, electronic gift certificates and prepaid cards also encourage consumer loyalty, especially among cash customers. The retailer issues stored value and prepaid cards that prominently display their logo and can only be used at their retail locations.

ASSET QUALITY

We securitize substantially all of the credit card receivables that we underwrite. As of December 31, 2000, we had $11.3 million of credit card receivables that had not been securitized. Our delinquency and net credit card receivable charge-off rates at any point in time reflect, among other factors, the credit risk of credit card receivables, the average age of our various credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our 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. At December 31, 2000, 19.2% of securitized accounts and 38.6% of securitized loans were less than 24 months old. Accordingly, we believe that our loan portfolio will experience increasing or fluctuating levels of delinquency and loan losses as the average age of our accounts increases.

This trend is reflected in the change in our net charge-off ratio. For 2000, our securitized net charge-off ratio basis was 7.6% compared to 7.2% for fiscal 1999 and 7.8% for fiscal 1998. We believe, consistent with our statistical models and other credit analyses, that this rate will continue to fluctuate but generally rise.

Our strategy for managing credit card receivable losses consists of credit line management and customer purchase authorizations. We further manage credit card receivable losses through the offering of credit lines that are generally lower than industry standard. We continually manage individual accounts and their related credit lines using various marketing, credit and other management processes in order to continue to maximize the profitability of accounts.

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 and all related loans, interest and other fees are charged off. The following table presents the delinquency trends of our securitized credit card receivables portfolio:

	DECEMBER 31, 1998	% OF TOTAL	DECEMBER 31, 1999	% OF TOTAL	DECEMBER 31, 2000	% OF TOTAL
			(DOLLARS IN THOUSANDS)			
Receivables outstanding	$2,135,340	100%	$2,232,375	100%	$2,319,703	100%
Loans contractually delinquent:						
31 to 60 days	52,581	2.5%	59,840	2.7%	62,040	2.7%
61 to 90 days	29,925	1.4	35,394	1.6	36,095	1.5
91 or more days	53,885	2.5	60,025	2.7	64,473	2.8
Total	$ 136,391	6.4%	$ 155,259	7.0%	$ 162,608	7.0%

The above numbers reflect the continued seasoning of our securitized loan portfolio. We intend to continue to focus our resources on our collection efforts to minimize the negative impact to net charge-offs that results from increased delinquency levels.

NET CHARGE-OFFS. Net charge-offs comprise the principal amount of losses from cardholders unwilling or unable to pay their credit card 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:

	FISCAL		
	1998	1999	2000
	(DOLLARS IN THOUSANDS)		
Average loans outstanding(1)	$1,905,927	$2,004,827	$2,073,574
Net charge-offs	135,478	143,370	157,351
Net charge-offs as a percentage of average loans outstanding (annualized)	7.8%	7.2%	7.6%

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(1) Average loans outstanding is the average balance of the securitized receivables at the beginning of each month in the period indicated.

AGE OF PORTFOLIO. The following table sets forth, as of December 31, 2000, the number of total accounts and amount of outstanding loans, based upon the age of the securitized accounts:

AGE SINCE ORIGINATION	NUMBER OF ACCOUNTS	PERCENTAGE OF ACCOUNTS	LOANS OUTSTANDING	PERCENTAGE OF LOANS OUTSTANDING
		(AMOUNTS IN THOUSANDS)		
0-5 Months	3,142	5.4%	$ 301,561	13.0%
6-11 Months	2,675	4.6	204,134	8.8
12-17 Months	3,019	5.2	225,011	9.7
18-23 Months	2,310	4.0	162,379	7.0
24-35 Months	5,171	9.0	303,881	13.1
36+ Months	41,371	71.8	1,122,737	48.4
Total	57,688	100.0%	$2,319,703	100.0%

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 and as an industry. 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 facilities for our data centers. We operate two data processing centers. In the event we experience an outage in one of our two data centers, we can move all processing to the other data center. Additionally, we have contracted with a third party to provide disaster and contingency planning in the event that both data centers experience an outage.

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. We do not currently hold any patents nor do we have any patent applications pending.

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 U.S. and Canada. 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 U.S. and Canada.

COMPETITION

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

TRANSACTION SERVICES. The payment processing industry is highly competitive, especially among the five largest payment processors in the U.S., which processed approximately 17 billion transactions during 1999. We are a leading provider of transaction services, processing 2.5 billion transactions in 2000 through approximately 138,000 of our point-of-sale terminals. According to the Faulkner and Gray Card Industry report, we were ranked fifth among U.S. payment processors in 1999. Our top three competitors have built their businesses by focusing on merchant banking relationships, while our focus has been on industry segments characterized by companies with large customer bases, customer rich data and high transaction volumes. Our focus on specific market sectors allows us to develop and deliver solutions targeted to 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 payment processors by providing solutions that help our clients leverage investments they have made in their payment systems by using these systems for electronic marketing programs.

CREDIT SERVICES. Within our Credit Services business, our competition consists primarily of financial institutions whose marketing focus has been on developing credit card programs with large revolving balances. Our competition further drives 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, MasterCard 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 reward miles 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

PRIVACY LEGISLATION. 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. Restrictions could be placed upon the collection and use of information, in which case our cost of collecting some kinds of data might be materially increased. 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' expectations.

The Gramm-Leach-Bliley Act, which became law in November 1999, requires financial institutions to comply with various notice procedures in order to disclose nonpublic personal information about their consumers to nonaffiliated third parties and restricts their ability to share account numbers. The requirements of this law also apply to the disclosure of any list, description or other grouping of consumers derived from nonpublic personal information. This law makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. This law also requires us to disclose our privacy policies and practices to consumers. New regulations under the Gramm-Leach-Bliley Act that take effect in July 2001 will give credit card customers the ability to opt out of having information generated by their credit card purchases shared with other parties or the public.

On April 13, 2000, the Canadian federal government and Minister of Industry of Canada enacted the Personal Information Protection and Electronic Documents Act. This act, which became effective on January 1, 2001, comprises comprehensive private sector privacy legislation that applies to organizations engaged in any commercial activities in Canada. It enacted into law 10 privacy principles from the Canadian Standards Association's Model Privacy Code. This act requires organizations to obtain consent to the collection, use or disclosure of personal information. The nature of the required consent will depend on the sensitivity of the personal information and will permit personal information to be used only for the purposes for which it was collected. The Province of Quebec has had similar privacy legislation applicable to the private sector in that province since 1994 and other provinces are considering further privacy legislation. We have taken steps with the Air Miles reward miles program to comply with the new law.

FAIR CREDIT REPORTING ACT. The Fair Credit Reporting Act regulates consumer reporting agencies. Under this Act, an entity risks becoming a consumer reporting agency if it furnishes consumer reports to third parties. A consumer report is a communication of information which bears on a consumer's creditworthiness, credit capacity, credit standing or certain other characteristics and which is collected or used or expected to be used to determine the consumer's eligibility for credit, insurance, employment or certain other purposes. The Fair Credit Reporting Act explicitly excludes from the definition of consumer report a report containing information solely as to transactions or experiences between the consumer and the entity making the report. An entity may share consumer reports with any of its affiliates so long as that entity provides consumers with an appropriate disclosure and an opportunity to opt out of this affiliate sharing.

Our objective is to conduct our operations in a manner that would fall outside the definition of consumer reporting agency under the Fair Credit Reporting Act. If we were deemed to be a consumer reporting agency, however, we would be subject to a number of complex and burdensome regulatory requirements and restrictions. These restrictions could have a significant adverse economic impact on us.

INTERSTATE TAXATION. Several states have passed legislation that attempts to tax the income from interstate financial activities, including credit cards, derived from accounts held by local state residents. We believe that this legislation will not materially affect us. Our belief is based upon current interpretations of the enforceability of such legislation, prior court decisions and the volume of business we conduct in states that have passed legislation.

REGULATION OF THE BANK. World Financial is a limited purpose credit card bank chartered as a national banking association and a member of the Federal Reserve System. The Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation, insures the deposits of World Financial. World Financial is subject to regulation and examination by the Office of the Comptroller of the Currency, its primary regulator, and is also subject to regulation by the Board of Governors of the

Federal Reserve System and the Federal Deposit Insurance Corporation, as back-up regulators. World Financial is not a "bank" as defined under the Bank Holding Company Act; instead, it is a credit card bank 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 failed to meet the credit card bank criteria described above, World Financial would be a "bank" as defined by the Bank Holding Company Act, subjecting us to the provisions, requirements and restrictions of the Bank Holding Company Act as a bank holding company. We believe that becoming a bank holding company would significantly harm us, as we would be required to either divest our non-banking activities or cease all activities that are not permissible for a bank holding company and its affiliates.

INVESTMENT IN OUR COMPANY AND WORLD FINANCIAL NETWORK NATIONAL BANK. Because of our ownership of World Financial, certain acquisitions of our common stock may be subject to regulatory approval or notice under Federal law. Investors are responsible for insuring that they do not directly or indirectly acquire our common stock in excess of the amount that can be acquired without regulatory approval.

EXPORTATION OF INTEREST RATES AND FEES. National banks such as World Financial may charge interest at the rate allowed by the laws of the state where the bank is located, and may "export" those interest rates on loans to borrowers in other states, without regard to the laws of such other states. In 1996, the United States Supreme Court ruled that national banks may also impose fees material to a determination of the interest rate allowed by the laws of the state where the national bank is located on borrowers in other states, without regard to the laws of such other states. The Supreme Court based its opinion largely on its deference to a regulation adopted by the Office of the Comptroller of the Currency that includes certain fees, including late fees, over limit fees, annual fees, cash advance fees and membership fees, within the term "interest" under the provision of the National Bank Act that has been interpreted to permit national banks to export interest rates. As a result, national banks such as World Financial may export such fees.

DIVIDENDS AND TRANSFERS OF FUNDS. Federal law limits the extent to which World Financial can finance or otherwise supply funds to us and our affiliates through dividends, loans or otherwise. These limitations include:

- minimum regulatory capital requirements; and

- restrictions concerning the payment of dividends out of net profits or surplus and Sections 23A and 23B of the Federal Reserve Act governing transactions between a bank and its affiliates.

In general, Federal law prohibits a national bank such as World Financial from making dividend distributions on common stock if the dividend would exceed currently available undistributed profits. In addition, World Financial must get prior approval from the Office of the Comptroller of the Currency for a dividend if the distribution would exceed current year net income combined with retained earnings from the prior two years less dividends paid in the current fiscal year. World Financial cannot make a dividend payment if the distribution would cause it to fail to meet applicable capital adequacy standards.

COMPTROLLER OF THE CURRENCY

SAFETY AND SOUNDNESS. The Federal Deposit Insurance Corporation Improvement Act of 1991 requires banking agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation. This act also provides that regulatory action may be taken against a bank that does not meet such standards.

CAPITAL ADEQUACY. World Financial 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 our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, World Financial 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.

Quantitative measures established by regulation to ensure capital adequacy require World Financial 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 six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, World Financial is considered well capitalized. As of December 31, 2000, World Financial's Tier 1 capital ratio was 14.1%, total capital ratio was 14.4% and leverage ratio was 44.8%, and World Financial was not subject to a capital directive order.

The Office of the Comptroller of the Currency's risk-based capital standards explicitly consider a bank's exposure to a decline in the economic value of its capital due to changes in interest rates when evaluating a bank's capital adequacy. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from adverse movements in interest rates. This evaluation is made as a part of World Financial's regular safety and soundness examination.

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT OF 1991. The Improvement Act requires the Federal Deposit Insurance Corporation to implement a system of risk-based premiums for deposit insurance. Pursuant to this system, the premiums paid by a depository institution will be based on the probability that the FDIC will incur a loss in respect of that institution. The FDIC has adopted a system that imposes insurance premiums based upon a matrix that takes into account a bank's capital level and supervisory rating. Due to its capital level and supervisory rating, World Financial currently pays the lowest rate on deposit insurance premiums.

Under the Improvement Act, only "well capitalized" and "adequately capitalized" banks may accept brokered deposits. "Adequately capitalized" banks, however, must first obtain a waiver from the FDIC before accepting brokered deposits and these deposits may not pay rates that significantly exceed the rates paid on deposits of similar size and maturity accepted from the bank's normal market area or the national rate on deposits of comparable maturity, as the FDIC determines, for deposits from outside the bank's normal market area. World Financial issues certificates of deposit in amounts of $100,000 or greater.

LENDING ACTIVITIES. World Financial's activities as a credit card lender are also subject to regulation under various Federal consumer protection laws including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Community Reinvestment Act, the Soldiers' and Sailors' Civil Relief Act and state consumer protection laws. Regulators are authorized to impose penalties for violations of these statutes and, in certain cases, to order banks such as World Financial to pay restitution to injured cardholders. Cardholders may also bring actions for violations of these regulations. Federal and state bankruptcy and debtor relief laws also affect World Financial's ability to collect outstanding balances owed by cardholders who seek relief under these laws.

For the purposes of the Office of the Comptroller of the Currency's Community Reinvestment Act Regulations, World Financial has applied for and received a limited purpose designation. The regulations subject banks receiving such a designation to a community development test for evaluating required Community Reinvestment Act compliance. The community development performance of a limited purpose bank is evaluated pursuant to various criteria involving qualified investments and community development services. As of December 31, 2000, World Financial had met its minimum responsibilities under the Act.

CONSUMER AND DEBTOR PROTECTION LAWS. From time to time legislation has been proposed in Congress to limit interest rates and fees that could be charged on credit card accounts or otherwise restrict practices of credit card issuers. If this or similar legislation is proposed and adopted, our ability to collect on account balances or maintain previous levels of finance charges and other fees could be adversely affected. Additionally, changes have been proposed to the Federal bankruptcy laws. Changes in Federal bankruptcy laws and any changes to state debtor relief and collection laws could adversely affect us if these changes result in, among other things, accounts being charged off as uncollectible and additional administrative expenses. It is unclear at this time whether and in what form any legislation will be adopted or, if adopted, what its impact on us would be. Congress may in the future consider other legislation that would materially affect the credit card and related fee-based services industries.

Existing laws and regulations may permit class action lawsuits on behalf of customers in the event of violations of applicable laws, and these lawsuits can be very expensive to defend, even without any violation. If a class action were determined adversely, it might have a material adverse effect on us.

EMPLOYEES

As of December 31, 2000, we had approximately 6,100 employees in the U.S., Canada and New Zealand.

LEGAL PROCEEDINGS

From time to time, we are involved in various claims and lawsuits incidental to our business, including claims and lawsuits alleging breaches of contractual obligations.

Service Merchandise, Inc., which is in voluntary Chapter 11 bankruptcy, and its subsidiary Service Credit Corp., as plaintiffs, have filed an action against World Financial in U.S. Bankruptcy Court for the Middle District of Tennessee. The plaintiffs are alleging claims of breach of contract, anticipatory breach of contract, and violations of the automatic stay provisions of the U.S. Bankruptcy Code. The action centers around claims that World Financial violated various contractual provisions of a private label credit card program agreement for Service Merchandise that World Financial entered into with Service Credit Corp. Plaintiffs allege that World Financial violated the agreement, by among other things, unilaterally revising the credit standards applicable to existing cardholders and withholding monthly program payments from Service Credit Corp., and allege violations of the automatic stay provisions of the U.S. Bankruptcy Code. The plaintiffs have not specified their alleged damages. In April 2000, we moved to dismiss the amended complaint. On November 9, 2000, the Bankruptcy Court issued an order dismissing a portion of the counts of the amended complaint, but allowing plaintiffs to go forward with other claims for breach of contract, anticipatory breach of contract and violation of the automatic stay. On January 5, 2001, we answered the plaintiffs' complaint, denying their material allegations and sought leave of the Bankruptcy Court, including a motion for relief from the automatic stay, to file counterclaims against both plaintiffs. Through these counterclaims, we are seeking to recover from Service Merchandise and Service Credit various amounts, cumulatively exceeding $30 million, that we contend are due and owing. Given the early stage of the litigation, we are unable to determine whether the ultimate resolution of the claims by and against World Financial will have a material effect on our business, financial condition or operating results. We intend to defend World Financial's interests vigorously.

On November 16, 2000, in the United States District Court, Southern District of Florida, Miami Division, a group of World Financial cardholders filed a putative class action complaint against World Financial. The plaintiffs, individually and on behalf of all others similarly situated, commenced the action alleging that World Financial engaged in a systematic program of false, misleading, and deceptive practices to improperly bill and collect consumer debts from thousands of cardholders. The suit stems from World Financial's practices involved in calculating finance charges and in crediting cardholder payments on the next business day if received after 6:30 a.m. The plaintiffs contend that such practices are deceptive and result in the imposition of excessive finance charges and other penalties to cardholders. Plaintiffs allege that World Financial, through such practices, has violated several federal and Florida state consumer protection statutes and breached cardholder contracts. Plaintiffs have requested, individually and on behalf of a putative class, monetary and punitive damages for the alleged stated claims and permanent injunctions for alleged statutory violations. The plaintiffs have not specified their alleged damages. World Financial believes these allegations are without merit and intends to defend this matter vigorously.

PROPERTIES

The following table sets forth information with respect to our principal facilities.

LOCATION	SEGMENT	CURRENT MONTHLY LEASE RATE	APPROXIMATE SQUARE FOOTAGE
Northglenn, Colorado........	Transaction Services	$ 37,104	65,000
Marietta, Georgia...........	Transaction Services	$ 3,067	2,103
Buffalo Grove, Illinois.....	Transaction Services	$ 35,399	24,136
Lenexa, Kansas..............	Transaction Services	$ 45,244	65,000
Minneapolis, Minnesota......	Marketing Services and Transaction Services	$ 4,386	3,105
Minneapolis, Minnesota......	Marketing Services and Transaction Services	$ 31,997	28,442
Voorhees, New Jersey........	Transaction Services	$ 75,431	67,050
Columbus, Ohio..............	Transaction Services	$ 36,536	103,161
Columbus, Ohio..............	Transaction Services and Credit Services	$ 74,928	100,800
Columbus, Ohio..............	Transaction Services	$ 14,400	57,600
Columbus, Ohio..............	Marketing Services, Transaction Services and Credit Services	$ 40,733	54,615
Columbus, Ohio..............	Transaction Services and Credit Services	$ 25,535	32,255
Columbus, Ohio..............	Marketing Services, Transaction Services and Credit Services	$ 10,820	39,951
Reno, Ohio..................	Credit Services	$ 11,128	12,140
Johnson City, Tennessee.....	Transaction Services	$ 44,925	45,000
Dallas, Texas...............	Marketing Services and Transaction Services	$ 114,228	114,419
Dallas, Texas...............	Transaction Services and Credit Services	$ 121,000	114,419
Dallas, Texas...............	Marketing Services, Transaction Services and Credit Services	$ 57,479	61,750
Dallas, Texas...............	Transaction Services	$ 18,224	72,897
San Antonio, Texas..........	Transaction Services	$ 47,692	67,540
Mississauga, Ontario, Canada....................	Marketing Services	$ 42,500	40,000
Toronto, Ontario, Canada....	Marketing Services	$ 81,492	91,534
Montreal, Quebec, Canada....................	Marketing Services	$ 3,125	5,000
Calgary, Alberta, Canada....	Database Marketing Services	$ 9,066	8,059
Auckland, New Zealand.......	Transaction Services	$ 12,041	11,700
Total.....................		$ 998,480	1,287,676

LOCATION	LEASE EXPIRATION DATE
Northglenn, Colorado........	August 31, 2007
Marietta, Georgia...........	August 31, 2002
Buffalo Grove, Illinois.....	February 29, 2010
Lenexa, Kansas..............	January 31, 2008
Minneapolis, Minnesota......	August 31, 2004
Minneapolis, Minnesota......	August 31, 2004
Voorhees, New Jersey........	January 1, 2005
Columbus, Ohio..............	January 31, 2008
Columbus, Ohio..............	May 31, 2006
Columbus, Ohio..............	August 31, 2004
Columbus, Ohio..............	August 31, 2007
Columbus, Ohio..............	August 31, 2007
Columbus, Ohio..............	August 31, 2002
Reno, Ohio..................	April 30, 2002
Johnson City, Tennessee.....	October 19, 2010
Dallas, Texas...............	November 30, 2009
Dallas, Texas...............	October 10, 2010
Dallas, Texas...............	July 31, 2007
Dallas, Texas...............	April 30, 2006
San Antonio, Texas..........	January 31, 2002
Mississauga, Ontario, Canada....................	August 31, 2009
Toronto, Ontario, Canada....	September 16, 2007
Montreal, Quebec, Canada....................	June 30, 2009
Calgary, Alberta, Canada....	December 31, 2004
Auckland, New Zealand.......	September 13, 2005
Total.....................	

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.

The following table sets forth the name, age and positions of each of our executive officers, business unit presidents and directors as of the date of this prospectus:

NAME	AGE	POSITION
J. Michael Parks	50	Chairman of the Board of Directors, Chief Executive Officer and President
Ivan M. Szeftel	47	Executive Vice President and President, Retail Credit Services
John W. Scullion	43	President and Chief Executive Officer, The Loyalty Group
Michael A. Beltz	45	Executive Vice President and President, Transaction Services Group
Edward J. Heffernan	38	Executive Vice President and Chief Financial Officer
Dwayne H. Tucker	44	Executive Vice President and Chief Administrative Officer
Steven T. Walensky	43	Executive Vice President and Chief Information Officer
Carolyn S. Melvin	48	Senior Vice President, Secretary and General Counsel
Michael D. Kubic	45	Vice President, Corporate Controller and Chief Accounting Officer
Bruce K. Anderson	60	Director
Anthony J. deNicola	36	Director
Daniel P. Finkelman	45	Director
Robert A. Minicucci	48	Director
Bruce A. Soll	43	Director
Kenneth R. Jensen	57	Director

J. MICHAEL PARKS, chairman of the board of directors, chief executive officer and president, joined us in March 1997. Before joining us, Mr. Parks was president of First Data Resources, the credit card processing and billing division of First Data Corporation, from December 1993 to July 1994. Mr. Parks joined First Data Corporation in July 1976 where he gained increased responsibility for sales, service, operations and profit and loss management during his 18 years of service. Mr. Parks holds a Bachelor's degree from the University of Kansas.

IVAN M. SZEFTEL, executive vice president and president of our Retail Credit Services business unit, joined us in May 1998. Before joining us, he served as chief operating officer of Forman Mills, Inc. from November 1996 to April 1998. Prior to that, he served as executive vice president and chief financial officer of Charming Shoppes, Inc. from November 1981 to February 1996. Mr. Szeftel holds Bachelor's and post graduate degrees from the University of Cape Town and is a Certified Public Accountant in the State of Pennsylvania.

JOHN W. SCULLION, president and chief executive officer of Loyalty Management Group Canada Inc., joined The Loyalty Group in October 1993. Prior to becoming president, he served as chief operating officer for The Loyalty Group. Prior to that, he served as chief financial officer of The Rider Group from September 1988 to October 1993. Mr. Scullion holds a Bachelor's degree from the University of Toronto.

MICHAEL A. BELTZ, executive vice president and president of our Transaction Services Group, joined us in May 1997. From May 1997 to January 2001, he served as executive vice president of business development and planning. He is responsible for transaction services, new market identification, and acquisitions. Before joining us, he served as executive vice president of sales and acquisitions of First Data Corporation from July 1983 to April 1997. Mr. Beltz holds a Bachelor's degree from the University of Nebraska.

EDWARD J. HEFFERNAN, executive vice president and chief financial officer, joined us in May 1998. Before joining us, he served as vice president, mergers and acquisitions for First Data Corporation from October 1994 to May 1998. Prior to that he served as vice president, mergers and acquisitions for Citicorp from July 1990 to October 1994, and prior to that he served in corporate finance at Credit Suisse First Boston from June 1986 until July 1990. He holds a Bachelor's degree from Wesleyan University and an MBA from Columbia Business School.

DWAYNE H. TUCKER, executive vice president and chief administrative officer, joined us in June 1999. He is responsible for human resources, facilities, legal services, corporate communications and corporate marketing. Before joining us, he served as vice president of human resources for Northwest Airlines from February 1998 to February 1999 and as senior vice president of human resources for First Data Corporation from March 1990 to February 1998. Mr. Tucker holds a Bachelor's degree from Tennessee State University.

STEVEN T. WALENSKY, executive vice president and chief information officer, joined us in July 1998. He is responsible for management of the corporate information services organization. Before joining us, he served as senior vice president of data center services for First Data Corporation from October 1995 to June 1998. Prior to that, he held management positions with Visa International and Sprint. Mr. Walensky holds a Bachelor's degree from Rockhurst College.

CAROLYN S. MELVIN, senior vice president of legal services, general counsel and secretary, joined us in September 1995 as vice president, general counsel and secretary of World Financial. She is responsible for legal, audit and compliance. Before joining us, she served as vice president and counsel for National City Corporation from December 1982 until September 1995. Ms. Melvin holds a B.A. degree from Dickinson College and a J.D. from Ohio State University College of Law.

MICHAEL D. KUBIC, vice president, corporate controller and chief accounting officer, joined us in October 1999. Before joining us, he served as vice president of finance for Kevco, Inc. from March 1999 to October 1999. Prior to that he served as vice president and corporate controller for BancTec, Inc. from September 1993 to February 1998. Mr. Kubic holds a Bachelor's degree from the University of Massachusetts and is a Certified Public Accountant in the State of Texas.

BRUCE K. ANDERSON has served as a director since our merger in August 1996. Since March 1979, he has been a partner and co-founder of the investment firm, Welsh, Carson, Anderson & Stowe. Prior to that, he spent nine years with ADP where, as executive vice president and a member of the board of directors, he was active in corporate development and general management. Before joining ADP, Mr. Anderson spent four years in computer marketing with IBM and two years in consulting. Mr. Anderson is currently a director of Amdocs Limited. He holds a Bachelor's degree from the University of Minnesota.

ANTHONY J. DENICOLA has served as a director since our merger in August 1996. Mr. deNicola is a partner with Welsh, Carson, Anderson & Stowe, joining the firm in April 1994. Prior to that, he spent four years with William Blair & Company, financing middle market buy-outs from July 1990 to February 1994. Mr. deNicola is currently a director of Centennial Cellular Corporation. He holds a Bachelor's degree from DePauw University and an MBA from Harvard Business School.

DANIEL P. FINKELMAN has served as a director since January 1998. Mr. Finkelman is senior vice president of The Limited, Inc. and is responsible for all brand and business planning for that specialty retailer. He has been employed with The Limited since August 1996. Before joining The Limited, he was self-employed as a consultant from February 1996 to August 1996 and he served as executive vice president of marketing for Cardinal Health, Inc. from May 1994 to February 1996. Prior to that, he was a partner with McKinsey & Company where he was co-leader of the firm's marketing practice, focusing on loyalty and customer relationship management. Mr. Finkelman holds a Bachelor's degree from Grinnell College and graduated as a Baker Scholar at Harvard Business School.

ROBERT A. MINICUCCI has served as a director since our merger in August 1996. Mr. Minicucci is a partner with Welsh, Carson, Anderson and Stowe, joining the firm in August 1993. Before joining Welsh, Carson, Anderson & Stowe, he served as senior vice president and chief financial officer of First Data Corporation from December 1991 to August 1993. Mr. Minicucci is currently a director of Amdocs Limited. Mr. Minicucci holds a Bachelor's degree from Amherst College and an MBA from Harvard Business School.

BRUCE A. SOLL has served as a director since February 1996. Mr. Soll is senior vice president and counsel of The Limited, where he has been employed since September 1991. Before joining The Limited, he served as the Counsellor to the Secretary of Commerce in the Bush Administration from February 1989 to September 1991 where he was a senior policy official, focusing on international trade, telecommunications and technology. Mr. Soll holds a Bachelor's degree from Claremont McKenna College and a J.D. from the University of Southern California Law School.

KENNETH R. JENSEN became a director in February 2001. Mr. Jensen has been executive vice president, chief financial officer, treasurer, assistant secretary and a director of Fiserv, Inc., a public company engaged in data processing outsourcing, since July 1984. He was named senior executive vice president of Fiserv in 1986. Mr. Jensen holds a Bachelor's degree from Princeton University in Economics, an MBA from the University of Chicago in Accounting, Economics and Finance and a Ph.D. from the University of Chicago in Accounting, Economics and Finance.

CLASSES OF BOARD OF DIRECTORS

Our certificate of incorporation authorizes there to be between six and 12 directors. Our board of directors currently consists of seven members. Kenneth R. Jensen was elected as an independent director in February 2001, and we intend to designate two additional independent directors after consummation of this offering. Our board is divided into three classes that serve staggered three-year terms, as follows:

CLASS	EXPIRATION OF TERM	MEMBERS
Class I............................	2004	Anthony J. deNicola, Bruce A. Soll, Kenneth R. Jensen
Class II...........................	2002	Bruce K. Anderson, Daniel P. Finkelman
Class III..........................	2003	Robert A. Minicucci, J. Michael Parks

Newly elected directors and any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. There are no family relationships among any of our directors, executive officers or division presidents.

COMMITTEES OF THE BOARD OF DIRECTORS

Our full board of directors has fulfilled the function of an audit committee. Our board of directors has a capital budget committee and a compensation committee and, upon the consummation of this offering, will establish an audit committee and an executive committee.

The audit committee, which will consist of three independent directors including Mr. Jensen, will review the scope and approach of the annual audit, our annual financial statements and related auditors' report and the auditors' comments relative to the adequacy of our system of internal controls and accounting systems. The audit committee will also recommend to our board of directors the appointment of independent public accountants for the following year. The audit committee will consist of at least three members, all of whom will be financially literate and will be independent directors and one of whom will have significant experience in accounting or finance matters. Our audit committee will adopt and periodically review a written charter that will specify the scope of its responsibilities.

The compensation committee, which currently consists of Robert A. Minicucci and Daniel P. Finkelman, reviews management compensation levels and provide recommendations to our board of directors regarding salaries and other compensation for our executive officers, including bonuses and incentive plans, and administers our stock option plan.

The executive committee, which will consist of three directors, will have the power and authority of our board of directors to manage our affairs between meetings. The executive committee will also regularly review significant corporate matters and recommend action as appropriate to our board of directors.

The capital budget committee, which currently consists of Anthony J. deNicola and Bruce A. Soll, has the power and authority of the board of directors to adopt our capital expenditure budget and to evaluate and authorize any and all capital expenditures that exceed $1 million.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Prior to this offering, our board of directors as a whole or the compensation committee made decisions relating to the compensation of Michael Parks and the executive officers reporting directly to him. During this time, Mr. Parks participated in all discussions concerning compensation of the executive officers reporting directly to him, except that Mr. Parks was excluded from discussions regarding his own compensation. None of our executive officers served as a member of the board of directors or the compensation committee of any entity that has one or more executive officers serving on our board of directors or on the compensation committee of our board of directors.

DIRECTOR COMPENSATION

All directors are reimbursed for reasonable out-of-pocket expenses incurred while serving on the board of directors and any committee of the board of directors. Our non-employee directors currently participate in our amended and restated stock option and restricted stock plan. Individuals who are non-employee directors on the closing date of this offering will have a choice of receiving either (1) a nonqualified stock option to purchase 42,000 shares of our common stock or (2) a nonqualified stock option to purchase 28,500 shares of our common stock plus a cash compensation package providing cash compensation of $15,000 annually, $1,000 for each board meeting attended and $500 for each committee meeting attended. Non-employee directors who are elected after this offering will make this choice of compensation alternatives upon becoming directors and will receive the nonqualified stock options on the date that they first become directors.

EXECUTIVE COMPENSATION

The following table sets forth the annual and long-term compensation for the year ended December 31, 2000 for our chief executive officer, our four other most highly compensated executive officers and one additional executive officer who would have been one of our four most highly compensated executive officers if he had continued to be employed with us as of December 31, 2000. These six individuals are referred to as the named executive officers.

	ANNUAL COMPENSATION		LONG-TERM COMPENSATION		
NAME AND PRINCIPAL POSITION	SALARY ($)	BONUS(1)	RESTRICTED STOCK AWARDS($)(2)	SECURITIES UNDERLYING OPTIONS, SARS (#)	ALL OTHER COMPENSATION
J. Michael Parks Chairman of the Board, Chief Executive Officer and President	$475,000	$ --	$1,800,000	230,000	$ 33,482
Ivan M. Szeftel Executive Vice President and President, Retail Credit Services	$335,000	$ --	$ 525,000	80,000	$ 21,135
Michael A. Beltz Executive Vice President and President, Transaction Services Group	$260,000	$ --	$ 525,000	80,000	$ 15,503
John W. Scullion(3) President and Chief Executive Officer, The Loyalty Group	$255,104	$ --	$ 525,000	80,000	$ 11,993
Edward K. Mims(4) Executive Vice President and Chief Financial Officer	$214,077	$ --	$ 525,000	80,000	$290,787
James E. Anderson(5) Executive Vice President and President, Utilities Services	$233,692	$ --	$ 525,000	80,000	$ 17,176

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(1) Bonuses are historically paid each March for the prior year and have not been determined for the year ended December 31, 2000. Bonuses are determined based upon the achievement of operating income, various financial and operational objectives and individual objectives.

(2) Amounts in this column represent the value of the following performance-based restricted stock awards issued in September 2000 at $15.00 per share: 120,000 shares to Mr. Parks and 35,000 shares to each of Messrs. Szeftel, Beltz, Scullion, Mims and Anderson. The value of the restricted stock awards, based upon an assumed initial public offering price of $13.00 per share, is $1,560,000 for Mr. Parks and $455,000 for each of Messrs. Szeftel, Beltz, Scullion, Mims and Anderson. These awards will not vest unless specific performance measures tied to either EBITDA or return on stockholders' equity are met. If these performance measures are met, some of these restricted shares will vest ratably over a five year period and some will vest on a more accelerated basis if certain annual EBITDA performance targets are met.

(3) Mr. Scullion's salary, bonus and all other compensation are paid in Canadian dollars. Amounts reflected are converted to U.S. dollars at an average conversion rate for the year of $0.67.

(4) Mr. Mims commenced employment with us in February 1998 and resigned effective October 11, 2000. All other compensation includes the lump-sum payment of $269,923 received in 2000 by Mr. Mims as part of his severance agreement.

(5) Mr. Anderson commenced employment with us in May 1997 and resigned effective December 31, 2000.

All other compensation amounts include our matching contributions to the 401(k) and Retirement Savings Plan, the Supplemental Executive Retirement Plan, the life insurance premiums we pay on behalf of each executive officer and long-term disability expenses as follows:

	401(K) PLAN	LIFE INSURANCE PREMIUMS	SERP	LONG-TERM DISABILITY	SEVERANCE
J. Michael Parks	$11,580	$ 172	$21,730	$ --	$ --
Ivan M. Szeftel	$11,580	$ 149	$ 9,406	$ --	$ --
Michael A. Beltz	$ 9,980	$ 115	$ 5,408	$ --	$ --
John W. Scullion	$ --	$4,221	$ --	$7,722	$ --
Edward K. Mims	$13,180	$ 108	$ 7,577	$ --	$269,923
James E. Anderson	$11,580	$ 103	$ 5,493	$ --	$ --

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information concerning option grants made to the named executive officers during 2000 pursuant to our stock option plan.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM ($)(2)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	PERCENTAGE OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE PRICE ($/SH)	EXPIRATION DATE	5%	10%
J. Michael Parks	230,000	8.7%	$15.00	9/1/10	$2,169,686	$5,498,411
Ivan M. Szeftel	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
Michael A. Beltz	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
John W. Scullion	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
Edward K. Mims(3)	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
James E. Anderson(4)	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491

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(1) In 2000, we granted options to purchase a total of 19,331 shares of common stock at an exercise price of $11.25 per share and options to purchase a total of 2,629,145 shares of common stock at an exercise price of $15.00 per share.

(2) In accordance with SEC rules, the amounts shown on this table represent

hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on the assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date and do not reflect our estimates or projections of the future price of our common stock. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock, the option holder's continued employment through the option period, and the date on which the options are exercised.

(3) Under Mr. Mims' severance agreement, options that were vested as of the date of his resignation may be exercised by Mr. Mims for a period of up to six months after that date. One-third of Mr. Mims' unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

(4) Under Mr. Anderson's severance agreement, options that were vested as of the date of his resignation may be exercised through February 2002. One-third of Mr. Anderson's unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

OPTION EXERCISES IN LAST FISCAL YEAR

The following table sets forth certain information concerning all unexercised options held by the named executive officers as of December 31, 2000. No options were exercised by the named executive officers during 2000.

NAME	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR-END(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END($)(1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
J. Michael Parks	298,609	348,056	$1,175,686	$415,974
Ivan M. Szeftel	61,111	152,222	$ 239,444	$273,889
Michael A. Beltz	72,221	141,110	$ 271,384	$216,941
John W. Scullion	41,667	121,666	$ 129,168	$129,165
Edward K. Mims(2)	36,111	132,777	$ 131,944	$183,609
James E. Anderson(3)	43,055	125,832	$ 159,720	$155,829

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(1) Value for "in-the-money" options represents the positive spread between the respective exercise prices of outstanding options and the anticipated initial public offering price of $13.00 per share.

(2) Under Mr. Mims' severance agreement, options that were vested as of the date of his resignation may be exercised by Mr. Mims for a period of up to six months after that date. One-third of Mr. Mims' unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

(3) Under Mr. Anderson's severance agreement, options that were vested as of the date of his resignation may be exercised through February 2002. One-third of Mr. Anderson's unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

EMPLOYMENT, SEVERANCE AND INDEMNIFICATION AGREEMENTS

We generally do not to enter into employment agreements with our employees. However, as part of some of our acquisitions, we have entered into agreements with selected key individuals to ensure the success of the integration of the acquisition and long-term business strategies. In addition, we have entered into employment agreements with Mr. Parks and Mr. Szeftel.

J. MICHAEL PARKS. Mr. Parks entered into an employment agreement effective March 10, 1997 to serve as our chairman of the board and chief executive officer. The agreement provides that Mr. Parks will receive a minimum annual base salary of $475,000. Mr. Parks is entitled to an annual incentive bonus of $400,000 based on the achievement of our annual financial goals. Under the agreement, Mr. Parks was granted options to purchase 333,332 shares of our common stock at an exercise price of $9.00 per share. Of these options, options to purchase 277,776 shares have vested. The remaining options to purchase 55,556 shares vest in the first quarter of 2001 upon the achievement of corporate performance goals. Additionally, Mr. Parks was granted options to purchase 83,333 shares of our common stock at an exercise price of $9.90 per share in 1999. Of these options, options to purchase 20,833 shares are currently vested. Of the remaining options, options to purchase 20,833 shares vest in the first quarter of 2001, upon the achievement of corporate performance goals. Mr. Parks was also granted options to purchase 230,000 shares of our common stock at an exercise price of $15.00 per share in 2000 none of which are vested. Additionally, Mr. Parks is entitled to participate in our 401(k) and Retirement Savings Plan, our 1999 Incentive Compensation Plan and any other employee benefits as provided to other senior executives. Mr. Parks is entitled to 18 months base salary if terminated.

IVAN M. SZEFTEL. Mr. Szeftel entered into an employment agreement dated May 4, 1998 to serve as the president of our retail services division. The agreement provides that Mr. Szeftel is entitled to receive a minimum annual base salary of $325,000, subject to increases based on annual reviews. Mr. Szeftel is entitled to an annual incentive bonus of $200,000 based on the achievement of our annual financial goals. Under the agreement, we granted Mr. Szeftel options to purchase 111,111 shares of our common stock at an exercise price of $9.00 per share. Of these options, options to purchase 55,555 shares have vested. Of the remaining options, options to purchase 27,777 shares of common stock vest in the first quarter of 2001 upon the achievement of corporate performance goals. Mr. Szeftel was also granted options to purchase 22,222 shares of our common stock at an exercise price of $9.90 per share in 1999. Of these options, options to purchase 5,556 shares are currently vested. Of the remaining options, options to purchase 5,555 shares vest in the first quarter of 2001, upon the achievement of corporate performance goals. Mr. Szeftel was also granted options to purchase 80,000 shares of our common stock at an exercise price of $15.00 per share in 2000, none of which are vested. Mr. Szeftel is entitled to participate in our 401(k) and Retirement Savings Plan, our 1999 Incentive Compensation Plan and any other employee benefits as provided to other senior executives. Under the agreement, Mr. Szeftel is entitled to severance payments if we terminate his employment without cause or if Mr. Szeftel terminates his employment for good reason. In such cases, Mr. Szeftel will be entitled to six months base salary if terminated in his first year, nine months base salary if terminated in his second year and 12 months base salary if terminated after his second year.

EDWARD K. MIMS. In connection with Mr. Mims' resignation as Chief Financial Officer effective as of October 11, 2000 and his resignation as an employee effective as of October 31, 2000, we entered into a severance agreement under which we paid Mr. Mims a lump sum severance payment of $269,923. The severance agreement provides that Mr. Mims is entitled to an incentive compensation payment pursuant to the 2000 Incentive Compensation Plan, outplacement benefits, reimbursement of continuing professional educational expenses and professional fees through 2001. In addition, options that were vested as of the date of Mr. Mims' resignation may be exercised by Mr. Mims for a period of up to six months after that date. One-third of Mr. Mims' unvested options granted pursuant to our amended and restated stock option plan will vest on August 31, 2001 and be exercisable thereafter for a period of six months. Mr. Mims is also entitled to receive a lump sum cash payment pursuant to restricted stock awards if specified performance targets are met.

JAMES E. ANDERSON. In connection with the resignation of Mr. Anderson as an officer and an employee effective December 31, 2000, we entered into a severance agreement with Mr. Anderson that provides for severance pay equal to 52 weeks of his former annual base salary payable in 26 equal installments. The severance agreement provides that Mr. Anderson is entitled to an incentive compensation payment pursuant to the 2000 Incentive Compensation Plan in the amount of $117,500 and a relocation payment of up to $80,000 if he is relocated and such costs of relocation are not paid in full by a subsequent employer. In addition, options that were vested as of the date of Mr. Anderson's resignation may be exercised through February 2002. One-third of Mr. Anderson's unvested options granted pursuant to our amended and restated stock option plan will vest on

August 31, 2001 and be exercisable thereafter for a period of six months. Mr. Anderson is also entitled to receive a lump sum cash payment pursuant to restricted stock awards if specified performance targets are met.

AMENDED AND RESTATED STOCK OPTION AND RESTRICTED STOCK PLAN

We adopted the Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan in April 2000. This plan provides for grants of incentive stock options, nonqualified stock options and restricted stock awards to selected employees, officers, directors and other persons performing services for us or any of our subsidiaries. We have reserved a total of 8,753,000 shares of common stock for issuance pursuant to this plan. As of December 31, 2000, there were 4,882,626 shares of common stock subject to outstanding options previously granted at a weighted average exercise price of $12.45 per share.

Under the plan, we may grant incentive stock options to any person employed on a full-time basis by us or any of our subsidiaries. We may grant nonqualified stock options and restricted stock awards to any of our stockholders, any employees of our stockholders that perform services for us and any person employed by, or performing services for, us or any of our subsidiaries, including our directors and officers. Our non-employee directors currently participate in our stock option plan as described in "--Director Compensation" above. The exercise price for incentive stock options granted under the plan may not be less than 100% of the fair market value of the common stock on the option grant date. If an incentive stock option is granted to an employee who owns more than 10% of our common stock, the exercise price of that option may not be less than 110% of the fair market value of the common stock on the option grant date. The exercise price for nonqualified stock options granted under the plan may be equal to, more than or less than 100% of the fair market value of the common stock on the option grant date. The options granted under both the current plan and our prior plan terminate on the tenth anniversary of the date of grant.

The plan also provides for the granting of performance-based restricted stock awards to our chief executive officer, officers that report directly to him and certain other officers. The plan gives our committee administering the plan the sole discretion to determine the vesting provisions for performance-based restricted stock awards. As of December 31, 2000 performance-based restricted awards representing an aggregate of 687,000 shares had been granted to 31 officers. The restricted shares subject to these grants will 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 these restricted shares will vest over a five year period. However, some of the restricted shares will vest on a more accelerated basis if certain annual EBITDA performance targets are met.

The plan provides that our chief executive officer and a committee appointed by our board of directors will administer the plan. The compensation committee of our board of directors administers the plan with respect to:

- grants to members of our executive committee, which includes our chief executive officer, our named executive officers and our directors;

- grants of awards; and

- determining the pool of shares available under options and awards.

Our chief executive officer generally has the authority to administer the plan and act as the plan's administrative committee, except for grants to officers that report directly to him, grants of performance-based restricted stock awards, determining the number of shares available under the plan and amending the plan for those participants who are not members of the executive committee or our board of directors.

The plan gives our committee administering the plan the sole discretion to determine the vesting provisions of each individual stock option. In the event of a change of control, our plan provides that the committee may provide for accelerated vesting of options. Options granted on or after September 1, 2000 vest over a three year period from the date of grant. Options issued under our original option plan vest on a common vesting date, which is the first day of February. The normal vesting provision for options granted under our prior plan provides for vesting of 33 1/3% of the options each year over a three-year period, beginning on the first day of February of the eighth year after the options have been awarded. However, if we meet the annual operating income goal as determined by our board of directors, vesting for these options granted under our prior plan can be accelerated. Our board of directors designates a percentage of these options that will vest in this accelerated manner if we meet the annual operating income goal. Historically, this designated percentage has been equal to 25% of the options granted.

On the date of the public offering, all exempt employees and specific employees in Canada and New Zealand will receive a one-time grant of options, ranging from amounts of 100 to 1,000 shares. These options will vest in thirds over a three-year period beginning on the first anniversary of the date of grant.

ALLIANCE DATA SYSTEMS 401(K) AND RETIREMENT SAVINGS PLAN

The Alliance Data Systems 401(k) and Retirement Savings Plan is a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code of 1986. Contributions made by employees or by us to the plan, and income earned on these contributions, are not taxable to employees until withdrawn from the plan. The plan covers U.S. employees of ADS Alliance Data Systems, Inc., our wholly-owned subsidiary, and any other subsidiary or affiliated organization that adopts this plan. We and all of our U.S. subsidiaries are currently covered under the plan. All employees who are at least 21 years old and who we have employed for at least 30 days are eligible to participate.

Under this plan, we make regular matching contributions on the first 3% of each participant's contributions. An additional matching contribution on the second 3% of each participant's contributions may be made annually at the discretion of our board of directors. Each of our matching contributions vests 20% over five years for employees with less than five years of service. All contributions vest immediately if the participating employee retires at age 65, becomes disabled, dies or is terminated without cause. In addition to matching contributions, we make a non-discretionary retirement contribution based on the participant's age and years of service with us. The retirement contributions become 100% vested once the participant has served five years with us.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

We adopted the ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan in May 1999 to help certain key individuals maximize their pre-tax savings and company contributions that are otherwise restricted due to tax limitations. Eligibility under the plan requires an individual to: (1) be a regular, full-time U.S. employee of ADS Alliance Data Systems, (2) receive compensation equal to or greater than the IRS compensation limit as of December 31 of the previous calendar year and (3) be a participant in the Alliance Data Systems 401(k) and Retirement Savings Plan.

This plan allows the participant to contribute:

- up to 16% of eligible compensation on a pre-tax basis;

- any 401(k) contributions that would otherwise be returned because of reaching the statutory limit; and

- any retirement savings plan contributions for compensation in excess of the statutory limits.

The participant is 100% vested in his or her own contributions. A participant becomes 100% vested in the retirement savings plan contributions after five continuous years of service. The contributions accrue interest at a rate of 8% a year, which may be adjusted periodically by the 401(k) and Retirement Savings Plan Investment Committee.

The participant does not have access to any of the contributions or interest while actively employed with us, unless the participant experiences an unforeseeable financial emergency. Loans are not available under this plan. If the participant ceases to be actively employed, retires or becomes disabled, the participant will receive the value of his or her account within 60 days of the end of the quarter in which he or she became eligible for the distribution. A distribution from the plan is taxed as ordinary income and is not eligible for any special tax treatment.

2000 INCENTIVE COMPENSATION PLAN

The Alliance Data Systems 2000 Incentive Compensation Plan provides an opportunity for certain U.S. employees to be eligible for a cash bonus based on achieving certain objectives. To be eligible under the plan, employees must meet certain eligibility requirements and be selected by the compensation committee.

Under the plan, each participant has an incentive compensation target that is expressed as a percentage of annual base earnings. The participant's incentive compensation target is based on various objectives that are weighted to reflect the participant's contributions to company, business unit and individual goals, which are established at the beginning of the plan year. The company objective is based on our operating income, the business unit objective is based on financial and operational objectives and the individual objectives are items of importance to us that the individual can impact. The amount of compensation a participant receives depends on the percentage of objectives that were achieved. Eighty percent of the objectives must be achieved before a participant is eligible for any payout. The maximum payout is equal to 150% of the participant's incentive compensation target.

EMPLOYEE STOCK PURCHASE PLAN

We adopted the Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan in February 2001. We intend for the plan to qualify under section 423 of the Internal Revenue Code. The plan permits our eligible employees and those of our designated subsidiaries to purchase our common stock at a discount to the market price through payroll deductions. No employee may purchase more than $25,000 in stock under the plan in any calendar year, and no employee may purchase stock under the plan if such purchase would cause the employee to own more than 5% of the voting power or value of our common stock. We have authorized the issuance of up to 1,500,000 shares of common stock under the plan.

The plan provides for three month offering periods, beginning on each January 1, April 1, July 1 and October 1. We anticipate that October 1, 2001 will begin the first offering period, but the plan allows the board of directors to change this date as well as the date, duration and frequency of any future offering period. The plan has a term of ten years, unless terminated sooner by our board of directors pursuant to the provisions of the plan.

On the offering date at the beginning of each offering period, each eligible employee is granted an option to purchase a number shares of common stock, which option is exercised automatically on the purchase date at the end of the offering period. The purchase price of the common stock upon exercise of the options will be 85% of its fair market value on the offering date or purchase date, whichever is lower.

PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of December 31, 2000 by:

(1) each person who is known by us to own beneficially more than 5% of our common stock;

(2) each current director and director nominee;

(3) each of the named executive officers; and

(4) all directors and executive officers as a group.

Except as indicated in this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. Percentage of ownership is based on 57,619,893 shares of our common stock outstanding on December 31, 2000, and 70,619,893 shares of our common stock outstanding after completion of this offering, both of which reflect the conversion of all outstanding shares of Series A preferred stock into common shares.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED BEFORE AND AFTER OFFERING(1)	PERCENT OF SHARES BENEFICIALLY OWNED(1)	
		BEFORE OFFERING	AFTER OFFERING
Welsh, Carson, Anderson & Stowe(2) 320 Park Avenue, Suite 2500 New York, New York 10022-6815	42,826,142	74.3%	60.6%
Limited Commerce Corp. Three Limited Parkway Columbus, Ohio 43230	14,663,376	25.5%	20.8%
J. Michael Parks(3)	298,609	*	*
Ivan Szeftel(4)	61,111	*	*
Michael A. Beltz(5)	72,221	*	*
John Scullion(6)	41,667	*	*
Edward K. Mims(7)	36,111	*	*
James E. Anderson(8)	43,055	*	*
Bruce K. Anderson(9)	355,910	*	*
Anthony J. deNicola(9)	34,166	*	*
Robert A. Minicucci(9)	117,427	*	*
Daniel P. Finkelman	--	*	*
Bruce A. Soll	--	*	*
Kenneth R. Jensen	--	*	*
All directors and executive officers as a group (15 individuals)(10)	1,121,248	1.9%	1.6%

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* Less than 1%

(1) Beneficial ownership is determined in accordance with the SEC's rules. In computing percentage ownership of each person, shares of common stock subject to options, warrants or convertible preferred stock held by that person that are currently exercisable or convertible, or exercisable or convertible within 60 days of December 31, 2000, are deemed to be beneficially owned. These

shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of each other person.

(2) Includes 10,074,524 shares issuable upon conversion of Series A preferred stock owned of record by WCAS VIII L.P., WCAS Information Partners, L.P., Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Richard H. Stowe, Andrew M. Paul, Thomas E. McInerney, McInerney Gabrielle Family Limited Partnership, Laura M. VanBuren, James B. Hoover, Robert A. Minicucci, Anthony J. deNicola, Paul B. Queally, Lawrence B. Sorrel, Priscilla A. Newman, Rudolph E. Rupert, D. Scott Mackesy, Kenneth Melkus, David F. Bellet, Sean Traynor, John Almeida and Jonathan M. Rather. Also includes:

- 5,555,550 shares of common stock held by Welsh, Carson, Anderson & Stowe VI, L.P.,

- 17,922,447 shares of common stock held by Welsh, Carson, Anderson & Stowe VII, L.P.,

- 7,161,616 shares of common stock held by Welsh, Carson, Anderson & Stowe VIII, L.P.,

- 109,568 shares of common stock held by WCAS Information Partners LP,

- 268,398 shares of common stock held by WCAS Capital Partners II LP,

- 655,555 shares of common stock held by WCAS Capital Partners III LP,

- 193,990 shares of common stock held by Patrick J. Welsh,

- 11,111 shares of common stock held by Carol Ann Welsh FBO Eric Welsh U/A dtd 11/26/84,

- 11,111 shares of common stock held by Carol Ann Welsh FBO Randall Welsh U/A dtd 11/26/84,

- 11,111 shares of common stock held by Carol Ann Welsh FBO Jennifer Welsh U/A dtd 11/26/84,

- 202,352 shares of common stock held by Russell L. Carson,

- 246,039 shares of common stock held by Bruce K. Anderson,

- 62,225 shares of common stock held by Richard H. Stowe,

- 59,835 shares of common stock held by Andrew M. Paul,

- 51,315 shares of common stock held by Thomas E. McInerney,

- 51,315 shares of common stock held by McInerney Gabrielle Family Partnership,

- 3,914 shares of common stock held by Laura Van Buren,

- 6,820 shares of common stock held by James B. Hoover,

- 81,051 shares of common stock held by Robert A. Minicucci,

- 23,677 shares of common stock held by Anthony J. deNicola,

- 14,250 shares of common stock held by Paul B. Queally,

- 13,573 shares of common stock held by IRA FBO David F. Bellett DLJSC as Custodian IRA Rollover Account,

- 5,050 shares of common stock held by David F. Bellett,

- 1,666 shares of common stock held by Kristin M. Anderson,

- 1,666 shares of common stock held by Daniel B. Anderson,

- 1,666 shares of common stock held by Mark S. Anderson,

- 10,101 shares of common stock held by Lawrence Sorrel,

- 2,020 shares of common stock held by Priscilla Newman,

- 10,101 shares of common stock held by Rudolph Rupert, and

- 2,525 shares of common stock held by D. Scott Mackesy.

(3) Represents options to purchase 298,609 shares of common stock which are exercisable within 60 days of December 31, 2000.

(4) Represents options to purchase 61,111 shares of common stock which are exercisable within 60 days of December 31, 2000.

(5) Represents options to purchase 72,221 shares of common stock which are exercisable within 60 days of December 31, 2000.

(6) Represents options to purchase 41,667 shares of common stock which are exercisable within 60 days of December 31, 2000.

(7) Represents options to purchase 36,111 shares of common stock which are exercisable within 60 days of December 31, 2000.

(8) Represents options to purchase 43,055 shares of common stock which are exercisable within 60 days of December 31, 2000.

(9) The number of shares beneficially owned by Messrs. Anderson, deNicola and Minicucci includes 109,871, 10,489 and 36,376 shares issuable upon conversion of Series A preferred stock, respectively. Each of Messrs. Anderson, deNicola and Minicucci are partners of Welsh, Carson, Anderson & Stowe and certain of its affiliates and may be deemed to be the beneficial owner of the common stock beneficially owned by Welsh Carson and described in note 2 above.

(10) Includes options to purchase an aggregate of 613,745 shares of common stock which are exercisable within 60 days of December 31, 2000 held by Messrs. Parks, Szeftel, Beltz, Mims, James E. Anderson, Heffernan, Kubic, Melvin, Scullion, Tucker and Walensky and 150,857 shares issuable upon conversion of Series A preferred stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH WELSH, CARSON, ANDERSON & STOWE

Welsh, Carson, Anderson & Stowe VI, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Capital Partners II, L.P., WCAS Capital Partners III, L.P., WCAS Information Partners, L.P., WCA Management Corporation and various individuals who are limited partners of the Welsh Carson limited partnerships beneficially owned approximately 74.3% of our outstanding common stock as of December 31, 2000. The individual partners of the Welsh Carson limited partnerships include Bruce K. Anderson, Anthony J. deNicola and Robert A. Minicucci, each of whom is a member of our board of directors.

In July 1999, we sold 120,000 shares of Series A preferred stock to Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P. and 20 individuals who are partners of some or all of the Welsh Carson limited partnerships for an aggregate purchase price of $120.0 million. The preferred shares were issued to finance, in part, the acquisition of the network services business of SPS Payment Systems, Inc. Prior to the completion of this offering, these preferred shares will be converted into an aggregate of 10,074,524 shares of our common stock.

In July 1998, we sold 10,101,010 shares of common stock to Welsh, Carson, Anderson & Stowe VIII, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., WCAS Information Partners, L.P., and 16 individuals who are partners of some or all of the Welsh Carson limited partnerships for an aggregate purchase price of $100.0 million. The shares were issued to finance, in part, the acquisition of all outstanding stock of Loyalty.

In August 1998, we sold 30,303 shares of common stock to WCAS Capital Partners II, L.P. for $9.90 per share as consideration for WCAS Capital Partners II, L.P. extending the maturity of a 10% subordinated note we issued to it in January 1996 in the principal amount of $30.0 million and originally due January 24, 2002. Principal on the note is due on October 25, 2005 and interest is payable semi-annually in arrears on each January 1 and July 1. The note was originally issued to finance, in part, the acquisition of BSI Business Services, Inc., now known as ADS Alliance Data Systems, Inc. This note will be paid in full with the proceeds of this offering.

In September 1998, we issued 655,555 shares of common stock to WCAS Capital Partners III, L.P. and issued a 10% subordinated note to WCAS Capital Partners III, L.P. in the principal amount of $52.0 million to finance, in part, the acquisition of Harmonic Systems Incorporated. Principal on the note is due in two equal installments on September 15, 2007 and September 15, 2008. Interest is payable semi-annually in arrears on each March 15 and September 15. This note will be paid in full with the proceeds of this offering.

We paid Welsh, Carson, Anderson & Stowe $2.0 million in 1998 and $1.2 million in 1999 for investment banking services rendered in connection with our acquisitions.

TRANSACTIONS WITH THE LIMITED

Limited Commerce Corp. beneficially owned approximately 25.5% of our common stock as of December 31, 2000. Limited Commerce Corp. is indirectly owned by The Limited, Inc. Therefore, The Limited, Inc., a significant customer of ours, indirectly owns one of our principal stockholders. Pursuant to a stockholders agreement with Welsh Carson and Limited Commerce Corp., Limited Commerce Corp. has the right to designate two members of our board of directors. Mr. Finkelman and Mr. Soll are the current Limited Commerce Corp. designees on our board of directors.

The Limited, Inc. operates through a variety of retail and catalog affiliates that operate under different names, including Bath & Body Works, The Limited Stores, Structure, Victoria's Secret Catalogue, Victoria's Secret Store, Lerner New York, Lane Bryant and Express. Many of these affiliates have entered into credit card processing agreements with World Financial. These affiliates of The Limited represented approximately 65% of our credit card receivables as of December 31, 2000.

Pursuant to these credit card processing agreements, World Financial provides credit card processing services and issues private label credit cards on behalf of the businesses. Under these agreements, World Financial pays the business an amount equal to the amount charged by the business's customers using the private label credit card issued by World Financial, less a discount, which varies among agreements. World Financial assumes the credit risk for these credit card transactions. Payments are also made to World Financial from the businesses relating to credit card issuance and processing.

Most of these credit card processing agreements were entered into in 1996 and expire in 2006. These agreements give the businesses various termination rights, including the ability to terminate these contracts under certain circumstances after the first six years if World Financial is unable to remain competitive with independent third parties that provide similar services.

In general, World Financial owns information relating to the holders of credit cards issued under these agreements, but World Financial is prohibited from disclosing information about these holders to third parties that The Limited determines competes with The Limited or its affiliated businesses. World Financial is also prohibited from providing marketing services to competitors of The Limited or its affiliated businesses as determined by The Limited. World Financial may provide marketing services to other third parties that are not competitors of The Limited or its affiliated businesses, but it must share revenue from these services with The Limited and its affiliated businesses.

We periodically enter into agreements with various retail affiliates of The Limited to provide database marketing programs and projects. These agreements are generally short-term in nature, ranging from three to six months.

In September 2000, our subsidiary, ADS Alliance Data Systems, Inc., entered into a marketing database services agreement with The Limited, Inc. and one of its affiliates, Intimate Brands, Inc., which wholly owns Victoria's Secret and Bath & Body Works. In this agreement, ADS agreed to provide an information database system capable of capturing certain consumer information when a consumer makes a purchase, excluding purchases for credit or financial products, at Bath & Body Works, The Limited Stores, Structure, Victoria's Secret Store, Lerner New York, Lane Bryant and Express, and to provide database marketing services. Under the agreement, ADS has the right to sell data provided to ADS by affiliates of The Limited under the agreement, subject to the privacy policies of The Limitied and Intimate Brands and their consent. However, ADS is prohibited from disclosing or selling any of this information to third parties who, in the sole judgement of The Limited and Intimate Brands, compete with affiliates or subsidiaries of The Limited. ADS is required to share revenues generated by the sale of such data with The Limited and Intimate Brands. This agreement expires in 2003, but can be terminated earlier by The Limited and Intimate Brands if we fail to meet specified service standards.

We received total revenues directly from The Limited and its retail affiliates of $40.6 million during fiscal 1998, $46.6 million during 1999 and $46.7 million during 2000.

In August 1998, we sold 20,202 shares of common stock to Limited Commerce Corp. for $9.90 per share as consideration for Limited Commerce Corp. extending the maturity of a 10% subordinated note we issued in January 1996 to WCAS Capital Partners II, L.P., which sold the note to Limited Commerce Corp. The note is in the principal amount of $20.0 million and was originally due January 24, 2002. Principal on the note is due on October 25, 2005 and interest is payable semi-annually in arrears on each January 1 and July 1. The note was originally issued to finance, in part, the acquisition of BSI Business Services, Inc., now known as ADS Alliance Data Systems, Inc. This note will be paid in full with the proceeds of this offering.

STOCKHOLDERS AGREEMENT WITH WELSH CARSON AND THE LIMITED

In connection with the above sale of shares to the Welsh Carson affiliates and Limited Commerce Corp., we entered into a stockholders agreement, as amended, with Limited Commerce Corp., various Welsh Carson affiliates and various individual stockholders who are partners in some or all of the Welsh Carson limited partnerships. This agreement contains transfer restrictions, various stockholder rights, registration rights, provisions allowing Welsh Carson and Limited Commerce Corp. to designate a portion of our board of directors, provisions relating to the amendment of our certificate of incorporation and bylaws and capital calls. Welsh Carson also has the right to appoint a representative to attend and participate in board and committee meetings. The Welsh Carson affiliates and Limited Commerce Corp. have waived their registration rights in connection with this offering. Upon completion of this offering, this stockholders agreement will be replaced with a new agreement with the Welsh Carson affiliates and Limited Commerce Corp.

Under the new stockholders agreement, the Welsh Carson affiliates and Limited Commerce Corp. will each have two demand registration rights, as well as "piggyback" registration rights. The demand rights will enable the Welsh Carson affiliates and Limited Commerce Corp. to require us to register their shares with the SEC under the Securities Act at any time after the consummation of this initial public offering. Piggyback rights will allow the Welsh Carson affiliates and Limited Commerce Corp. to register the shares of our common stock that they purchased along with any shares that we register with the SEC. These registration rights are subject to customary conditions and limitations, including the right of the underwriters of an offering to limit the number of shares.

Under the new stockholders agreement, the size of our board of directors is set at nine. Welsh Carson has the right to designate up to three nominees for election to the board of directors as long as it owns more than 20% of our common stock. Limited Commerce Corp. has the right to designate up to two of the members as long as it owns more than 10% of our common stock and one of the members as long as it owns between 5% and 10% of our common stock.

U.S. LOYALTY PROGRAM

We have evaluated the creation of a loyalty program in the U.S. similar to our Air Miles reward program in Canada. Because of the significant funding requirements to establish such a program, we have decided not to pursue the program. Our existing stockholders have decided to pursue the program through a separate company called U.S. Loyalty Corp., which they have funded. We do not and will not have any ownership interest in U.S. Loyalty Corp.

We intend to provide various services to U.S. Loyalty Corp. including management support, accounting, transaction processing, data processing and marketing under various agreements that we plan to enter into with U.S. Loyalty Corp. We contemplate that such agreements will include a management agreement, an employee lease agreement, a processing agreement and a royalty agreement. Under the royalty agreement, we will enable U.S. Loyalty Corp. to use the Air Miles brand name and business concept in the United States.

The stockholders of U.S. Loyalty Corp. include Welsh Carson and Limited Commerce Corp. as well as all of our directors and officers who have options to purchase shares of our common stock. Robert A. Minicucci, who is a stockholder and one of our directors, is the sole director and an officer and a stockholder of U.S. Loyalty Corp. The board of directors of U.S. Loyalty Corp. will consist of up to three Welsh Carson designees and up to two designees of The Limited.

We have no rights to share in any profits that might be earned by U.S. Loyalty Corp. Any sums of money received by us from U.S. Loyalty Corp. will be limited to amounts paid to us under the above agreements, which are being negotiated on an arm's-length basis.

INTERCOMPANY INDEBTEDNESS

In December 1998, our subsidiaries issued to us revolving promissory notes, due November 30, 2002, as described below. Principal payments are due on demand. These notes are still outstanding except that the note issued to us by ADS Alliance Data Systems, Inc. in December 1998 was canceled in connection with ADS Alliance Data Systems, Inc. issuing us a new revolving promissory note in January 2000. The notes with our subsidiaries accrue interest at 10% per annum and interest is payable quarterly or upon demand.

	CREDIT LINE	AMOUNT OF PRINCIPAL OUTSTANDING AS OF DECEMBER 31, 2000
World Financial Network National Bank note..................	$100,000,000	$ --
ADS Alliance Data Systems, Inc. note........................	300,000,000	265,000,000
Alliance Data Systems (New Zealand) Limited note............	11,250,000	9,750,000
Loyalty Management Group Canada Inc. note...................	20,000,000	--

DESCRIPTION OF CAPITAL STOCK

Upon the completion of this offering, our authorized capital stock will consist of 200,000,000 shares of common stock, par value $0.01 per share, of which 70,619,893 shares will be issued and outstanding, and 20,000,000 shares of preferred stock, par value $0.01 per share, of which no shares will be outstanding. The following summary of our capital stock is qualified in its entirety by reference to our certificate of incorporation and our bylaws filed as exhibits to this registration statement.

COMMON STOCK

Our common stockholders are entitled to one vote for each share on all matters voted upon by our stockholders, including the election of directors, and do not have cumulative voting rights. Subject to the rights of holders of any then outstanding shares of our preferred stock, our common stockholders are entitled to any dividends that may be declared by our board of directors. Holders of our common stock are entitled to share ratably in our net assets upon our dissolution or liquidation after payment or provision for all liabilities and any preferential liquidation rights of our preferred stock then outstanding. Our common stockholders have no preemptive rights to purchase shares of our stock. The shares of our common stock are not subject to any redemption provisions and are not convertible into any other shares of our capital stock. All outstanding shares of our common stock are, and the shares of common stock to be issued in the offering will be, upon payment therefor, fully paid and nonassessable. The rights, preferences and privileges of holders of our common stock will be subject to those of the holders of any shares of our preferred stock we may issue in the future.

PREFERRED STOCK

Our board of directors may from time to time authorize the issuance of one or more classes or series of preferred stock without stockholder approval. Subject to the provisions of our certificate of incorporation and limitations prescribed by law, our board of directors is authorized to adopt resolutions to issue shares, establish the number of shares, change the number of shares constituting any series, and provide or change the voting powers, designations, preferences and relative rights, qualifications, limitations or restrictions on shares of our preferred stock, including dividend rights, terms of redemption, conversion rights and liquidation preferences, in each case without any action or vote by our stockholders.

One of the effects of undesignated preferred stock may be to enable our board of directors to discourage an attempt to obtain control of our company by means of a tender offer, proxy contest, merger or otherwise. The issuance of preferred stock may adversely affect the rights of our common stockholders by, among other things:

- restricting dividends on the common stock;

- diluting the voting power of the common stock;

- impairing the liquidation rights of the common stock; or

- delaying or preventing a change in control without further action by the stockholders.

SERIES A PREFERRED STOCK

Upon consummation of the offering, all of the outstanding shares of Series A preferred stock will be converted into shares of common stock and there will be no Series A preferred stock outstanding. The shares of Series A preferred stock will convert into a number of common shares equal to the per share dividend preference amount plus accrued dividends, divided by the lesser of (1) $13.50 and (2) the initial public offering price.

EFFECTS OF AUTHORIZED BUT UNISSUED STOCK

Upon consummation of the offering there will be 200,000,000 authorized but unissued shares of our common stock and 20,000,000 shares of preferred stock available for our future issuance without stockholder approval. Of the shares of common stock available for future issuance, 8,753,000 shares have been reserved for issuance under our stock option and restricted stock purchase plan and 1,500,000 shares have been reserved for issuance under our employee stock purchase plan.

Shares of common stock and preferred stock available for future issuance may be utilized for a variety of corporate purposes, including to facilitate acquisitions or future public offerings to raise additional capital. We do not currently have any plans to issue additional shares of common stock or preferred stock, other than shares of common stock issuable under our stock option plan.

ANTI-TAKEOVER CONSIDERATIONS AND SPECIAL PROVISIONS OF THE CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW

CERTIFICATE OF INCORPORATION AND BYLAWS. A number of provisions of our certificate of incorporation and bylaws concern matters of corporate governance and the rights of our stockholders. Provisions such as those that provide for the classification of our board of directors and that grant our board of directors the ability to issue shares of preferred stock and to set the voting rights, preferences and other terms thereof may have an anti-takeover effect by discouraging takeover attempts not first approved by our board of directors, including takeovers which may be considered by some stockholders to be in their best interests. To the extent takeover attempts are discouraged, temporary fluctuations in the market price of our common stock, which may result from actual or rumored takeover attempts, may be inhibited. Such provisions also could delay or frustrate the removal of incumbent directors or the assumption of control by stockholders, even if such removal or assumption would be beneficial to our stockholders. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even if they could be favorable to the interests of stockholders, and could potentially depress the market price of our common stock. Our board of directors believes that these provisions are appropriate to protect our interests and the interests of our stockholders.

CLASSIFIED BOARD OF DIRECTORS. Our certificate of incorporation divides our board of directors into three classes. The directors in each class serve in terms of three years and until their successors are duly elected and qualified. The terms of directors are staggered by class. The classification system of electing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of our company and may maintain the incumbency of our board of directors, as this structure generally increases the difficulty of, or may delay, replacing a majority of the directors. Our bylaws provide that directors may be removed only for cause by the holders of a majority of the shares entitled to vote at an election of directors. A majority of the directors then in office may elect a successor to fill any vacancies or newly created directorships.

MEETINGS OF STOCKHOLDERS. Our bylaws provide that annual meetings of our stockholders may take place at the time and place established by our board of directors, provided that the date is not more than 120 days after the end of our fiscal year. A special meeting of our stockholders may be called by our board of directors or our chief executive officer and will be called by our chief executive officer or secretary upon written request by a majority of our board of directors.

ADVANCE NOTICE PROVISIONS. Our bylaws provide that nominations for directors may not be made by stockholders at any annual or special meeting thereof unless the stockholder intending to make a nomination notifies us of its intention a specified number of days in advance of the meeting and furnishes to us certain information regarding itself and the intended nominee. Our bylaws also require a stockholder to provide to our secretary advance notice of business to be brought by such stockholder before any annual or special meeting of our stockholders, as well as certain information regarding the stockholder and any material interest the stockholder may have in the proposed business. These provisions could delay stockholder actions that are favored by the holders of a majority of our outstanding stock until the next stockholders' meeting.

AMENDMENT OF THE BYLAWS. Our bylaws may be altered, amended, repealed or replaced by our board of directors or our stockholders at any annual or regular meeting, or at any special meeting if notice of the alteration, amendment, repeal or replacement is given in the notice of the meeting.

DELAWARE ANTI-TAKEOVER LAW. We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents certain Delaware corporations, under certain circumstances, from engaging in a "business combination" with:

- a stockholder who owns 15% or more of our outstanding voting stock (otherwise known as an "interested stockholder"),

- an affiliate of an interested stockholder, or

- an associate of an interested stockholder,

for three years following the date that the stockholder became an "interested stockholder." A "business combination" includes a merger or sale of more than 10% of our assets.

However, the above provisions of Section 203 do not apply if:

- our board approves the transaction that made the stockholder an "interested stockholder," prior to the date of that transaction;

- after the completion of the transaction that resulted in the stockholder becoming an "interested stockholder," that stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding shares owned by our officers and directors; or

- on or subsequent to the date of the transaction, the business combination is approved by our board and authorized at a meeting of our stockholders by an affirmative vote of at least two-thirds of the outstanding voting stock not owned by the "interested stockholder."

This statute could prohibit or delay mergers or other change in control attempts, and thus may discourage attempts to acquire us.

LIMITATIONS ON LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS

Our certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, to the fullest extent permitted by Delaware law.

Our certificate of incorporation and bylaws provide that:

- we must indemnify our directors, officers, employees and agents to the fullest extent permitted by applicable law; and

- we must advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the fullest extent permitted by Delaware law, subject to very limited exceptions.

Prior to the consummation of this offering, we intend to obtain directors' and officers' insurance for our directors, officers and some employees for specified liabilities.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. They may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though an action of this kind, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholders' investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. However, we believe that these indemnification provisions are necessary to attract and retain qualified directors and officers.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is EquiServe Trust Company, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Future sales of a substantial number of shares of our common stock in the public market could adversely affect trading prices prevailing from time to time. As of December 31, 2000, principal stockholders held 57,489,518 shares, representing 99.8% of the outstanding shares of our common stock. After this offering, we will have 70,619,893 shares of our common stock outstanding. Of these shares, all shares sold in the offering, other than shares, if any, purchased by our affiliates, will be freely tradable. Of the remaining 57,619,893 shares, 10,625 shares will be freely transferable and 57,609,268 shares will be "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted shares may be sold in the public market only if such sale is registered under the Securities Act or if such sale qualifies for an exemption from registration, such as the one provided by Rule 144. Sales of the restricted shares in the open market, or the availability of such shares for sale, could adversely affect the trading price of our common stock.

LOCK-UP AGREEMENTS

Executive officers, directors and other stockholders who hold in the aggregate approximately 57,252,490 shares of our common stock and options to purchase approximately 3,012,524 shares of our common stock, have agreed not to sell or otherwise dispose of any shares of our common stock for a period of 180 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc. The underwriters do not intend to release the executive officers, directors or other stockholders, including Welsh Carson and Limited Commerce Corp., from the lock-up agreements; however, any of these stockholders could be released from the lock-up agreements prior to expiration without notice.

RULE 144

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned restricted shares for at least one year following the later of the date of the acquisition of such shares from the issuer or from an affiliate of the issuer would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding; or

- the average weekly trading volume of our common stock during the four calendar weeks preceding the sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and the availability of current public information about us.

RULE 144(K)

Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years following the later of the date of the acquisition of such shares from the issuer or an affiliate of the issuer, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

RULE 701

In general, under Rule 701, subject to the lock-up agreements described above, employees or directors who purchase shares from us in connection with our stock option plan or other written agreements are eligible to resell these shares 90 days after the date of this offering in reliance on Rule 144, without compliance with certain restrictions contained in Rule 144, including the holding period.

We intend to file a registration statement on Form S-8 to register shares of common stock reserved for issuance under our stock option plan. This registration statement will permit the resale of shares issued under the stock option plan by non-affiliates in the public market without restriction, subject to the lock-up agreements.

UNDERWRITING

UNDERWRITING AGREEMENT. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, each of the underwriters named below, for whom Bear, Stearns & Co. Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse First Boston are acting as representatives, has severally agreed to purchase from us the number of shares of common stock set forth opposite its name below:

UNDERWRITER	NUMBER OF SHARES
Bear, Stearns & Co. Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Credit Suisse First Boston	
Total	13,000,000

The obligations of the underwriters under the underwriting agreement are several and not joint. This means that each underwriter is obligated to purchase from us only the number of shares of common stock set forth opposite its name in the table above. Except in limited circumstances set forth in the underwriting agreement, an underwriter has no obligation in relation to the shares of common stock which any other underwriter has agreed to purchase.

The underwriting agreement provides that the obligations of the several underwriters are subject to approval of various legal matters by their counsel and to various other conditions including delivery of legal opinions by our counsel, the delivery of a letter by our independent auditors and the accuracy of the representations and warranties made by us in the underwriting agreement. Under the underwriting agreement, the underwriters are obliged to purchase and pay for all of the above shares of common stock if any are purchased.

PUBLIC OFFERING PRICE AND DEALERS CONCESSION. The underwriters propose initially to offer the shares of common stock offered by this prospectus to the public at the initial public offering price per share set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and these dealers may reallow, concessions not in excess of $ per share on sales to certain other dealers. After commencement of this offering, the offering price, concessions and other selling terms may be changed by the underwriters. No such change will alter the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

OVER-ALLOTMENT OPTION. We have granted the underwriters an option, which may be exercised within 30 days after the date of this prospectus, to purchase up to 1,950,000 additional shares of common stock to cover over-allotments, if any, at the initial public offering price less the underwriting discount, each as set forth on the cover page of this prospectus. If the underwriters exercise this option in whole or in part, each of the underwriters will be severally committed, subject to certain conditions, to purchase these additional shares of common stock in proportion to their respective purchase commitments as indicated in the preceding table and we will be obligated to sell these additional shares to the underwriters. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the shares of common stock offered by this prospectus. These additional shares will be sold by the underwriters on the same terms as those on which the shares offered by this prospectus are being sold.

UNDERWRITING COMPENSATION. The following table summarizes the compensation to be paid to the underwriters by us in connection with this offering:

	PER SHARE	TOTAL: WITHOUT EXERCISE OF THE OVER-ALLOTMENT OPTION	TOTAL: WITH EXERCISE OF THE OVER-ALLOTMENT OPTION
Underwriting discounts...........			

INDEMNIFICATION AND CONTRIBUTION. In the underwriting agreement, we have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in connection with these liabilities.

DISCRETIONARY ACCOUNTS. The underwriters have informed us that they do not intend to confirm sales to any account over which they exercise discretionary authority.

LOCK-UP AGREEMENTS. We, all of our directors and executive officers and other stockholders, including Welsh Carson and Limited Commerce Corp., holding an aggregate of approximately 57,252,490 shares of our common stock, and options to purchase approximately 3,012,524 shares of our common stock, have agreed not to sell or offer to sell or otherwise dispose of any shares of our common stock, subject to certain exceptions, for a period of 180 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc. The underwriters do not intend to release the executive officers, directors or other stockholders, including Welsh Carson and Limited Commerce Corp., from the lock-up agreements; however, any of these stockholders could be released from the lock-up agreements prior to expiration without notice.

DETERMINATION OF OFFERING PRICE. Prior to this offering, there has been no market for our common stock. Accordingly, the initial public offering price for the common stock was determined by negotiation between us and the representatives of the underwriters. Among the factors considered in these negotiations were:

- the results of our operations in recent periods;
- our financial condition;
- estimates of our future prospects and of the prospects for the industry in which we compete;
- an assessment of our management;
- the general state of the securities markets at the time of this offering; and
- the prices of similar securities of companies considered comparable to us.

We are applying to have our common stock listed on the New York Stock Exchange under the symbol "ADS". There can be no assurance, however, that an active or orderly trading market will develop for our common stock or that our common stock will trade in the public markets after this offering at or above the initial offering price.

RESERVED SHARE PROGRAM. The underwriters have reserved for sale, at the initial public offering price, up to 650,000 shares of our common stock for our employees, directors and other persons or entities with whom we have a business relationship. The number of shares available for sale to the general public in the offering will be reduced to the extent those persons purchase these reserved shares. Purchases of reserved shares are to be made through accounts at Merrill Lynch, Pierce, Fenner & Smith Incorporated or, with regard to sales made in Canada, through accounts at Merrill Lynch Canada Inc., in accordance with their procedures for opening accounts and effecting transactions in securities. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered in this offering.

PROSPECTUS IN ELECTRONIC FORMAT. CSFBdirect Inc., an affiliate of Credit Suisse First Boston, is making a prospectus in electronic format available on its Internet Web site. The underwriters have agreed to allocate a limited number of shares to CSFBdirect for sale to its qualified brokerage account holders. Other than the prospectus in electronic format, the information on such web site is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter in such capacity and should not be relied on by prospective investors.

STABILIZATION AND OTHER TRANSACTIONS. In order to facilitate this offering, persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock during and after this offering, including over-allotment, stabilizing and short-covering transactions and the imposition of penalty bids. Specifically, the underwriters may over-allot or otherwise create a short position in the common stock for their own account by selling more shares of common stock than have been sold to them by us. The underwriters may elect to cover this short position by purchasing shares of common stock in the open market or by exercising the over-allotment option granted to the underwriters. In addition, the underwriters may stabilize or maintain the price of the common stock by bidding for or purchasing shares of common stock in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in this offering are reclaimed if shares of common stock previously distributed in this offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the common stock to the extent that it discourages resales. No representation is made as to the magnitude or effect of these stabilization transactions. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

NYSE UNDERTAKING. Bear, Stearns & Co. Inc., on behalf of the underwriters, has undertaken with the New York Stock Exchange to meet the New York Stock Exchange distribution standards of 2,000 round lot holders with 100 shares or more, with 1.1 million shares outstanding and a minimum public market value of $60.0 million.

LEGAL MATTERS

The validity of the shares of our common stock offered hereby will be passed upon for us by Akin, Gump, Strauss, Hauer & Feld, L.L.P. Legal matters in connection with this offering will be passed upon for the underwriters by Gibson, Dunn & Crutcher LLP, Los Angeles, California.

EXPERTS

The consolidated financial statements of Alliance Data Systems Corporation and subsidiaries as of December 31, 1999 and 2000 and for the eleven months ended December 31, 1998 and the years ended December 31, 1999 and 2000, included in this prospectus and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The financial statements of SPS Network Services for the year ended December 31, 1998 and the six months ended June 30, 1999 included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act for the common stock sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and the accompanying exhibits and schedules. For further information about us and our common stock, we refer you to the registration statement and the accompanying exhibits and schedules. Statements contained in this prospectus regarding the contents of any contract or any other document to which we refer are not necessarily complete. In each instance, reference is made to the copy of the contract or document filed as an exhibit to the registration statement, and each statement is qualified in all respects by that reference. Copies of the registration statement and the accompanying exhibits and schedules may be inspected without charge at the public reference facilities maintained by the Securities and Exchange Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at Seven World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of these materials may be obtained at prescribed rates from the Public Reference Room of the Securities and Exchange Commission Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the site is http://www.sec.gov.

After this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act. As a result, we will file periodic reports, proxy statements and other information with the Securities and Exchange Commission.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION

ALLIANCE DATA SYSTEMS CORPORATION

INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Alliance Data Systems Corporation

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the eleven months ended December 31, 1998 and the years ended December 31, 1999 and 2000. Our audits also include the financial statement schedule listed in the Index at Item 16. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the companies as of December 31, 1999 and 2000, and the results of their operations and their cash flows for the respective stated periods 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.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP

Columbus, Ohio
February 2, 2001

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	11 MONTHS ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
Revenues			
Transaction and marketing services	$264,928	$368,026	$415,792
Redemption revenue	17,000	59,017	87,509
Financing charges, net	119,352	141,947	156,349
Other income	9,633	14,092	18,545
Total revenue	410,913	583,082	678,195
Operating expenses			
Cost of operations	319,806	456,908	522,833
General and administrative	33,587	45,919	57,353
Depreciation and other amortization	8,270	16,183	26,265
Amortization of purchased intangibles	43,766	61,617	49,879
Total operating expenses	405,429	580,627	656,330
Operating income	5,484	2,455	21,865
Other non-operating expense	--	--	2,477
Interest expense	27,884	42,785	38,870
Loss from continuing operations before income taxes	(22,400)	(40,330)	(19,482)
Income tax expense (benefit)	(4,708)	(6,538)	1,841
Loss from continuing operations	(17,692)	(33,792)	(21,323)
Income (loss) from discontinued operations, net of income taxes	(300)	7,688	--
Loss on disposal of discontinued operations, net of income taxes	--	(3,737)	--
Net loss	$(17,992)	$(29,841)	$(21,323)
Loss from continuing operations per share--basic and diluted	$ (0.42)	$ (0.78)	$ (0.60)
Loss per share--basic and diluted	$ (0.43)	$ (0.86)	$ (0.60)
Weighted average shares--basic and diluted	41,729	47,498	47,538

See accompanying notes

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 1999	DECEMBER 31, 2000 ACTUAL	DECEMBER 31, 2000 PRO FORMA STOCKHOLDERS' EQUITY
			(UNAUDITED)
ASSETS			
Cash and cash equivalents	$ 56,546	$ 116,941	
Due from card associations	33,619	104,068	
Trade receivables less allowance for doubtful accounts ($1,079 and $3,876 at December 31, 1999 and 2000, respectively)	69,085	115,727	
Credit card receivables and seller's interest less allowance for doubtful accounts ($3,657 and $3,657 at December 31, 1999 and 2000, respectively)	150,804	137,865	
Redemption settlement assets	133,650	152,007	
Deferred tax asset, net	26,416	22,365	
Other current assets	34,148	26,809	
Total current assets	504,268	675,782	
Property and equipment, net	89,231	92,178	
Deferred tax asset, net	38,201	55,366	
Other non-current assets	31,470	18,753	
Due from securitizations	144,484	133,978	
Intangible assets and goodwill, net	493,609	444,549	
Total assets	$1,301,263	$1,420,606	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	$ 55,921	$ 63,570	
Accrued expenses	75,646	80,547	
Merchant settlement obligations	61,674	149,271	
Other liabilities	11,321	36,725	
Debt, current portion	118,225	161,725	
Total current liabilities	322,787	491,838	
Other liabilities	32,752	1,856	
Deferred revenue--service	84,474	88,931	
Deferred revenue--redemption	164,867	201,255	
Long-term and subordinated debt	316,911	274,335	
Total liabilities	921,791	1,058,215	
Commitments and contingencies			
Series A cumulative convertible preferred stock, $0.01 par value; 120 shares authorized, issued and outstanding	119,400	119,400	$ --
Stockholders equity:			
Common stock, $0.01 par value; authorized 66,667 shares (December 31, 1999), and 200,000 shares (December 31, 2000), issued and outstanding, 47,529 shares (December 31, 1999) and 47,545 shares (December 31, 2000)	475	475	576
Additional paid-in capital	226,174	226,323	345,622
Retained earnings	37,693	16,370	16,370
Accumulated other comprehensive income (loss)	(4,270)	(177)	(177)
Total stockholders' equity	260,072	242,991	362,391
Total liabilities and stockholders' equity	$1,301,263	$1,420,606	$1,420,606

See accompanying notes

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL COMPREHENSIVE LOSS	TOTAL STOCKHOLDERS' EQUITY
JANUARY 31, 1998	36,619	$ 366	$118,864	$ 85,526	$ --		$204,756
Net loss				(17,992)		$(17,992)	(17,992)
Other comprehensive income, net of tax:							
Unrealized gain on securities available-for-sale, net					1,207	1,207	1,207
Foreign currency translation adjustments					(208)	(208)	(208)
Other comprehensive income					999		
Total comprehensive loss						$(16,993)	
Common stock issued	10,868	109	106,933				107,042
DECEMBER 31, 1998	47,487	475	225,797	67,534	999		294,805
Net loss				(29,841)		$(29,841)	(29,841)
Other comprehensive loss, net of tax:							
Unrealized loss on securities available-for-sale, net					(4,684)	(4,684)	(4,684)
Foreign currency translation adjustments					(585)	(585)	(585)
Other comprehensive loss					(5,269)		
Total comprehensive loss						$(35,110)	
Common stock issued	42	--	377				377
DECEMBER 31, 1999	47,529	475	226,174	37,693	(4,270)		260,072
Net loss				(21,323)		$(21,323)	(21,323)
Other comprehensive income, net of tax:							
Unrealized gain on securities available for sale, net					3,774	3,774	3,774
Foreign currency translation adjustments					319	319	319
Other comprehensive income					4,093		
Total comprehensive loss						$(17,230)	
Common stock issued	16	--	149				149
DECEMBER 31, 2000	47,545	$ 475	$226,323	$ 16,370	$ (177)		$242,991

See accompanying notes

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

	11 MONTHS ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss from continuing operations................	$ (17,692)	$ (33,792)	$ (21,323)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Income (loss) from discontinued operations.....	(300)	7,688	--
Loss on disposal of discontinued operations....	--	(3,737)	--
Depreciation and amortization..................	52,036	77,800	76,144
Deferred income taxes..........................	(12,372)	(37,600)	(13,114)
Impairment of assets...........................	4,000	--	--
Accretion of deferred income...................	(9,395)	(5,950)	(5,967)
Provision (credit) for doubtful accounts.......	(3,383)	(3,540)	(2,797)
Change in operating assets and liabilities, net of acquisitions:			
Change in trade accounts receivables.........	(20,868)	81,276	(43,845)
Change in merchant settlement activity.......	--	10,480	17,148
Change in other assets.......................	(16,686)	33,449	20,056
Change in accounts payable and accrued expenses..................................	6,076	37,187	12,550
Change in deferred revenue...................	15,520	91,149	40,845
Change in other liabilities..................	12,099	11,621	475
Other operating activities...................	276	(14,393)	7,011
Net cash provided by operating activities..............................	9,311	251,638	87,183
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in redemption settlement assets.......	(14,704)	(63,976)	(18,357)
Purchase of credit card receivables............	--	(33,817)	--
Change in due from securitizations.............	5,470	(26,404)	14,280
Net cash paid for corporate acquisition........	(138,825)	(171,423)	--
Proceeds from sale of credit card receivable portfolios..................................	94,091	--	--
Change in seller's interest....................	(76,975)	22,471	12,703
Capital expenditures...........................	(14,443)	(36,302)	(33,083)
Net cash used in investing activities......	(145,386)	(309,451)	(24,457)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements...............	382,043	249,625	148,546
Repayment of borrowings........................	(325,803)	(294,473)	(147,551)
Proceeds from issuance of preferred stock......	--	119,400	--
Proceeds from issuance of common stock.........	107,042	377	149
Net cash provided by financing activities..............................	163,282	74,929	1,144
Effect of exchange rate changes.................	(766)	(7,606)	(3,475)
Change in cash and cash equivalents.............	26,441	9,510	60,395
Cash and cash equivalents at beginning of period..	20,595	47,036	56,546
Cash and cash equivalents at end of period.......	$ 47,036	$ 56,546	$ 116,941
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest paid..................................	$ 33,695	$ 43,215	$ 38,078
Income taxes paid..............................	$ 12,406	$ 25,242	$ 14,498

See accompanying notes

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACQUISITIONS

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. The Company creates value for its clients by assisting them in managing their customer relationships. Specifically the Company: (1) assists its clients in identifying and acquiring new customers; (2) facilitates and manages transactions between its clients and their customers through multiple distribution channels including in-store, catalog and the Internet; and (3) increases 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 transaction processing, including network services and bank card settlement and account processing and servicing, such as card processing, billing and payment processing and customer care. Credit Services provides underwriting and risk management services. Credit Services generally securitizes the credit card receivables that it underwrites from its private label programs. Marketing Services provides for loyalty programs, such as Air Miles reward miles, database marketing, direct marketing and enhancement services.

BASIS OF PRESENTATION--During fiscal 1998, the Company changed its year end to a calendar year end basis. Prior to December 31, 1998, the Company had a 52/53 week fiscal year that ended on the Saturday nearest January 31. Accordingly, fiscal 1998 represents the 11 months ended December 31, 1998, fiscal 1999 represents the year ended December 31, 1999 and fiscal 2000 represents the year ended December 31, 2000.

ACQUISITIONS--World Financial Network Holding Corporation ("WFNHC") provided private label credit card services and database marketing for The Limited. On January 24, 1996, Business Services Holdings, Inc. ("BSH") purchased J.C. Penney's credit card transaction service business, BSI Business Services, Inc. ("BSI"). On August 30, 1996, BSH was merged into WFNHC in a transaction accounted for as a reorganization of entities under common control. Prior to the merger, WFNHC and BSH were under common ownership and common management. Subsequent to the merger, WFNHC changed its name to Alliance Data Systems Corporation and BSI changed its name to ADS Alliance Data Systems, Inc. ("ADSI").

In July 1998, the Company acquired the stock of Loyalty Management Group Canada Inc. ("Loyalty") for approximately $183.0 million of net cash financed through a capital infusion of $100.0 million from stockholders and a bank loan of $100.0 million. The acquisition was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets acquired, approximately $182.0 million, was allocated to goodwill and is being amortized over 25 years using a straight-line basis. The results of operations of Loyalty have been included in the consolidated financial statements since July 1998.

In September 1998, the Company acquired the stock of Harmonic Systems Incorporated ("HSI") for approximately $51.3 million of net cash financed through subordinated notes of $52.0 million. The acquisition was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets acquired, approximately $38.4 million, was allocated to goodwill and is being amortized over 25 years using a straight-line basis. The results of operations of HSI have been included in the consolidated financial statements since September 1998.

In July 1999, the Company acquired the network services business of SPS Payment Systems, Inc. ("SPS"), a wholly-owned subsidiary of Associates First Capital Corporation, for approximately $170.0 million, which was financed by $120.0 million of Series A Cumulative Convertible Preferred Stock and $50.0 million of working capital. This transaction was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets,

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACQUISITIONS (CONTINUED)

approximately $142.5 million, was allocated to goodwill and other intangibles and is being amortized over periods ranging from three to 25 years using a straight-line basis. The results of operations of SPS have been included in the consolidated financial statements since July 1999.

2. SUMMARY OF SIGNIFICANT 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 network servicing 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.

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.

REDEMPTION SETTLEMENT ASSETS--These securities relate to the redemption fund for the Air Miles reward miles program and are held in trust for the benefit of funding redemptions by collectors. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of cumulative other comprehensive income. Debt securities for which the Company does not have the positive intent and ability to hold to maturity are classified as securities available-for-sale.

PROPERTY AND EQUIPMENT--Furniture, fixtures, computer equipment and software, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis, using estimated lives ranging from 3 to 15 years. Leasehold improvements are amortized over the remaining useful lives of the respective leases or the remaining useful lives of the improvements, whichever are 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 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 POLICY

TRANSACTION AND MARKETING SERVICES--The Company earns transaction fees, which are principally based on the number of transactions processed and statements generated and are recognized as such services are performed.

AIR MILES REWARD MILES 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 its service elements.

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)
This service element consists of direct marketing and support services provided to sponsors (the "Service element").

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).

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 reward miles that the Company estimates will go unused by the collector base ("breakage").

FINANCING CHARGES, NET--Financing charges, net, represents gains and losses on securitization of credit card receivables and interest income on seller's interest less a provision (credit) for doubtful accounts of $(3.4 million), $(3.7 million) and $(4.9 million) and related interest expense of $8.4 million, $10.4 million and $6.2 million for fiscal 1998, 1999 and 2000, respectively.

The Company records gains or losses on the securitization of credit card receivables on the date of sale based on the estimated fair value of assets sold and retained and liabilities incurred in the sale. Gains represent the present value of estimated future cash flows the Company has retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an interest only ("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificate holders and credit losses. The I/O strip is carried at fair value, with changes in the fair value reported as a component of cumulative other comprehensive income. The I/O strip is amortized over the life of the credit card receivables. Certain estimates inherent in the determination of fair value of the I/O strip are influenced by factors outside the Company's control and, as a result, such estimates could materially change in the near term. The gains on securitizations and other income from securitizations are included in finance charges, net.

GOODWILL AND OTHER INTANGIBLES--Goodwill represents the excess of purchase price over the fair value of net assets acquired arising from business combinations and is being amortized on a straight-line basis over estimated useful lives ranging from 20 to 25 years. Other intangibles primarily represent identified intangible assets acquired in business combinations and are being amortized over estimated useful lives ranging from 27 months to 20 years.

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 common equivalent shares, dilutive stock options or other dilutive securities outstanding during the year. However, as the Company generated net losses, common equivalent shares, composed of incremental common shares issuable upon exercise of stock options and warrants and upon conversion of Series A preferred stock, are not included in diluted net loss per share because such shares are anti-dilutive.

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share data):

	FISCAL		
	1998	1999	2000
NUMERATOR			
Income (loss) from continuing operations	$(17,692)	$(33,792)	$(21,323)
Preferred stock dividends	--	(3,377)	(7,200)
Income (loss) from continuing operations available to common stockholders	(17,692)	(37,169)	(28,523)
Income (loss) from discontinued operations	(300)	7,688	--
Loss on disposal of discontinued operations	--	(3,737)	--
Net income (loss) available to common stockholders	$(17,992)	$(33,218)	$(28,523)
DENOMINATOR			
Weighted average shares	41,729	47,498	47,538
Weighted average effect of dilutive securities:			
Net effect of dilutive stock options	--	--	--
Net effect of dilutive stock warrants	--	--	--
Denominator for diluted calculation	41,729	47,498	47,538
Income (loss) from continuing operations--basic and diluted	$ (0.42)	$ (0.78)	$ (0.60)
Income (loss) from discontinued operations--basic and diluted	(0.01)	(0.08)	--
Net income (loss) per share--basic and diluted	$ (0.43)	$ (0.86)	$ (0.60)

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. 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 income (loss).

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, goodwill 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

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

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.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS--The nature and composition of some of the Company's assets and liabilities and off-balance sheet items expose the Company to interest rate risk. To mitigate this risk, the Company enters into interest rate swap agreements. All of the Company's interest rate swaps are designated and effective as hedges of specific existing or anticipated assets, liabilities or off-balance sheet items. The Company's foreign currency denominated assets and liabilities expose it to foreign currency exchange rate risk. The Company has entered into cross-currency hedges to fix the exchange rate on Canadian debt. The Company does not hedge its net investment in its Canadian subsidiary. The Company does not hold or issue derivative financial instruments for trading purposes.

Swap agreements involve the periodic exchange of payments over the life of the agreements. Amounts to be paid or received are recorded on an accrual basis as an adjustment to the related income or expense of the item to which the agreements are designated. As of December 31, 1999, the related amount receivable from counterparties was $1.5 million. As of December 31, 2000, the related amount payable to counterparties was $1.4 million. Changes in the fair value of interest rate swaps are not reflected in the accompanying financial statements where designated to existing or anticipated assets, liabilities or off-balance sheet items and where swaps effectively modify or reduce interest rate sensitivity.

Realized and unrealized gains or losses at the time of maturity, termination, sale or repayment of a derivative contract are recorded in a manner consistent with its original designation. Amounts are deferred and amortized as an adjustment to the related income or expense over the original period of exposure, provided the designated asset, liability or off-balance sheet item continues to exist, or in the case of anticipated transactions, is probable of occurring. Realized and unrealized changes in the fair value of swaps designated with items that no longer exist or are no longer probable to occur are recorded as a component of the gain or loss arising from the disposition of the designated item.

Interest rate and foreign currency exchange rate risk management contracts are generally expressed in notional principal or contract amounts that coincide with the notional amount of the item being hedged. However, the notional amounts of these contracts are much larger than the amounts potentially at risk for nonperformance by counterparties. In the event of nonperformance by the counterparties, the Company's credit exposure on derivative financial instruments is limited to the value of the contracts that have become favorable to the Company. The Company actively monitors the credit ratings of its counterparties. Under the terms of certain swaps, each party may be required to pledge collateral if the market value of the swaps exceeds an amount set forth in the agreement or in the event of a change in its credit rating.

RECENTLY ISSUED ACCOUNTING STANDARDS--In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and for hedging activities, and requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. The statement, as amended by SFAS No. 137 and No. 138, will be effective for the Company's fiscal 2001 first quarter financial statements. In January 2001 the Company recorded an immaterial cumulative translation adjustment to earnings, primarily related to interest rate swaps.

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which replaced SFAS No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Disclosures relating to securitization transactions are required for fiscal years ending after December 15, 2000. Management is currently evaluating the impact on its financial position and results of operations when SFAS No. 140 is adopted, but does not anticipate any material changes.

The Emerging Issues Task Force ("EITF") is reviewing an issue, Issue No. 00-22, "Accounting for 'Point' and Other Loyalty Programs," that is closely related to our Air Miles reward program and the way revenue is recognized for these types of programs. We understand that the EITF will provide guidance on this issue sometime in 2001, but a specific date has not been set. When Issue 00-22 is issued, if we require modification of our present revenue recognition policy, we will adhere to the guidance provided. Without knowing how the EITF will rule on this issue, we are unable to assess the impact of Issue 00-22 at this time.

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

PRO FORMA STOCKHOLDERS' EQUITY--If the offering contemplated by this prospectus is consummated, all of the Series A Cumulative Convertible Preferred Stock outstanding at the closing date will be converted into shares of common stock. The unaudited pro forma stockholders' equity as of December 31, 2000 reflects the conversion of all outstanding convertible preferred stock into 10,074,524 shares of common stock.

3. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of cash and cash equivalents and securities available-for-sale and are designated for settling the Company's redemptions by collectors under its Air Miles reward program in Canada under certain contractual relationships with its sponsors. 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 securities available-for-sale, which are carried at fair value, are as follows:

	DECEMBER 31, 1999				DECEMBER 31, 2000			
		UNREALIZED				UNREALIZED		
	COST	GAINS	LOSSES	FAIR VALUE	COST	GAINS	LOSSES	FAIR VALUE
	(IN THOUSANDS)							
Cash and cash equivalents............	$ 69,571	$ --	$ --	$ 69,571	$115,309	$--	$ --	$115,309
Government...............	29,981	--	(1,368)	28,613	16,278	35	(457)	15,856
Corporate................	11,884	9	(540)	11,353	21,134	18	(355)	20,797
Equity securities........	25,385	3,171	(4,443)	24,113	35	10	--	45
Total....................	$136,821	$3,180	$(6,351)	$133,650	$152,756	$63	$(812)	$152,007

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Software development and conversion costs...............	$ 55,156	$ 75,450
Computer equipment and purchased software...............	28,236	30,131
Furniture and fixtures..................................	40,632	47,127
Leasehold improvements..................................	31,593	34,455
Construction in progress................................	6,624	4,542
Total...	162,241	191,705
Accumulated depreciation................................	(73,010)	(99,527)
Property and equipment, net.............................	$ 89,231	$ 92,178

During fiscal 1998, the Company recorded an impairment of $4.0 million on computer equipment and software related to the Marketing Services segment. The related computer equipment and software was deemed by management to be inadequate. The related charge is included in processing and servicing expenses in the consolidated statements of operations.

5. SECURITIZATION OF CREDIT CARD RECEIVABLES

The Company regularly securitizes its credit card receivables. 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 each month to the investors or held in an account until it accumulates to the total amount, at which time it is paid to the investors in a lump sum. One of the Company's securitization trusts has entered an early amortization period as a result of a private label customer entering bankruptcy proceedings. The receivables associated with the customer are in a different trust from all of the Company's other receivables; therefore, those proceedings will not affect the other trusts. The Company's outstanding securitizations are scheduled to begin their amortization or accumulation periods at various times between 2001 and 2003.

"Due from securitizations" consists of spread deposits, I/O strips and excess funding deposits as shown in the table below:

	DECEMBER 31, 1999	DECEMBER 31, 2000
	(IN THOUSANDS)	
Spread deposits	$104,222	$100,807
I/O strips	20,289	33,171
Excess funding deposits	19,973	--
	$144,484	$133,978

The spread deposits, I/O strips and excess funding deposits 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 prepayment, 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 cash flows are estimated and fair value is determined. The Company has one collateral type, private label credit cards.

5. SECURITIZATION OF CREDIT CARD RECEIVABLES (CONTINUED)

At December 31, 2000, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in the assumptions are as follows:

	ASSUMPTION	IMPACT ON FAIR VALUE OF 10% CHANGE	IMPACT ON FAIR VALUE OF 20% CHANGE
		(IN THOUSANDS)	
Fair value of retained interest	$ 31,971		
Weighted average life	7 months		
Discount rate	14.0%	$ 998	$ 1,112
Expected yield, net of dilution	21.6%	14,729	25,089
Interest expense	7.0%	4,648	8,272
Net charge-offs rate	7.0%	5,620	10,234

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 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 reality, 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 losses related to securitized credit card receivables if those losses exceed the available net cash flows arising from the securitized credit card receivables. 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 3.25% of credit card receivables in the trust, other than with respect to the trust in early amortization, for which all excess funds are required to be deposited. 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, 2000.

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

	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
	(IN MILLIONS)	
Proceeds from collections reinvested in previous credit card securitizations	$4,070.0	$4,235.7
Servicing fees received	$ 37.4	$ 39.6
Other cash flows received on retained interests	$ 124.1	$ 146.8

5. SECURITIZATION OF CREDIT CARD RECEIVABLES (CONTINUED)

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

	AT DECEMBER 31, 1999	AT DECEMBER 31, 2000
	(IN MILLIONS)	
Total principal of credit card receivables managed	$2,258.6	$2,331.0
Less credit card receivables securitized	2,232.4	2,319.7
Credit card receivables held	$ 26.2	$ 11.3
Principal amount of credit card receivables 90 days or more past due	$ 60.0	$ 64.5

	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
	(IN THOUSANDS)	
Net charge-offs	$143,370	$157,351

The Company is required to maintain minimum interests ranging from 3% to 6% 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.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill consist of the following:

	DECEMBER 31, 1999	DECEMBER 31, 2000	AMORTIZATION LIFE AND METHOD
	(IN THOUSANDS)		
Premium on purchased credit card portfolio	$ 38,536	$ 1,936	3 years--straight line
Customer contracts and lists	46,700	46,700	3-20 years--straight line
Noncompete agreement	2,300	2,300	5 years--straight line
Goodwill	411,009	407,833	20-25 years--straight line
Deferred incentives	11,086	10,753	27 months--straight line
Sponsor contracts	39,495	38,306	5 years--declining balance
Collector database	48,503	47,043	15%--declining balance
Total	597,629	554,871	
Accumulated amortization	(104,020)	(110,322)	
Intangible assets and goodwill, net	$ 493,609	$ 444,549	

7. DEFERRED REVENUE

A reconciliation of deferred revenue--redemption, and deferred revenue--service for the Air Miles program is as follows:

	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)	
DEFERRED REVENUE--REDEMPTION		
Beginning balance	$ 93,583	$164,867
Cash proceeds	94,620	90,889
Revenue recognized	(30,911)	(49,597)
Other	7,575	(4,904)
Ending balance	$164,867	$201,255

	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)	
DEFERRED REVENUE--SERVICE		
Beginning balance	$ 64,609	$ 84,474
Cash proceeds	51,916	55,091
Revenue recognized	(36,409)	(47,098)
Other	4,358	(3,536)
Ending balance	$ 84,474	$ 88,931

The Company currently estimates breakage to be one-third of miles issued.

8. DEBT

Debt consists of the following:

	DECEMBER 31, 1999	DECEMBER 31, 2000
	(IN THOUSANDS)	
Certificates of deposit	$ 116,900	$ 139,400
Subordinated notes	102,000	102,000
Credit agreement	120,361	92,910
Term loans	95,875	91,750
Line of credit	--	10,000
	435,136	436,060
Less: current portion	(118,225)	(161,725)
Long term portion	$ 316,911	$ 274,335

CERTIFICATES OF DEPOSIT--Terms of the certificates of deposit range from three months to 24 months with annual interest rates ranging from 5.4% to 6.9% at December 31, 1999 and from 5.5% to 7.5% at December 31, 2000. Interest is paid monthly and at maturity.

SUBORDINATED NOTES--The Company has outstanding a subordinated note with an affiliate in the principal amount of $50.0 million. Such note bears interest at 10% payable semiannually. This note was issued at a discount of approximately $3.6 million, and such discount is accreted into interest expense using the effective rate of approximately 12% over the life of the note. The note is to be repaid on October 25, 2005. The Company may, at its option, prepay the note at its face amount.

The Company has outstanding a subordinated note with an affiliate in the principal amount of $52.0 million. Such note bears interest at 10% payable semi-annually. This note was issued at a discount of approximately $6.5 million, and such discount is accreted into interest expense using the effective rate of approximately 12% over the life of the note. The discount was issued in the form of 5.9 million shares of common stock issued to the affiliate. The note is to be repaid in two equal installments in September 2007 and September 2008. The Company may, at its option, prepay the note at its face amount.

CREDIT AGREEMENT--In fiscal 1997, the Company entered into a credit agreement to borrow $130.0 million. Funds borrowed under this facility bear interest at the higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of the Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. Interest is payable quarterly in arrears. The effective interest rates were 8.0% and 8.8% at December 31, 1999 and 2000, respectively. Funds borrowed under the credit agreement are to be repaid in installments of $10.0 million on July 28, 2000, $30.0 million on July 27, 2001, $40.0 million on August 2, 2002 and the remaining balance on July 25, 2003. The Company's obligations under the credit agreement are secured by substantially all of its assets.

TERM LOANS--The Company has outstanding two separate term loan facilities each in the amount of $50.0 million. The first term loan is payable in four separate annual installments of $3.1 million commencing July 30, 1999 with a final lump sum payment of $37.5 million due July 25, 2003. The second term loan is payable in six separate annual installments of $1.0 million commencing July 30, 1999 with a final lump sum payment of $44.0 million due July 25, 2005. Both loans bear interest at the

8. DEBT (CONTINUED)

higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of the Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. Interest is payable quarterly in arrears. The effective interest rates on the two term loans were 8.1% and 9.3%, respectively, at December 31, 2000.

LINE OF CREDIT--The Company has available borrowings under a line of credit agreement of $100.0 million. The line of credit bears interest at the higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of the Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. The agreement matures on July 25, 2003. The effective interest rate was 10.6% at December 31, 2000.

Any outstanding balances, including interest, related to the credit agreement will become payable immediately if the Company consummates a public offering of equity securities. The Company has agreed to comply with certain covenants as part of all non-subordinated debt agreements.

Debt at December 31, 2000 matures as follows (in thousands):

2001	$161,725
2002	67,925
2003	61,410
2004	1,000
2005	94,000
Thereafter	50,000
	$436,060

9. INCOME TAXES

The Company files a consolidated Federal income tax return. Components of the provision (credit) for income taxes are as follows:

	FISCAL 1998	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)		
CURRENT			
Federal	$ 5,789	$ 18,827	$ (1,100)
State	98	483	2,424
Foreign	1,777	9,610	13,631
Total current	7,664	28,920	14,955
DEFERRED			
Federal	(4,839)	(15,081)	7,227
State	(808)	1,182	(669)
Foreign	(6,725)	(21,559)	(19,672)
Total deferred	(12,372)	(35,458)	(13,114)
Tax (benefit) expense related to continuing operations	(4,708)	(6,538)	1,841
Tax (benefit) expense related to discontinued operations	(159)	2,127	--
Total income tax provision (benefit)	$ (4,867)	$ (4,411)	$ 1,841

A reconciliation of recorded federal income tax expenses (benefit) to the expected expense computed by applying the federal statutory rate of 35% for all periods to income from continuing operations before income taxes is as follows:

	FISCAL 1998	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)		
Expected (benefit) expense at statutory rate	$(7,840)	$(14,115)	$(6,819)
Increase (decrease) in income taxes resulting from:			
State and foreign income taxes	63	296	1,552
Non-deductible foreign losses	832	623	1,339
Non-deductible acquired goodwill and other intangibles	2,134	11,254	3,187
Change in valuation allowance	--	(3,266)	2,635
Other--net	103	(1,330)	(53)
Total	$(4,708)	$ (6,538)	$ 1,841

9. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities consist of the following:

	DECEMBER 31, 1999	DECEMBER 31, 2000
	(IN THOUSANDS)	
DEFERRED TAX ASSETS		
Deferred income	$13,410	$ 9,506
Deferred revenue	23,299	42,955
Allowance for doubtful accounts	1,405	2,380
Intangible assets	20,008	18,506
Net operating loss carryforwards	11,966	13,458
Depreciation	2,875	3,046
Discontinued operations	2,186	826
Other	3,935	5,836
Total deferred tax assets	79,084	96,513
DEFERRED TAX LIABILITIES		
Servicing rights	8,120	10,990
Accrued expenses	468	(400)
Other	348	26
Total deferred tax liabilities	8,936	10,616
Net deferred tax asset	70,148	85,897
Valuation allowance	(5,531)	(8,166)
Net deferred tax asset	$64,617	$77,731

At December 31, 2000, the Company had approximately $15.6 million of Federal net operating loss carryforwards, which expire at various times through 2013. In addition, the Company has approximately $196 million of state net operating loss carryforwards, which expire at various times through 2016. The utilization of the Federal NOL's are subject to limitations under Section 382 of the Internal Revenue Code on account of changes in the equity ownership. NOL's for both financial reporting and tax reporting purposes are subject to a valuation allowance established for the tax benefit associated with their respective unrealizable federal and state NOL's. In 2000, the Company increased the valuation allowance by $2.6 million. 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.

10. PREFERRED STOCK

In July 1999, the Company entered into a preferred stock purchase agreement and issued 120,000 shares of its Series A Cumulative Convertible Preferred Stock for proceeds of $120.0 million to an affiliate. The terms of the preferred stock purchase agreement include, among other things, the following:

- Dividends are payable by the Company upon declaration by the Board of Directors. Dividends are cumulative and dividends not paid currently will accrue and compound quarterly at an annual rate of 6.0%. Dividends in arrears at December 31, 2000 were approximately $11.0 million.

- Each share is convertible into common shares at a conversion rate based on the lesser of $13.50 or the initial public offering price, at the option of the holder, at any time following issuance. Upon a $75.0 million or greater initial public offering, shares will be mandatorily convertible into common stock at the stated conversion price.

- The shares have an aggregate liquidation preference equal to the face amount plus all accrued and unpaid dividends.

- Each share may be voted together with the common stock on an as-converted basis.

- All issued and outstanding shares are redeemable on July 12, 2007 at a per share redemption price as defined in the agreement.

11. STOCKHOLDERS' EQUITY

As part of consideration for the BSI acquisition, the seller received warrants to purchase up to 167,084 shares of the Company's common stock at $9.00 per share. The warrants and any stock issued upon exercise of the warrants contain or will contain transfer restrictions. The Company assigned a fair value of $9.00 per warrant or $1,503,756 which was included in the acquisition purchase price. The warrants expire in January 2008. The fair value of the warrants was determined based on the fair value of the Company at the time of acquisition.

During July 1999, the stockholders approved an increase in the number of authorized shares from 50,000,000 shares to 66,666,667 shares.

During March 2000, the stockholders approved an increase in the number of authorized shares from 66,666,667 shares to 200,000,000 shares.

12. STOCK COMPENSATION PLANS

Certain of the Company's employees have been granted stock options under the Company's Stock Option and Restricted Stock Purchase Plan (the "Plan"). The purpose of the Plan is to benefit and 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. The stock options generally vest over a three year period, beginning on the first day of February of the eighth year after the date of grant and expire 10 years after the date of grant. Terms of all awards are determined by the Board of Directors at the time of award.

12. STOCK COMPENSATION PLANS (CONTINUED)

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

	FISCAL 1998	FISCAL 1999	FISCAL 2000
Expected dividend yield	--	--	
Risk-free interest rate	6.0%	7.0%	7.0%
Expected life of options (years)	4.0 yrs	4.0 yrs	4.0 yrs
Assumed volatility	0.01%	0.01%	0.01%
Weighted average fair value	$ 2.79	$ 2.43	$ 6.68

The following table summarizes stock option activity under the Plan:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
BALANCE AT JANUARY 31, 1998	1,156	$ 9.00
Granted	912	9.45
Exercised	(57)	9.00
Cancelled	(194)	9.00
BALANCE AT DECEMBER 31, 1998	1,817	9.18
Granted	644	10.14
Exercised	(42)	9.00
Cancelled	(71)	9.09
BALANCE AT DECEMBER 31, 1999	2,348	9.54
Granted	2,644	14.98
Exercised	(17)	9.09
Cancelled	(92)	10.39
BALANCE AT DECEMBER 31, 2000	4,883	$12.45

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2000 (in thousands, except per share amounts):

	OUTSTANDING			EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS	REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$9.00 to $12.00	2,257	7.39	9.52	1,232	9.31
$12.01 to $15.00	2,626	9.68	15.00	--	--

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. The effect of determining compensation cost for the Company's stock-based compensation plan based

12. STOCK COMPENSATION PLANS (CONTINUED)
on the fair value at the grant dates for awards under the Plan consistent with the methods of SFAS No. 123 is disclosed in the following pro forma information (in thousands, except per share amounts):

	FISCAL		
	1998	1999	2000
Pro forma net income (loss)	$(18,629)	$(30,331)	$(25,708)
Basic and diluted pro forma earnings per share	$ (0.45)	$ (0.71)	$ (0.69)

13. EMPLOYEE BENEFIT PLANS

The Company sponsors separate defined contribution pension plans for World Financial Network National Bank ("WFNNB") and ADSI that cover qualifying employees based on service and age requirements. The Company makes matching (WFNNB) or discretionary (ADSI) contributions as determined by the Board of Directors.

14. COMMITMENTS AND CONTINGENCIES

The Company has entered into certain contractual arrangements that result in a fee being billed to the sponsors upon redemption of Air Miles reward miles. The Company has obtained revolving letters of credit from certain of these sponsors that expire at various dates. These letters of credit total $53.4 million at December 31, 2000, 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 leases certain office facilities and equipment under noncancellable operating leases and is generally responsible for property taxes and insurance. Future annual minimum rental payments required under noncancellable operating leases, some of which contain renewal options, as of December 31, 2000 are (in thousands):

YEAR:	
2001	$ 38,846
2002	23,570
2003	14,595
2004	11,707
2005	9,775
Thereafter	29,320
Total	$127,813

WFNNB is subject to various regulatory capital requirements administered by the federal banking agencies. 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

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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 (as defined) 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 six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, WFNNB is considered well capitalized. As of December 31, 2000, WFNNB's Tier 1 capital ratio was 14.1%, total capital ratio was 14.4% and leverage ratio was 44.8%, and WFNNB was not subject to a capital directive order.

Holders of credit cards issued by the Company have available lines of credit, which vary by accountholder, 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, 2000, WFNNB had approximately 29.2 million active accountholders, having an unused line of credit averaging $673 per account.

The Company has entered into certain long-term arrangements to purchase tickets from its airline and other suppliers. These long-term arrangements allow the Company to make purchases at set prices. At December 31, 2000, the Company had no material minimum purchase commitments with these suppliers.

SIGNIFICANT CONCENTRATION OF CREDIT RISK--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. Card holders reside throughout the United States and are not significantly concentrated in any one area.

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, interest rate swaps and futures contracts. 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 normal amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

15. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS--The estimated fair values of the Company's financial instruments were as follows:

	DECEMBER 31			
	1999		2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
FINANCIAL ASSETS				
Cash and cash equivalents	$ 56,546	$ 56,546	$116,941	$116,941
Redemption settlement assets	133,650	133,650	152,007	152,007
Trade receivables	69,085	69,085	115,727	115,727
Credit card receivables and seller's interest, net	150,804	150,804	137,865	137,865
Due from securitizations	144,484	144,484	133,978	133,978
FINANCIAL LIABILITIES				
Accounts payable	83,976	83,976	108,773	108,773
Debt	435,136	447,861	436,060	427,125
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Interest swaps	$725,000	$ (6,083)	$360,000	$ (5,478)

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

CASH AND CASH EQUIVALENTS--The carrying amount approximates fair value due to the short maturity of the cash investments.

TRADE RECEIVABLES--The carrying amount approximates fair value due to the short maturity and the average interest rates approximate current market origination rates.

CREDIT CARD RECEIVABLES--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 carrying amount of the securitization spread account approximates its fair value due to the relatively short maturity period and average interest rates which approximate current market rates.

ACCOUNTS PAYABLE--Due to the relatively short maturity periods, the carrying amount approximates the fair value.

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

INTEREST SWAPS--The fair value was estimated based on the cost to the Company to terminate the agreements.

16. INTEREST SWAPS

INTEREST SWAPS--In March 1997, WFNNB entered into an interest rate swap agreements with J.P. Morgan Company ("Morgan") with a notional amount totaling $200.0 million. This interest rate swap effectively changed WFNNB's interest rate exposure on $200.0 million of securitized credit card receivables to a fixed rate of approximately 6.72%. On January 30, 1998, WFNNB entered into an interest rate swap agreement with Morgan with a notional amount of $300.0 million. This interest rate swap effectively changed WFNNB's interest rate exposure on $300.0 million of securitized accounts receivable to a variable rate based on LIBOR. The notional amount of the swap, $60 million at December 31, 2000, will decrease with a corresponding decrease of the related securitized credit card receivables. In October 1998, Loyalty entered into two cross-currency interest rate swap agreements with Morgan with notional amounts totaling $100.0 million. One of the interest rate swaps effectively changed Loyalty's interest rate exposure on $50 million of notes payable (decreasing with principal payments) from a variable rate based on Canadian Bankers Acceptance to a fixed rate of 9.3%. The other interest rate swap effectively changed Loyalty's interest rate exposure on $50 million of notes payable (decreasing with principal payments) from a variable rate based on Canadian Bankers Acceptance to a variable rate based on LIBOR. The following briefly outlines the terms of each swap agreement:

NOTIONAL AMOUNT	SWAP PERIOD	FIXED/VARIABLE RATE RECEIVED	FIXED/VARIABLE RATE PAID
$200,000,000...........	May 15, 1997 through May 15, 2004	USD-LIBOR-BBA	6.720%
$60,000,000............	January 30, 1998 through March 15, 2003	5.67%	USD-LIBOR-BBA
$43,750,000............	October 26, 1998 through July 25, 2003	USD-LIBOR-BBA+2.00%	CAD-BA-CDOR+2.26%
$48,000,000............	October 26, 1998 through July 25, 2005	USD-LIBOR-BBA+3.25%	9.265%

In fiscal 1995, the Company entered into five-year and seven-year forward rate locks to mitigate the impact of interest rate fluctuations of the five and seven year Asset-Backed Securities ("ABS") issued in a public offering in connection with the securitization of certain credit card receivables. At the forward rate lock hedge determination date, the Company was in a favorable position and received $17.7 million (five year) and $16.8 million (seven year) which was recorded as deferred income and is being amortized ratably over five and seven year periods, respectively. The hedging reduced the effective interest rate of the five year ABS's from approximately 6.7% to 6.0% and reduced the effective interest rate of the seven year ABS's from approximately 7.0% to 6.2%.

17. PARENT ONLY FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION
(PARENT COMPANY ONLY)
CONDENSED FINANCIAL INFORMATION

BALANCE SHEETS	DECEMBER 31, 1999	DECEMBER 31, 2000
	(IN THOUSANDS)	
Assets:		
Cash and cash equivalents	$ --	$ 7
Investment in subsidiaries	350,285	351,270
Loans to subsidiaries	181,750	274,750
Receivables from subsidiaries	66,179	
Trade receivables	--	--
Other	12,867	3,976
Total assets	$611,081	$630,003
Liabilities:		
Long-term and subordinated debt	$222,361	$195,975
Borrowings from subsidiaries	--	6,659
Other	10,432	6,180
Total liabilities	232,793	208,814
Stockholders' equity	378,288	421,189
Total liabilities and stockholders' equity	$611,081	$630,003

STATEMENTS OF INCOME	FISCAL 1998	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)		
Interest from loans to subsidiaries	$17,907	$23,962	$24,648
Dividends from subsidiary	--	40,000	32,000
Processing and servicing fees	4,457	3,404	--
Other income	156	149	--
Total revenue	22,520	67,515	56,648
Interest expense	21,165	25,981	24,296
Other expense	153	256	970
Total expense	21,318	26,237	25,266
Income before income taxes	1,202	41,278	31,382
Income tax expense	486	720	540
Net income	$ 716	$40,558	$30,842

Note: Alliance Data Systems Corporation accounts for its investments in subsidiaries under the cost method.

17. PARENT ONLY FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CASH FLOWS	FISCAL 1998	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)		
Net cash provided by (used in) operating activities	$ (78,260)	$ 115,555	$ 99,338
Investing activities:			
Net cash paid for corporate acquisitions	(151,500)	(169,322)	10,925
Loans to subsidiaries	--	--	(93,000)
Net cash used in investing activities	(151,500)	(169,322)	(82,075)
Financing Activities:			
Borrowings from subsidiaries	17,490	41,331	--
Issuance of long-term and subordinated debt	327,159	320,624	391,000
Repayment of long-term and subordinated debt	(221,676)	(428,854)	(408,405)
Net proceeds from preferred stock	--	119,400	--
Net proceeds from issuances of common stock	107,042	377	149
Net cash provided by (used in) financing activities	230,015	52,878	(17,256)
Increase (decrease) in cash and cash equivalents	255	(889)	7
Cash and cash equivalents at beginning of period	634	889	--
Cash and cash equivalents at end of period	$ 889	$ --	$ 7

18. SEGMENT INFORMATION

Operating segments are defined by SFAS 131 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 accounting policies of the operating segments are generally the same as those described in the summary of significant accounting policies. Corporate overhead is allocated to the segments based on a percentage of the segment's revenues. Interest expense and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes. Transaction Services performs servicing activities related to Credit Services. For this, Transaction Services receives a fee equal to its direct costs before corporate overhead allocation plus a margin. The margin is based on

18. SEGMENT INFORMATION (CONTINUED)

current market rates for similar services. Revenues are attributed to geographic areas based on the location of the unit processing the underlying transactions.

FISCAL 1998	TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES	OTHER/ ELIMINATION	TOTAL
			(IN THOUSANDS)		
Revenues	$303,186	$212,663	$ 60,892	$(165,828)	$410,913
Depreciation and amortization	25,419	11,763	14,854	--	52,036
Operating profit	4,405	12,883	(11,804)	--	5,484

FISCAL 1999	TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES	OTHER/ ELIMINATION	TOTAL
			(IN THOUSANDS)		
Revenues	$381,027	$247,824	$138,310	$(184,079)	$583,082
Depreciation and amortization	28,814	12,060	36,926	--	77,800
Operating profit	13,014	17,743	(28,302)	--	2,455

FISCAL 2000	TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES	OTHER/ ELIMINATION	TOTAL
			(IN THOUSANDS)		
Revenues	$437,980	$268,183	$178,214	$(206,182)	$678,195
Depreciation and amortization	41,747	1,259	33,138	--	76,144
Operating profit	13,017	24,059	(15,211)	--	21,865

Information concerning principal geographic areas is as follows:

	UNITED STATES	REST OF WORLD(1)	TOTAL
		(IN THOUSANDS)	
Revenues			
Fiscal 1998	$367,588	$ 43,325	$ 410,913
Fiscal 1999	467,629	115,453	583,082
Fiscal 2000	518,839	159,356	678,195
Total assets			
December 31, 1999	801,219	466,425	1,267,644
December 31, 2000	832,781	483,757	1,316,538

- ------------------------

(1) Primarily consists of Canada following the Loyalty acquisition in July 1998.

19. RELATED PARTY TRANSACTIONS

One of the Company's stockholders, Welsh, Carson, Anderson & Stowe and related affiliates ("WCAS"), have provided significant financing to the Company since the initial merger in August 1996. The related transactions are as follows:

- The Company issued a 10% subordinated note to WCAS in January 1996, in the principal amount of $30.0 million. Principal on the note is due on October 25, 2005 and interest is payable semi-annually in arrears on each January 1 and July 1. The note was originally issued to finance, in part, the acquisition of BSI Business Services, Inc., now known as ADSI. Additionally, the Company issued similar notes to The Limited in the amount of $20.0 million.

19. RELATED PARTY TRANSACTIONS (CONTINUED)

- In July 1998, the Company sold 10.1 million shares of common stock to WCAS for $100.0 million. The shares were issued to finance, in part, the acquisition of all outstanding stock of Loyalty.

- In August 1998, the Company sold 30,303 shares of common stock to WCAS for $300,000 and 20,202 shares of common stock to The Limited for $200,000.

- In September 1998, the Company issued 655,556 shares of common stock to WCAS and issued a 10% subordinated note to WCAS, in the principal amount of $52.0 million. Principal on the note is due in two equal installments on September 15, 2007 and September 15, 2008. Interest is payable semi-annually in arrears on each March 15 and September 15. The shares and the note was originally issued to finance, in part, the acquisition of HSI.

The Company paid Welsh, Carson, Anderson & Stowe $2.0 million in fiscal 1998 and $1.2 million in fiscal 1999 for fees related to acquisitions.

The other significant stockholder of the Company, The Limited (through affiliates), is a significant customer. The Company has entered into credit card processing agreements with several affiliates of The Limited. The Company has received fees from The Limited and its affiliates of $40.6 million for fiscal 1998, $46.6 million for fiscal 1999, and $46.7 million for fiscal 2000.

20. DISCONTINUED OPERATIONS

During September 1999, the Board of Directors decided to discontinue the Company's subscriber services business when a major customer was acquired by a third party. The business had revenues of approximately $44.9 million and $43.1 million in fiscal 1998 and 1999, respectively. The net assets of the business were immaterial.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Alliance Data Systems Corporation

We have audited the accompanying statements of income, changes in net assets and cash flows of SPS Network Services for the year ended December 31, 1998 and for the six months ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 financial statements present fairly, in all material respects, the results of operations and cash flows of SPS Network Services for the year ended December 31, 1998 and the six months ended June 30, 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Columbus, Ohio
March 1, 2000

SPS NETWORK SERVICES

STATEMENTS OF INCOME

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
Processing and servicing fees	$ 47,674	$24,322
Operating expenses:		
Processing and servicing	31,260	16,947
Salaries and employee benefits	6,331	3,181
Total operating expenses	37,591	20,128
Income before income taxes	10,083	4,194
Income taxes	3,711	1,543
Net income	$ 6,372	$ 2,651

See accompanying notes.

SPS NETWORK SERVICES

STATEMENTS OF CHANGES IN NET ASSETS

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
Net assets at beginning of period	$ 9,074	$ 10,092
Net income	6,372	2,650
Distribution of net income to parent	(5,354)	(4,095)
Net assets at end of period	$ 10,092	$ 8,647

See accompanying notes.

SPS NETWORK SERVICES

STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,372	$ 2,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	395	205
Change in accounts receivable	(1,435)	(336)
Change in other assets	103	(54)
Change in other liabilities	57	1,708
Net cash provided by operating activities	5,492	4,173
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(138)	(78)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distribution to parent	(5,354)	(4,095)
Change in cash and cash at end of period	$ --	$ --

See accompanying notes.

1. DESCRIPTION OF THE BUSINESS

SPS Network Services (the "Company") provides a range of technology outsourcing services including the processing of credit and debit card transactions in the United States.

On July 1, 1999, the Company was purchased by Alliance Data Systems Corporation ("ADSC"). The Company is a wholly owned subsidiary of ADSC. Prior to July 1, 1999, the Company provided network services for SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corporation ("Associates").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MANAGEMENT ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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.

PROCESSING AND SERVICE FEES--Processing and service revenues include fees from transaction processing services which are recognized as such services are performed.

DEPRECIATION--Depreciation on furniture, fixtures and computer equipment and software is computed on a straight-line basis, using estimated lives ranging from three to five years.

3. INCOME TAXES

Prior to July 1, 1999 the Company was included in the consolidated tax returns of Associates. Associates allocated income tax expense to the Company based on its proportionate share of the consolidated federal tax return. There was no deferred tax provision or benefit in 1998 or for the six months ended June 30, 1999.

A reconciliation of recorded income tax expense to the expected expense computed by applying the federal statutory rate of 35% to income before income taxes for 1998 and the six months ended June 30, 1999 is as follows (in thousands):

	1998	SIX MONTHS ENDED JUNE 30, 1999
	(IN THOUSANDS)	
Expected expense at statutory rate	$3,529	$1,468
Other	182	75
Total	$3,711	$1,543

Inside back cover

Includes an example of our "Smart Statement" and our logo

PROSPECTIVE INVESTORS MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. NEITHER ALLIANCE DATA SYSTEMS CORPORATION NOR ANY UNDERWRITER HAS AUTHORIZED ANYONE TO PROVIDE PROSPECTIVE INVESTORS WITH DIFFERENT OR ADDITIONAL INFORMATION. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR IS IT SEEKING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF THE DELIVERY OF THIS PROSPECTUS OR ANY SALE OF THESE SECURITIES.

NO ACTION IS BEING TAKEN IN ANY JURISDICTION OUTSIDE THE UNITED STATES TO PERMIT A PUBLIC OFFERING OF THE COMMON STOCK OR POSSESSION OR DISTRIBUTION OF THIS PROSPECTUS IN ANY OF THESE JURISDICTIONS. PERSONS WHO COME INTO POSSESSION OF THIS PROSPECTUS IN JURISDICTIONS OUTSIDE THE UNITED STATES ARE REQUIRED TO INFORM THEMSELVES ABOUT AND TO OBSERVE THE RESTRICTIONS OF THAT JURISDICTION RELATED TO THIS OFFERING AND THE DISTRIBUTIONS OF THIS PROSPECTUS.

TABLE OF CONTENTS

Dealer Prospectus Delivery Obligation:

Until , 2001 (25 days after the date of this prospectus), all dealers that buy, sell or trade these shares of common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

[LOGO]

13,000,000 SHARES

COMMON STOCK

PROSPECTUS

BEAR, STEARNS & CO. INC.
MERRILL LYNCH & CO.
CREDIT SUISSE FIRST BOSTON

, 2001

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13--OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The estimated expenses in connection with the issuance and distribution of the securities being registered, other than underwriting discounts and commissions are set forth in the following table. The Company will pay all expenses of issuance and distribution. Each amount, except for the SEC, NASD and New York Stock Exchange fees, is estimated.

SEC registration fees	$ 79,200
NASD filing fees	30,500
New York Stock Exchange application listing fee	335,000
Transfer agent's and registrar's fees and expenses	20,000
Printing and engraving expenses	900,000
Legal fees and expenses	900,000
Accounting fees and expenses	800,000
Blue sky fees and expenses	5,000
Miscellaneous	10,300
Total	$3,080,000

ITEM 14--INDEMNIFICATION OF DIRECTORS AND OFFICERS

Alliance Data Systems Corporation's Certificate of Incorporation provides that it shall, to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, indemnify all persons whom it may indemnify under Delaware law.

Section 145 of the Delaware General Corporation Law permits a corporation, under specified circumstances, to indemnify its directors, officers, employees or agents against expenses (including attorneys' fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by them in connection with any action, suit or proceeding brought by third parties by reason of the fact that they were or are directors, officers, employees or agents of the corporation, if such directors, officers, employees or agents acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reason to believe their conduct was unlawful. In a derivative action, i.e., one by or in the right of the corporation, indemnification may be made only for expenses actually and reasonably incurred by directors, officers, employees or agents in connection with the defense or settlement of an action or suit, and only with respect to a matter as to which they shall have acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made if such person shall have been adjudged liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine upon application that the defendant directors, officers, employees or agents are fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

Alliance Data Systems Corporation's Bylaws provide for indemnification by it of its directors, officers and certain non-officer employees under certain circumstances against expenses (including attorneys' fees, judgments, fines and amounts paid in settlement) reasonably incurred in connection with the defense or settlement of any threatened, pending or completed legal proceeding in which any such person is involved by reason of the fact that such person is or was an officer or employee of Alliance Data Systems Corporation if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of Alliance Data Systems Corporation, and, with respect to criminal actions or proceedings, if such person had no reasonable cause to believe his or her conduct was unlawful.

Alliance Data Systems Corporation's Certificate of Incorporation also provides that, to the fullest extent permitted by the Delaware General Corporation Law, no director shall be personally liable to Alliance Data Systems Corporation or its stockholders for monetary damages resulting from breaches of their fiduciary duty as directors.

Expenses for the defense of any action for which indemnification may be available may be advanced by Alliance Data Systems Corporation under certain circumstances. The general effect of the foregoing provisions may be to reduce the circumstances which an officer or director may be required to bear the economic burden of the foregoing liabilities and expenses. Directors and officers will be covered by liability insurance indemnifying them against damages arising out of certain kinds of claims which might be made against them based on their negligent acts or omissions while acting in their capacity as such.

ITEM 15--RECENT SALES OF UNREGISTERED SECURITIES

Since January 1998, Alliance Data Systems Corporation has issued and sold the following unregistered securities:

(1) In July 1998, 9,634,265 shares of common stock were sold to various Welsh, Carson, Anderson & Stowe limited partnerships and a total of 466,744 shares of common stock were sold to a total of 16 individuals who are partners of some or all of the Welsh Carson limited partnerships for $100.0 million to finance, in part, the acquisition of all of the outstanding capital stock of the Loyalty Management Group Canada Inc.

(2) In August 1998, 30,303 shares of common stock were sold to WCAS Capital Partners II, L.P. at a value of $9.90 per share as consideration for extending the maturity on a 10% subordinated note, issued to WCAS Capital Partners II, originally due January 24, 2002 to October 25, 2005 and 20,202 shares were sold to Limited Commerce Corp. at a value of $9.90 per share as consideration for extending the maturity on a 10% subordinated note, issued to Limited Commerce Corp., originally due January 24, 2002 to October 25, 2005.

(3) In September 1998, 655,555 shares of common stock were sold to WCAS Capital Partners III, LP to finance, in part, the acquisition of Harmonic Systems Incorporated.

(4) In July 1999, a total of 120,000 shares of Series A preferred stock were sold to Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P. and 20 individuals who are also partners of some or all of the Welsh Carson limited partnerships for $120 million. The shares of Series A preferred stock were issued to finance, in part, the acquisition of the network transaction processing business of SPS Payment Systems, Inc.

Since October 1996, Alliance Data Systems Corporation has granted stock options to purchase shares of its common stock under its stock option plan covering an aggregate of 5,441,910 shares, at exercise prices ranging from $9.00 to $15.00 per share. Since January 1998 Alliance Data Systems Corporation has issued 130,375 shares of Alliance Data Systems Corporation's common stock pursuant to the exercise of stock options. Since October 1996, 428,909 stock options have lapsed without being exercised.

The sales and issuances of securities in the transactions described above were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act, Regulation D promulgated thereunder or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving any public offering or transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in such transactions. All recipients had adequate access, through their relationship with Alliance Data Systems, to information about the Company.

ITEM 16--EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS

EXHIBIT NO.	EXHIBITS
*1	Form of Underwriting Agreement.
*2.1	Agreement and Plan of Merger, dated as of August 30, 1996, by and between Business Services Holdings, Inc. and World Financial Network Holding Corporation.
*2.2	Agreement and Plan of Merger, dated as of August 14, 1998, by and among Alliance Data Systems Corporation, HSI Acquisition Corp., and Harmonic Systems Incorporated.
*2.3	Stock Purchase Agreement, dated June 8, 1998, by and between SPS Payment Systems, Inc., Alliance Data Systems Corporation, SPS Commercial Services, Inc., and ADS Network Services, Inc., amended July 12, 1999.
**2.4	Agreement for the Purchase of all the Shares of Loyalty Management Group Canada Inc., June 26, 1998, by and between Air Miles International Group B.V., certain other shareholders and option holders and Alliance Data Systems Corporation as amended July 14, 1998.
*3.1	Second Amended and Restated Certificate of Incorporation of the Registrant.
*3.2	Second Amended and Restated Bylaws of the Registrant.
*4	Specimen Certificate for shares of Common Stock of the Registrant.
*5	Opinion of Akin, Gump, Strauss, Hauer & Feld, L.L.P.
**10.1	Credit Card Processing Agreement between World Financial Network National Bank, Bath and Body Works, Inc. and Tri-State Factoring, Inc., dated January 31, 1996.
**10.2	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Catalogue, Inc., and Far West Factoring Inc., dated January 31, 1996 (assigned by Victoria's Secret Catalogue, Inc. to Victoria's Secret Catalogue, LLC, May 2, 1998).
**10.3	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Stores, Inc., and Lone Mountain Factoring, Inc., dated January 31, 1996.
**10.4	Credit Card Processing Agreement between World Financial Network National Bank, Lerner New York, Inc., and Nevada Receivable Factoring, Inc., dated January 31, 1996.

EXHIBIT NO.	EXHIBITS
**10.5	Credit Card Processing Agreement between World Financial Network National Bank, Express, Inc., and Retail Factoring, Inc., dated January 31, 1996.
**10.6	Credit Card Processing Agreement between World Financial Network National Bank, The Limited Stores, Inc., and American Receivable Factoring, Inc., dated January 31, 1996.
**10.7	Credit Card Processing Agreement between World Financial Network National Bank, Structure, Inc., and Mountain Factoring, Inc., dated January 31, 1996.
**10.8	Credit Card Processing Agreement between World Financial Network National Bank, Lane Bryant, Inc., and Sierra Nevada Factoring, dated January 31, 1996, and amended August 4, 1998 and September 12, 1999.
**10.9	Credit Card Processing Agreement between World Financial Network National Bank, Henri Bendel, Inc., and Western Factoring, Inc., dated January 31, 1996 and amended May 13, 1998.
10.10	Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan.
*10.11	Lease between Deerfield and Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated July 30, 1999.
*10.12	Indenture of Sublease between J.C. Penney Company, Inc. and BSI Business Services, Inc., dated January 11, 1996.
*10.13	Build-to-Suit Net Lease between Opus South Corporation and ADS Alliance Data Systems, Inc., dated January 29, 1998, as amended.
*10.14	Industrial Lease Agreement between CIBC Development Corporation and Loyalty Management Group Canada Inc., dated October 19, 1998, amended January 26, 1999.
*10.15	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.
*10.16	Deed of Lease between Boswell International Marine (PTE) Limited and Financial Automation Limited, dated August 3, 1999.
*10.17	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.
*10.18	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.
*10.19	Lease Agreement by and between Americana Parkway Warehouse Limited and World Financial Network National Bank, dated June 28, 1994.
*10.20	Lease Agreement by and between Morrison Taylor II, Ltd. and ADS Alliance Data Systems, Inc., dated June 18, 1998, and amended June 18, 1998.
*10.21	Lease Agreement between Morrison Taylor, Ltd. and ADS Alliance Data Systems, Inc. dated July 1, 1997, and amended June 18, 1998.
*10.22	Commercial Lease Agreement between Waterview Parkway, L.P. and ADS Alliance Data Systems, Inc., dated July 16, 1997.
*10.23	Preferred Stock Purchase Agreement by and between Alliance Data Systems Corporation and several persons named in Schedule I thereto, dated July 12, 1999.

EXHIBIT NO.	EXHIBITS
*10.24	Amended and Restated Stockholder Agreement, by and between World Financial Network Holding Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VII, L.P., and the several other investors named in Annex 1 thereto dated August 30, 1996, and amended July 24, 1998, August 31, 1998 and July 12, 1999.
*10.25	Securities Purchase Agreement, by and between Business Services Holdings, Inc., and the several purchasers named in Schedule 1 and Schedule II thereto, dated January 24, 1996, and amended August 31, 1998.
*10.26	Common Stock Purchase Agreement between Alliance Data Systems Corporation and Welsh, Carson, Anderson, and Stowe VII, L.P., Welsh, Carson, Anderson, and Stowe VIII, L.P., and the persons named in Schedule I thereto, dated July 24, 1998.
*10.27	Securities Purchase Agreement between Alliance Data Systems Corporation and WCAS Capital Partners III, L.P., dated September 15, 1998.
*10.28	10% Subordinated Note due September 15, 2008 issued by Alliance Data Systems Corporation to WCAS Capital Partners III, L.P. dated September 15, 1998.
*10.29	10% Subordinated Note due October 25, 2005 issued by Alliance Data Systems Corporation to the Limited Commerce Corp., dated January 24, 1996.
*10.30	10% Subordinated Note due October 25, 2005 issued by Alliance Data Systems Corporation to WCAS Capital Partners II, L.P. dated January 24, 1996.
*10.31	Amended and Restated Credit Agreement between Alliance Data Systems Corporation, and Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, and Morgan Guaranty Trust Company of New York, dated July 24, 1998.
*10.32	Pooling and Servicing Agreement, dated as of January 30, 1998, by and between World Financial Network National Bank, as Transferor and as Servicer, and The Bank of New York, as Trustee.
*10.33	ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan, effective May 1, 1999.
*10.34	Amended and Restated Alliance Data Systems Corporation Stock Option and its Subsidiaries Restricted Stock Plan.
*10.35	Form of Alliance Data Systems Corporation Incentive Stock Option Agreement.
*10.36	Form of Alliance Data Systems Corporation Non-Qualified Stock Option Agreement.
*10.37	Form of Alliance Data Systems Corporation Confidentiality and Non-Solicitation Agreement.
*10.38	Alliance Data Systems Corporation 1999 Incentive Compensation Plan.
*10.39	Letter employment agreement with J. Michael Parks, dated February 19, 1997.
*10.40	Letter employment agreement with Ivan Szeftel, dated May 4, 1998.

EXHIBIT NO.	EXHIBITS
*10.41	Registration Rights Agreement dated as of January 24, 1996 between Business Services Holdings, Inc. and Welsh Carson, Andersen, and Stowe VII, L.P., WCAS Information Partners, L.P., WCA Management Corporation, Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Richard H. Stowe, Andrew M. Paul, Thomas E. McInerney, Laura VanBuren, James B. Hoover, Robert A. Minicucci, Anthony J. deNicola, and David Bellet.
*10.42	Securities Purchase Agreement, dated as of August 30, 1996, by and among World Financial Network Holding Corporation, Limited Commerce Corp., and several persons named in Schedules I and II thereto, and WCAS Capital Partners II, L.P., as amended August 31, 1998.
*10.43	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.
*10.44	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.
*10.45	License to Use the Air Miles Trademarks in the United States, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc.
*10.46	License to Use and Exploit the Air Miles Scheme in the United States, dated as of July 1998, by and between Air Miles International Trading B.V. and Alliance Data Systems Corporation.
*10.47	Form of Retainer Agreement entered into between ADS Alliance Data Systems, Inc. and certain affiliates of The Limited, Inc.
*10.48	Form of Business Solutions Master Agreement between ADS Alliance Data Systems, Inc. and certain affiliates of The Limited, Inc.
*10.49	Second Amendment to Amended and Restated Credit Agreement, dated as of September 29, 2000, by and among Alliance Data Systems Corporation, Loyalty Management Group Canada Inc., Morgan Guaranty Trust Company of New York and Harris Trust and Savings Bank.
*10.50	Commercial Real Estate Lease, between Route 7 Realty, LLC and ADS Alliance Data Systems, Inc., dated October 24, 2000.
*10.51	Third Amendment to Amended and Restated Credit Agreement, dated as of January 10, 2001 between Alliance Data Systems Corporation, Loyalty Management Group Canada Inc. and Harris Trust and Savings Bank.
*10.52	General Release and Severance Agreement by and between Edward K. Mims, ADS Alliance Data Systems, Inc., and Alliance Data Systems Corporation.
*10.53	General Release and Severance Agreement by and between James Anderson, ADS Alliance Data Sytems, Inc. and Alliance Data Systems Corporation.
+10.54	Consumer Marketing Database Services Agreement among ADS Alliance Data Systems, Inc., Intimate Brands, Inc. and The Limited, Inc., dated as of September 1, 2000.
10.55	Fourth Amendment to Lease, made effective as of June 1, 2000, by and between Partners at Brooksedge and ADS Alliance Data Systems, Inc.

EXHIBIT NO.	EXHIBITS
21	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP with regard to Alliance Data Systems Corporation and SPS Network Services.
*23.2	Consent of Akin, Gump, Strauss, Hauer & Feld, L.L.P. (included in its opinion filed as Exhibit 5 hereto).
*24	Power of Attorney (included on the signature page hereto).

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* Previously filed.

** Portions of Exhibit have been omitted and filed separately with the commission pursuant to a request for confidential treatment.

\+ To be filed by amendment.

(b) Financial Statement Schedules

Schedule II--Valuation and qualifying accounts

ITEM 17--UNDERTAKINGS

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on February 7, 2001.

ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ J. MICHAEL PARKS

J. Michael Parks
CHIEF EXECUTIVE OFFICER AND PRESIDENT

POWER OF ATTORNEY

The undersigned directors and officers of Alliance Data Systems Corporation hereby constitute and appoint J. Michael Parks and Edward Heffernan, with full power to act and with full power of substitution and resubstitution, our true and lawful attorney-in-fact and agent with full power to execute in our name and behalf in the capacities indicated below any and all amendments (including post-effective amendments and amendments thereto) to this Registration Statement and to file the same, with all exhibits and other documents relating thereto and any registration statement relating to any offering made pursuant to this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act with the Securities and Exchange Commission and hereby ratify and confirm all that such attorney-in-fact or his substitute shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on February 7, 2001:

NAME	TITLE
/s/ J. MICHAEL PARKS J. Michael Parks	Chairman of the Board, Chief Executive Officer and President (principal executive officer)
/s/ EDWARD HEFFERNAN Edward Heffernan	Executive Vice President and Chief Financial Officer (principal financial officer)
* Michael D. Kubic	Vice President, Corporate Controller and Chief Accounting Officer (principal accounting officer)
* Bruce K. Anderson	Director
* Anthony J. deNicola	Director
* Daniel P. Finkelman	Director
/s/ KENNETH R. JENSEN Kenneth R. Jensen	Director
* Robert A. Minicucci	Director
* Bruce A. Soll	Director

*By: /s/ J. MICHAEL PARKS

J. Michael Parks
ATTORNEY-IN-FACT

SCHEDULE II

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	INCREASES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for Doubtful Accounts--Trade receivables:				
11 months ended December 31, 1998	$2,561	$ 8,151	$ (7,136)	$3,576
Year ended December 31, 1999	3,576	5,814	(8,311)	1,079
Year ended December 31, 2000	1,079	3,565	(768)	3,876
Allowance for Doubtful Accounts--Credit Card receivables:				
11 months ended December 31, 1998	$4,617	$15,352	$(15,081)	$4,888
Year ended December 31, 1999	4,888	14,951	(16,182)	3,657
Year ended December 31, 2000	3,657	13,828	(13,828)	3,657

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
*1	Form of Underwriting Agreement.
*2.1	Agreement and Plan of Merger, dated as of August 30, 1996, by and between Business Services Holdings, Inc. and World Financial Network Holding Corporation.
*2.2	Agreement and Plan of Merger, dated as of August 14, 1998, by and among Alliance Data Systems Corporation, HSI Acquisition Corp., and Harmonic Systems Incorporated.
*2.3	Stock Purchase Agreement, dated June 8, 1998, by and between SPS Payment Systems, Inc., Alliance Data Systems Corporation, SPS Commercial Services, Inc., and ADS Network Services, Inc., amended July 12, 1999.
**2.4	Agreement for the Purchase of all the Shares of Loyalty Management Group Canada Inc., June 26, 1998, by and between Air Miles International Group B.V., certain other shareholders and option holders and Alliance Data Systems Corporation as amended July 14, 1998.
*3.1	Second Amended and Restated Certificate of Incorporation of the Registrant.
*3.2	Second Amended and Restated Bylaws of the Registrant.
*4	Specimen Certificate for shares of Common Stock of the Registrant.
*5	Opinion of Akin, Gump, Strauss, Hauer & Feld, L.L.P.
**10.1	Credit Card Processing Agreement between World Financial Network National Bank, Bath and Body Works, Inc. and Tri-State Factoring, Inc., dated January 31, 1996.
**10.2	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Catalogue, Inc., and Far West Factoring Inc., dated January 31, 1996 (assigned by Victoria's Secret Catalogue, Inc. to Victoria's Secret Catalogue, LLC, May 2, 1998).
**10.3	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Stores, Inc., and Lone Mountain Factoring, Inc., dated January 31, 1996.
**10.4	Credit Card Processing Agreement between World Financial Network National Bank, Lerner New York, Inc., and Nevada Receivable Factoring, Inc., dated January 31, 1996.
**10.5	Credit Card Processing Agreement between World Financial Network National Bank, Express, Inc., and Retail Factoring, Inc., dated January 31, 1996.
**10.6	Credit Card Processing Agreement between World Financial Network National Bank, The Limited Stores, Inc., and American Receivable Factoring, Inc., dated January 31, 1996.
**10.7	Credit Card Processing Agreement between World Financial Network National Bank, Structure, Inc., and Mountain Factoring, Inc., dated January 31, 1996.
**10.8	Credit Card Processing Agreement between World Financial Network National Bank, Lane Bryant, Inc., and Sierra Nevada Factoring, dated January 31, 1996, and amended August 4, 1998 and September 12, 1999.
**10.9	Credit Card Processing Agreement between World Financial Network National Bank, Henri Bendel, Inc., and Western Factoring, Inc., dated January 31, 1996 and amended May 13, 1998.
10.10	Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan.

EXHIBIT NO.	DESCRIPTION
*10.11	Lease between Deerfield and Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated July 30, 1999.
*10.12	Indenture of Sublease between J.C. Penney Company, Inc. and BSI Business Services, Inc., dated January 11, 1996.
*10.13	Build-to-Suit Net Lease between Opus South Corporation and ADS Alliance Data Systems, Inc., dated January 29, 1998, as amended.
*10.14	Industrial Lease Agreement between CIBC Development Corporation and Loyalty Management Group Canada Inc., dated October 19, 1998, amended January 26, 1999.
*10.15	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.
*10.16	Deed of Lease between Boswell International Marine (PTE) Limited and Financial Automation Limited, dated August 3, 1999.
*10.17	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.
*10.18	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.
*10.19	Lease Agreement by and between Americana Parkway Warehouse Limited and World Financial Network National Bank, dated June 28, 1994.
*10.20	Lease Agreement by and between Morrison Taylor II, Ltd. and ADS Alliance Data Systems, Inc., dated June 18, 1998, and amended June 18, 1998.
*10.21	Lease Agreement between Morrison Taylor, Ltd. and ADS Alliance Data Systems, Inc. dated July 1, 1997, and amended June 18, 1998.
*10.22	Commercial Lease Agreement between Waterview Parkway, L.P. and ADS Alliance Data Systems, Inc., dated July 16, 1997.
*10.23	Preferred Stock Purchase Agreement by and between Alliance Data Systems Corporation and several persons named in Schedule I thereto, dated July 12, 1999.
*10.24	Amended and Restated Stockholder Agreement, by and between World Financial Network Holding Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VII, L.P., and the several other investors named in Annex 1 thereto dated August 30, 1996, and amended July 24, 1998, August 31, 1998 and July 12, 1999.
*10.25	Securities Purchase Agreement, by and between Business Services Holdings, Inc., and the several purchasers named in Schedule 1 and Schedule II thereto, dated January 24, 1996, and amended August 31, 1998.
*10.26	Common Stock Purchase Agreement between Alliance Data Systems Corporation and Welsh, Carson, Anderson, and Stowe VII, L.P., Welsh, Carson, Anderson, and Stowe VIII, L.P., and the persons named in Schedule I thereto, dated July 24, 1998.
*10.27	Securities Purchase Agreement between Alliance Data Systems Corporation and WCAS Capital Partners III, L.P., dated September 15, 1998.
*10.28	10% Subordinated Note due September 15, 2008 issued by Alliance Data Systems Corporation to WCAS Capital Partners III, L.P. dated September 15, 1998.

EXHIBIT NO.	DESCRIPTION
*10.29	10% Subordinated Note due October 25, 2005 issued by Alliance Data Systems Corporation to the Limited Commerce Corp., dated January 24, 1996.
*10.30	10% Subordinated Note due October 25, 2005 issued by Alliance Data Systems Corporation to WCAS Capital Partners II, L.P. dated January 24, 1996.
*10.31	Amended and Restated Credit Agreement between Alliance Data Systems Corporation, and Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, and Morgan Guaranty Trust Company of New York, dated July 24, 1998.
*10.32	Pooling and Servicing Agreement, dated as of January 30, 1998, by and between World Financial Network National Bank, as Transferor and as Servicer, and The Bank of New York, as Trustee.
*10.33	ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan, effective May 1, 1999.
*10.34	Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan.
*10.35	Form of Alliance Data Systems Corporation Incentive Stock Option Agreement.
*10.36	Form of Alliance Data Systems Corporation Non-Qualified Stock Option Agreement.
*10.37	Form of Alliance Data Systems Corporation Confidentiality and Non-Solicitation Agreement.
*10.38	Alliance Data Systems Corporation 1999 Incentive Compensation Plan.
*10.39	Letter employment agreement with J. Michael Parks, dated February 19, 1997.
*10.40	Letter employment agreement with Ivan Szeftel, dated May 4, 1998.
*10.41	Registration Rights Agreement dated as of January 24, 1996 between Business Services Holdings, Inc. and Welsh Carson, Andersen, and Stowe VII, L.P., WCAS Information Partners, L.P., WCA Management Corporation, Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Richard H. Stowe, Andrew M. Paul, Thomas E. McInerney, Laura VanBuren, James B. Hoover, Robert A. Minicucci, Anthony J. deNicola, and David Bellet.
*10.42	Securities Purchase Agreement, dated as of August 30, 1996, by and among World Financial Network Holding Corporation, Limited Commerce Corp., and several persons named in Schedules I and II thereto, and WCAS Capital Partners II, L.P., as amended August 31, 1998.
*10.43	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.
*10.44	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.
*10.45	License to Use the Air Miles Trademarks in the United States, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc.
*10.46	License to Use and Exploit the Air Miles Scheme in the United States, dated as of July 1998, by and between Air Miles International Trading B.V. and Alliance Data Systems Corporation.

EXHIBIT NO.	DESCRIPTION
*10.47	Form of Retainer Agreement entered into between ADS Alliance Data Systems, Inc. and certain affiliates of The Limited, Inc.
*10.48	Form of Business Solutions Master Agreement between ADS Alliance Data Systems, Inc. and certain affiliates of The Limited, Inc.
*10.49	Second Amendment to Amended and Restated Credit Agreement, dated as of September 29, 2000, by and among Alliance Data Systems Corporation, Loyalty Management Group Canada Inc., Morgan Guaranty Trust Company of New York and Harris Trust and Savings Bank.
*10.50	Commercial Real Estate Lease, between Route 7 Realty, LLC and ADS Alliance Data Systems, Inc., dated October 24, 2000.
*10.51	Third Amendment to Amended and Restated Credit Agreement, dated as of January 10, 2001 between Alliance Data Systems Corporation, Loyalty Management Group Canada Inc. and Harris Trust and Savings Bank.
*10.52	General Release and Severance Agreement by and between Edward K. Mims, ADS Alliance Data Systems, Inc. and Alliance Data Systems Corporation.
*10.53	General Release and Severance Agreement by and between James Anderson, ADS Alliance Data Sytems, Inc., and Alliance Data Systems Corporation.
+10.54	Consumer Marketing Database Services Agreement among ADS Alliance Data Systems, Inc., Intimate Brands, Inc. and The Limited, Inc., dated as of September 1, 2000.
10.55	Fourth Amendment to Lease, made effective as of June 1, 2000, by and between Partners at Brooksedge and ADS Alliance Data Systems, Inc.
21	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP with regard to Alliance Data Systems Corporation and SPS Network Services.
*23.2	Consent of Akin, Gump, Strauss, Hauer & Feld, L.L.P. (included in its opinion filed as Exhibit 5 hereto).
*24	Power of Attorney (included on the signature page hereto)

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* Previously filed.

** Portions of Exhibit have been omitted and filed separately with the commission pursuant to a request for confidential treatment.

\+ To be filed by amendment.

ALLIANCE DATA SYSTEMS CORPORATION AND ITS SUBSIDIARIES
EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan.

1. PURPOSE. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirement of that section of the Code.

2. DEFINITIONS.

(a) "BOARD" means the Board of Directors of the Company.

(b) "CODE" means the Internal Revenue Code of 1986, as amended.

(c) "COMMON STOCK" means the Common Stock of the Company.

(d) "COMPANY" means Alliance Data Systems Corporation, a Delaware corporation.

(e) "COMPENSATION" means an Employee's compensation received by an Employee from the Company or a Designated Subsidiary. By way of illustration, but not limitation, Compensation means the regular wages, (i.e. base pay) overtime, commissions, and cash incentives paid to an Employee but excludes disability pay, workers compensation, severance pay, service related cash awards, any amounts which constitute tax gross ups of taxable amounts, and income realized as a result of participation in any stock option, stock purchase, or similar plan of the Company or any Designated Subsidiary.

(f) "CONTRIBUTIONS" means all amounts credited to the account of a participant pursuant to the Plan.

(g) "CORPORATE TRANSACTION" means a sale of all or substantially all of the Company's assets, or a merger, consolidation or other capital reorganization of the Company with or into another corporation.

(h) "DESIGNATED SUBSIDIARIES" means the Subsidiaries that have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan; provided however that the Board shall only have the discretion to designate Subsidiaries if the issuance of options to such Subsidiary's Employees pursuant to the Plan would not cause the Company to incur adverse accounting charges.

(i) "EMPLOYEE" means any person, including an Officer, who is an Employee of the Company and its Designated Subsidiaries for tax purposes.

(j) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(k) "OFFERING DATE" means the first business day of each Offering Period of the Plan.

(l) "OFFERING PERIOD" means a period of three (3) months commencing on the first trading day of each calendar quarter. The first Offering Period for the Plan shall be established by the Executive Vice President and Chief Administrative Officer, provided that it will be no earlier than the Effective Date of the Plan.

(m) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and rules and regulations promulgated thereunder.

(n) "PLAN" means the Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan.

(o) "PURCHASE DATE" means the last trading day of each Offering Period of the Plan.

(p) "PURCHASE PRICE" means with respect to an Offering Period an amount equal to 85% of the Fair Market Value (as defined in Section 7(b) below) of a Share of Common Stock on the Offering Date or on the Purchase Date, whichever, is lower; provided, however, that in the event (i) of any stockholder-approved increase in the number of Shares available for issuance under the Plan, and (ii) all or a portion of such additional Shares are to be issued with respect to the Offering Period that is underway at the time of such increase ("ADDITIONAL SHARES"), and (iii) the Fair Market Value of a Share of Common Stock on the date of such increase (the "APPROVAL DATE FAIR MARKET VALUE") is higher than the Fair Market Value on the Offering Date for any such Offering Period, then in such instance the Purchase Price with respect to Additional Shares shall be 85% of the Approval Date Fair Market Value or the Fair Market Value of a Share of Common Stock on the Purchase Date, whichever is lower.

(q) "SHARE" means a share of Common Stock, as adjusted in accordance with Section 19 of the Plan.

(r) "SUBSIDIARY" means a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. ELIGIBILITY.

(a) Any person who is an Employee as of the Offering Date of a given Offering Period shall be eligible to participate in such Offering Period under the Plan, subject to the requirements of Section 5(a) and the limitations imposed by Section 423(b) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) if such option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate that exceeds Twenty-Five Thousand Dollars ($25,000) of the Fair Market Value (as defined in Section 7(b) below) of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. OFFERING PERIODS. The Plan shall be implemented by a series of Offering Periods of three (3) months' duration, with new Offering Periods commencing on or about January 1, April 1, July 1, and October 1 of each year (or at such other time or times as may be determined by the Board of Directors). The Plan shall continue until terminated in accordance with Section 19 hereof. The Board of Directors of the Company shall have the power to change the duration and/or the frequency of Offering Periods with respect to future offerings without stockholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected.

5. PARTICIPATION.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement and any other required documents ("Enrollment Documents") provided by the Company and submitting them to the Company's Human Resources Department or a stock brokerage or other firm designated by the Company ("Designated Broker") prior to the applicable Offering Date, unless a later time for submission of the Enrollment Documents is set by the Board for all eligible Employees with respect to a given Offering Period. The Enrollment Documents and their submission may be electronic, as directed by the Company. The Enrollment Documents shall set forth the percentage or dollar amount of the participant's Compensation (subject to Section 6(a) below) to be paid as Contributions pursuant to the Plan.

(b) Payroll deductions shall commence on the first payroll following the Offering Date and shall end on the last payroll paid on or prior to the Purchase Date of the Offering Period to which the Enrollment Documents are applicable, unless sooner terminated by the participant as provided in Section 10.

6. METHOD OF PAYMENT CONTRIBUTIONS.

(a) A participant shall elect to have payroll deductions made on each payday during the Offering Period in:

i. an amount not less than one percent (1%) and not more than one hundred percent (100%) in whole percentages or

ii. a specified dollar amount in five-dollar increments of such participant's Compensation on each payday during the Offering Period. All payroll deductions made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(b) A participant may elect to discontinue his or her participation in the Plan as provided in Section 10 during an Offering Period, or increase or decrease the rate or amount of his or her Contributions with respect to the next Offering Period by completing and filing with the Company new Enrollment Documents authorizing a change in the payroll rate. An increase or decrease (other than a discontinuance) in the rate or amount of a participant's contribution shall be effective at the beginning of the next Offering Period. The new Enrollment Documents for increasing or decreasing (other than a discontinuance) must be completed and received by 4:00 p.m. Eastern Time on the 20th of the month prior to the Offering Period. If the election is not timely filed, the election will become effective as of the beginning of the next Offering Period. A discontinuance of contributions will be effective as soon as practicable after the election for discontinuance is received. The Committee will establish procedures for these elections.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) herein, an Employee's payroll deductions may be decreased during any Offering Period scheduled to end during the current calendar year to 0%.

(d) Whenever an Employee's payroll contributions deductions have been discontinued, to recommence participation in any subsequent Offering Periods the Employee must complete and file new Enrollment Documents with the Company as previously defined. The Employee's recommencement of participation will be effective as of the beginning of the Offering Period which begins after the Enrollment Documents are received by the Company in accordance with procedures previously established.

7. GRANT OF OPTION.

(a) On the Offering Date of each Offering Period each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Purchase Date a number of Shares of the Company's Common Stock determined by dividing such Employee's Contributions accumulated prior to such Purchase Date and retained in the participant's account as of the Purchase Date by the applicable Purchase Price; subject to any adjustment pursuant to Section 18 below, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12.

(b) The fair market value of the Company's Common Stock on a given date (the "FAIR MARKET VALUE") shall be determined by the Board in its discretion based on the closing sales price of Common Stock for such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), as reported by the New York Stock Exchange (NYSE) or, if such price is not reported, the mean of the bid and asked prices per share of the Common Stock as reported by NYSE or, in the event the Common Stock is listed on a stock exchange, the Fair Market Value per share shall be the closing sales price on such exchange on such date (or, in the event that the Common Stock is not traded on such date on the immediately preceding trading date), as reported in THE WALL STREET JOURNAL.

8. EXERCISE OF OPTION. Unless a participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of Shares will be exercised automatically on each Purchase Date of an Offering Period and the maximum number of Shares subject to the option

will be purchased at the applicable Purchase Price with the accumulated Contributions in his or her account. Fractional Shares shall be issued, as necessary. The Shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Purchase Date. During his or her lifetime, a participant's option to purchase Shares hereunder is exercisable only by him or her.

9. DELIVERY. As promptly as practicable after a Purchase Date the number of Shares purchased by each participant upon exercise of his or her option shall be deposited into an account established in the participant's name with the Designated Broker. Any payroll deductions accumulated in a participant's account that are not applied toward the purchase of Shares on a Purchase Date due to limitations imposed by the Plan shall be returned to the participant.

10. TERMINATION OF EMPLOYMENT.

(a) Upon termination of the participant status as an Employee prior to the Purchase Date of an Offering Period for any reason, whether voluntary or involuntary, including retirement or death, the Contributions credited to his or her account will be refunded to the Employee through normal payroll processing.

(b) A participant's withdrawal from an offering will not have any effect upon his or her eligibility to participate in a succeeding offering or in any similar plan that may hereafter be adopted by the Company.

11. INTEREST. No interest shall accrue on the Contributions of a participant in the Plan.

12. STOCK.

(a) Subject to adjustment as provided in Section 18, the maximum number of Shares that shall be made available for sale under the Plan shall be 1,500,000 Shares. If the Board determines that, on a given Purchase Date, the number of shares with respect to which options are to be exercised may exceed (1) the number of shares of Common Stock that were available for sale under the Plan on the Offering Date of the applicable Offering Period, or (2) the number of shares available for sale under the Plan on such Purchase Date, the Company shall make a pro rata allocation of the Shares of Common Stock available for purchase on such Offering Date or Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Purchase Date, and continue the Plan as then in effect, or that the Company shall make a pro rata allocation of the Shares available for purchase on such Offering Date or Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Purchase Date, and terminate the Plan pursuant to Section 19 below. The Company may make a pro rata allocation of the Shares available on the Offering Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional Shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Date.

(b) The participant shall have no interest or voting right in Shares covered by his or her option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

13. ADMINISTRATION. The Board, or a committee named by the Board, shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan to interpret the Plan and to make all other determinations necessary or advisable for the administration of the Plan.

14. DESIGNATION OF BENEFICIARY.

(a) A participant may designate a beneficiary who is to receive any Shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of an Offering Period but prior to delivery to him or her of such Shares and cash. In addition, a participant may designate a beneficiary who is to receive any shares from the participant's account under the Plan in the event of such participant's death prior to the Purchase Date of an Offering Period. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective. Beneficiary designations under this Section 14(a) shall be made as directed by the Human Resources Department of the Company, which may require electronic submission of the required documentation with the Designation Broker.

(b) Such designation of beneficiary may be changed by the participant and his or her spouse if any) at any time by submission of the required notice which required notice may be electronic. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death the Company shall deliver such Shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. TRANSFERABILITY. Neither Contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 14) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

16. USE OF FUNDS. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

17. REPORTS. Individual accounts will be maintained for each participant in the Plan. Statements of account will be provided to participating Employees by the Company or the

Designated Broker at least annually, which statements will set forth the amounts of Contributions, the per Share Purchase Price, the number of Shares purchased and the remaining cash balance, if any.

18. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION CORPORATE TRANSACTIONS.

(a) ADJUSTMENT. Subject to any required action by the stockholders of the Company, the number of Shares covered by each option under the Plan that has not yet been exercised, the number of Shares that have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "RESERVES"), the maximum number of Shares of Common Stock that may be purchased by a participant in an Offering Period, the number of Shares of Common Stock set forth in Section 12(a)(i) above, and the price per Share of Common Stock covered by each option under the Plan that has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock (including any such change in the number of Shares of Common Stock effected in connection with a change in domicile of the Company), or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company; provided however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an option.

(b) CORPORATE TRANSACTION. In the event of a dissolution or liquidation of the Company, any Offering Period then in progress will terminate immediately prior to the consummation of such action, unless otherwise provided by the Board. In the event of a Corporate Transaction, each option outstanding under the Plan shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or Subsidiary of such successor corporation. In the event that the successor corporation refuses to assume or substitute for outstanding options, each Offering Period then in progress shall be shortened and a new Purchase Date shall be set (the "NEW PURCHASE DATE"), as of which date any Offering Period then in progress will terminate. The New Purchase Date shall be on or before the date of consummation of the transaction and the Board shall notify each participant in writing, at least ten (10) days prior to the New Purchase Date, that the Purchase Date for his or her option has been changed to the New Purchase Date and that his or her option will be exercised automatically on the New Purchase Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Section 10. For purposes of this Section 18, an option granted under the Plan shall be deemed to be assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Corporate Transaction, each holder of an option under the Plan would be entitled to receive upon exercise of the option the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to the transaction, the holder of the number of Shares of Common Stock covered by the option at such time (after giving effect to any adjustments in the number of Shares covered by the option as provided for in this Section 18); provided however that if the consideration received in the transaction is not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in Fair Market Value to the per Share consideration received by holders of Common Stock in the transaction.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per Share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights, offerings or other increases or reductions of Shares of its outstanding Common Stock, and in the event of the Company's being consolidated with or merged into any other corporation.

19. AMENDMENT OR TERMINATION.

(a) The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18, no such termination of the Plan may affect options previously granted, provided that the Plan or an Offering Period may be terminated by the Board on a Purchase Date or by the Board's setting a new Purchase Date with respect to an Offering Period then in progress if the Board determines that termination of the Plan and/or the Offering Period is in the best interests of the Company and the stockholders or if continuation of the Plan and/or the Offering Period would cause the Company to incur adverse accounting charges as a result of a change after the effective date of the Plan in the generally accepted accounting rules applicable to the Plan. Except as provided in Section 18 and in this Section 19, no amendment to the Plan shall make any change in any option previously granted that adversely affects the rights of any participant. In addition, to the extent necessary to comply with Rule 16b-3 under the Exchange Act, or under Section 423 of the Code (or any successor rule or provision or any applicable law or regulation), the Company shall obtain stockholder approval in such a manner and to such a degree as so required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable that are consistent with the Plan.

20. NOTICES. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, applicable state securities laws and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. TERM OF PLAN; EFFECTIVE DATE. The Plan shall become effective upon approval by the Company's Board of Directors. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 19.

23. ADDITIONAL RESTRICTIONS OF RULE 16b-3. The terms and conditions of options granted hereunder to, and the purchase of Shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such options shall contain, and the Shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

FOURTH AMENDMENT TO LEASE

THIS FOURTH AMENDMENT TO LEASE (hereinafter referred to as the "Fourth Amendment") is made effective as of this 1st day of June, 2000, by and between PARTNERS AT BROOKSEDGE, an Ohio general partnership (hereinafter referred to as "Lessor"), and ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation (hereinafter referred to as "Lessee").

RECITALS

A. Continental Acquisitions, Inc., as Lessor, and World Financial Network National Bank (U.S.) (hereinafter referred to as "WFN"), as Lessee, entered into a Lease dated July 2, 1990 for certain space located at 220 West Schrock Road, Westerville, Ohio 43081, and being part of "Brooksedge Corporate Center".

B. The interest of Continental Acquisitions, Inc. as "Lessor" under the Lease was subsequently assigned on August 28, 1990 to Lessor.

C. The Lease was amended by that certain First Amendment of Lease between WFN and Lessor dated September 11, 1990, that certain Second Amendment of Lease between WFN and Lessor dated November 16, 1990, and that certain Third Amendment of Lease between WFN and Lessor dated February 18, 1991.

D. The interest of WFN as "Lessee" under the Lease was subsequently assigned on February 1, 1998 to Lessee. The Lease as amended and assigned is hereinafter collectively referred to as the "Lease").

E. The current term of the Lease expires on January 31, 2001, and Lessee has two (2) concurrent options to renew the Lease for additional terms of five (5) years each. Lessor and Lessee have renegotiated the terms and conditions for extension of the Lease and one (1) renewal option.

PROVISIONS

1. INCORPORATION OF RECITALS. The Recitals portion of this Fourth Amendment is hereby incorporated by this reference to the same extent and as fully as though it were here rewritten in its entirety. All capitalized terms not otherwise defined herein shall have the same meaning set forth in the Lease.

2. EXTENSION OF TERM OF LEASE; RENEWAL OPTION. Section 1.03 of the Lease ("Term") is hereby amended to provide that the term of the Lease shall be extended from its current expiration date of January 31, 2001 to an expiration date of May 31, 2006.

Section 15.01 of the Lease ("Renewal Option") is hereby amended to delete the two (2) options to renew originally set forth therein and to provide that Lessee shall have the right to renew the term the Lease for one (1) additional period of five (5) years beginning June 1, 2006 and ending on May 31, 2011. The Fixed Minimum Rent during the renewal term described in the immediately preceding sentence shall be as set forth in paragraph 3 of this Fourth Amendment, and accordingly, the provisions of Section 15.01(b) of the Lease shall be amended as set forth below. Except as otherwise provided herein, the renewal term shall be on the same terms and conditions as contained in the Lease.

3. RENT. Section 1.04 and Section 2.01 of the Lease ("Fixed Minimum Rent") are hereby amended to provide that Lessee shall pay Fixed Minimum Rent during the extended term of the Lease in the following annual and monthly amounts for the periods of the extended term shown below, subject to adjustment as set forth in paragraph 4 below, and Section 15.01(b) of the Lease is hereby amended to provide that Lessee shall pay Fixed Minimum Rent during the renewal term described in paragraph 2 of this Fourth Amendment (if exercised in accordance with the Lease) in the following annual and monthly amounts for the renewal period shown below:

Period	Annual Amount	Monthly Installment	Amount per s.f.
(a) June 1, 2000 through and including December 31, 2000	$832,608.00	$69,384.00	$8.26
(b) January 1, 2001 through and including May 31, 2006	$899,136.00	$74,928.00	$8.92(1)
Renewal (if any)			
(c) June 1, 2006 through and including May 31, 2011	$989,856.00	$82,488.00	$9.82

4. TENANT IMPROVEMENT ALLOWANCE. In consideration of the extension of the current term of the Lease, Lessor shall provide a tenant improvement allowance up to a maximum of Three Hundred Thousand Dollars ($300,000.00) (the actual disbursed amount of the tenant improvement allowance is hereinafter referred to as "Tenant Improvement Allowance"). The Tenant Improvement Allowance shall be used to construct alterations, additions and improvements to the leased premises (hereinafter referred to as the "Tenant Improvements"), which Tenant Improvements shall be subject to Lessor's approval as required by Section 6.10 of the Lease. The Tenant Improvement Allowance shall be paid to Lessee in a single disbursement which shall be due within thirty (30) days after Lessee has satisfied each of the following conditions precedent:

(a) Lessee shall have furnished to Lessor copies of all invoices and other supporting documentation which indicates the actual costs incurred for the construction of the Tenant Improvements.

(b) Lessee shall have furnished to Lessor properly executed mechanic's lien releases from all persons or entities who might be able to claim a mechanic's lien on account of the Tenant Improvements.

(c) Lessee shall have furnished to Lessor a copy of the final certificate of occupancy, if any, for the Tenant Improvements.

Lessor shall have no obligation to disburse funds in excess of the maximum amount of the Tenant Improvement Allowance or to make the single disbursement of the Tenant Improvement Allowance if Lessee has not satisfied the conditions precedent described above on or before December 1, 2000. Further, Lessor shall not be obligated to disburse all or any part of the Tenant Improvement

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(1) Subject to increase under paragraph 4 below.

Allowance if an event of default has occurred under the Lease or an event has occurred, which with notice or lapse of time, or both, would constitute an event of default under the Lease.

Commencing with the monthly installment payable on January 1, 2001 and continuing for each month thereafter through and including May 1, 2006, the Fixed Minimum Rent under Section 1.04 and Section 2.01 of the Lease as set forth in item (b) of paragraph 3 of this Fourth Amendment shall be increased by Twenty-Four Cents (24CENTS) per square foot of leased premises (100,800 square feet) per year for each One Hundred Thousand Dollars ($100,000.00) (or portion thereof) of Tenant Improvement Allowance that is disbursed by Lessor. For example, if the full $300,000.00 of Tenant Improvement Allowance is disbursed, Fixed Minimum Rent under item (b) of paragraph 3 above would increase by Seventy-Two Cents (72CENTS) per square foot of the leased premises, but if only $250,000 of the Tenant Improvement Allowance is disbursed, the Fixed Minimum Rent under item (b) of paragraph 3 above would increase by Sixty Cents (60CENTS) per square foot of the leased premises.

5. RELEASE OF ORIGINAL GUARANTEE; SUBSTITUTE GUARANTEE. In consideration of the delivery of the substitute Guarantee as provided below, Lessor does hereby release and discharge The Limited , Inc. (hereinafter referred to as "Limited") from any and all liabilities and obligations which are subject to that certain Guarantee dated July 2, 1990 delivered by the Limited to Lessor (hereinafter referred to as the "Original Guarantee""). Concurrently with the execution and delivery of this Fourth Amendment, Lessee shall cause its parent corporation, Alliance Data Systems Corporation, to execute and deliver to Lessor in substitution for the Original Guarantee a Guarantee of all past and future obligations under the Lease, which Guarantee shall be in a form and content acceptable to Lessor.

6. NO OTHER CHANGES; RATIFICATION OF LEASE. This Fourth Amendment shall only modify or amend the Lease to the extent provided herein and all other conditions, covenants and agreements in the Lease shall remain in full force and effect. Subject to the terms of this Fourth Amendment, Lessor and Lessee do hereby ratify and confirm in their entirety the conditions, covenants and agreements contained in the Lease. If there is a conflict between the provisions contained in this Fourth Amendment and the provisions of the Lease, this Fourth Amendment shall control.

7. MISCELLANEOUS. The governing law provisions set forth in the Lease shall also be applicable to this Fourth Amendment. The captions at the beginning of the several paragraphs of this Fourth Amendment are for the convenience of the reader and shall be ignored in construing this Fourth Amendment. This Fourth Amendment may be executed in several counterparts and each of such counterparts shall be deemed to be an original hereof.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Fourth Amendment effective as of the date first set forth above.

Signed and acknowledged in the presence of:	PARTNERS AT BROOKSEDGE, an Ohio general partnership ("Lessor")
	By: Continental Properties, an Ohio general partnership, its managing general partner
/s/ Nanelle C. Buel	
Print Name: Nannelle C. Buel	By: /s/ Franklin E. Kass
/s/ Thomas R. Davis	Franklin E. Kass
Print Name: Thomas R. Davis	Managing General Partner

Signed and acknowledged in the presence of:	ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation ("Lessee")
/s/ Bruce McClary	
Print Name: Bruce McClary	By: /s/ Robert P. Armiak
/s/ Oren J. Snell	Name: Robert P. Armiak, CCM
Print Name: Oren Snell	Title: Vice President, Treasurer

STATE OF OHIO
COUNTY OF FRANKLIN

The foregoing instrument was acknowledged before me this 24th day of July, 2000 by Franklin E. Kass, Managing General Partner of Continental Properties, an Ohio general partnership, as Managing General Partner of PARTNERS AT BROOKSEDGE, an Ohio general partnership, on behalf of the partnership.

/s/ Nannette C. Buel
Notary Public

STATE OF OHIO
COUNTY OF FRANKLIN

The foregoing instrument was acknowledged before me this 20th day of July, 2000 by Robert Armiak, VP-Treasurer of ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation, on behalf of the corporation.

/s/ Mary Brewer
Notary Public
Expires 6/30/04

CONSENT OF ORIGINAL TENANT

The undersigned, as the original "Lessee" under the Lease hereby approves the terms and conditions of the Fourth Amendment and agrees that its continuing liability under Section 9.02.01 of the Lease shall be subject to the terms and conditions of the Fourth Amendment.

WORLD FINANCIAL NETWORK NATIONAL BANK (U.S.), a national banking association

Dated: July 20, 2000

By: Robert P. Armiak

Name: Robert P. Armiak, CCM

Title: Vice President, Treasurer

LIST OF SUBSIDIARIES
OF
ALLIANCE DATA SYSTEMS CORPORATION

NAME OF DIRECT SUBSIDIARY	STATE & DATE OF INC.	DOING BUSINESS AS
ADS ALLIANCE DATA SYSTEMS, INC.	DELAWARE 4/22/83	ADS ALLIANCE DATA S
WORLD FINANCIAL NETWORK NATIONAL BANK	FEDERAL CHARTER 5/1/89	WORLD FINANCIAL NET
ALLIANCE DATA SYSTEMS (NEW ZEALAND) LIMITED	NEW ZEALAND 1/7/97	ALLIANCE DATA SYSTE LIMITED
LOYALTY MANAGEMENT GROUP CANADA, INC.	TORONTO, CANADA AMALGAMATED 7/24/98	LOYALTY MANAGEMENT
ADS REINSURANCE LTD.	BERMUDA 11/26/98	ADS REINSURANCE LT

ADS COMMERCIAL SERVICES, INC.	DELAWARE 1/18/95	ADS COMMERCIAL SER
ALLIANCE RECOVERY MANAGEMENT, INC.	DELAWARE 2/2/01	ALLIANCE RECOVERY MANAGEMENT, INC.

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 4 to Registration Statement No. 333-94623 of Alliance Data Systems Corporation and Subsidiaries of our report dated February 2, 2001 which expresses an unqualified opinion and of our report dated March 1, 2000 relating to the financial statements of SPS Network Services, appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the headings "Selected Historical Consolidated Financial and Operating Information" and "Experts" in such Prospectus.

Our audits of the financial statements referred to in our aforementioned report also included the consolidated financial statement schedules of Alliance Data Systems Corporation, listed in Item 16. These financial statement schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Columbus, Ohio

February 6, 2001