AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 15, 2001

REGISTRATION NO. 333-94623

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 6
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
1700 Pacific Avenue, Suite 4100	333 South Grand Avenue
Dallas, Texas 75201	Los Angeles, California 90071
Telephone: (214) 969-2800	Telephone: (213) 229-7000
Facsimile: (214) 969-4343	Facsimile: (213) 229-7520

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 MARCH 15, 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.

Our common stock has been approved for listing, subject to official notice of issuance, on the New York Stock Exchange under the symbol "ADS."

SEE "RISK FACTORS" BEGINNING ON PAGE 7 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 -- [Text and Graphics]

This page contains a photograph composed of three images. In the foreground is a consumer shopping, using a catalog; in the upper left hand corner is an image of a consumer carrying a shopping bag; and in the far right corner is a computer screen with the text "Shopping Online!" visible. On the bottom right of the photograph is a text box, with the following text:

"Facilitating transactions and communications in multiple distribution channels."

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 to retail companies in the United States and Canada. We focus on facilitating and managing electronic transactions between our clients and their customers through multiple distribution channels including in-store, catalog and the Internet. Our credit and marketing services assist our clients in identifying and acquiring new customers, as well as helping to increase the loyalty and profitability of their existing customers.

We have a client base in excess of 300 companies, comprised mostly of specialty retailers, petroleum retailers, supermarkets and financial services companies. We generally have long-term relationships with our clients, with contracts typically ranging from three to five years in duration. The Limited, together with its retail affiliates, including Victoria's Secret, Express, Lane Bryant, Bath & Body Works, Lerner New York, Henri Bendel and Structure, is our largest client, representing approximately 25.3% of our 2000 consolidated revenue.

OUR PRODUCTS AND SERVICES

Our products and services are centered around three core capabilities--Transaction Services, Credit Services and Marketing Services. We have traditionally marketed and sold our products and services on a stand-alone basis, but increasingly are marketing and selling them on a bundled and integrated basis. Our products and services and target markets are listed below.

SEGMENT	PRODUCTS AND SERVICES	TARGET MARKETS
TRANSACTION SERVICES	- Transaction Processing - Network Services - Merchant Bankcard Services - Account Processing and Servicing - Card Processing - Billing and Payment Processing - Customer Care	- Specialty Retail - Petroleum Retail - Regulated and De-regulated Utility - Mass Transit - Tollways - Parking
CREDIT SERVICES	- Private Label Receivables Financing - Underwriting and Risk Management - Merchant Processing - Receivables Funding	- Specialty Retail - Petroleum Retail
MARKETING SERVICES	- Loyalty Programs - Air Miles - One-to-One Loyalty - Database Marketing Services - Enhancement Services - Direct Marketing	- Specialty Retail - Petroleum Retail - Supermarkets - Financial Services

OUR MARKET OPPORTUNITY AND GROWTH STRATEGY

Our services are applicable to the full spectrum of commerce opportunities involving companies that sell products and services to individual consumers. 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 generates valuable information on individual consumers and their purchasing preferences. Many retailers, however, lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure or credit card or database operations. In addition, we see an increasing acceptance by companies to outsource the development and management of their marketing programs, such as loyalty programs and database marketing services.

Our current strategy to capitalize on these opportunities include:

- increasing the penetration of our products and services to existing clients;

- expanding our client base in our existing market sectors;

- continuing to expand our services and capabilities to help our clients succeed in multi-channel commerce; and

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

OUR LIQUIDITY SOURCES

We finance our growth through cash from operations, issuing certificates of deposit through our credit card bank subsidiary, a $100.0 million revolving loan commitment and a securitization program. We utilize certificates of deposit and the revolving loan commitment to finance our operating activities and to fund credit enhancement and seller's interest in our securitizations. We finance substantially all our private label credit card receivables through a securitization program, which involves the packaging and selling of both current and future receivable balances of private label credit card accounts to a master trust. Our securitizations are treated as sales for accounting purposes and, accordingly, securitized receivables are removed from our balance sheet. We retain a residual interest in the trust that is commonly referred to as an "interest only strip".

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 several complementary portfolio and business acquisitions.

As of February 28, 2001, Welsh, Carson, Anderson & Stowe beneficially owned approximately 74.2% of our common stock, and The Limited, through its wholly owned subsidiary Limited Commerce Corp., beneficially owned approximately 25.4% 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 continued ownership of our common stock above minimum thresholds.

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

RECENT DEVELOPMENTS

Effective February 28, 2001, we acquired substantially all of the operating assets of Utilipro, Inc., a subsidiary of AGL Resources, Inc., for $20.3 million in cash. Utilipro is an account processing and servicing provider to the de-regulated utility sector. Utilipro provides these services to three clients serving approximately 500,000 utility customers.

THE OFFERING

Common stock offered	13,000,000 shares
Common stock to be outstanding after the offering	70,834,379 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 February 28, 2001, these shares of Series A preferred stock were convertible into 10,172,233 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 up to:

- 4,449,934 shares that we may issue upon the exercise of stock options outstanding as of February 28, 2001 at a weighted average exercise price of $12.46 per share;

- 3,599,914 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

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

SUMMARY CONSOLIDATED FINANCIAL DATA

In connection with your review of the summary consolidated financial data you should consider the following information for a better understanding of the data presented:

RECAST 1998. 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 to our results for 1999 and 2000, 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 information reflects all normal recurring adjustments necessary for a fair presentation of such financial information.

PRO FORMA INFORMATION. We have also included unaudited pro forma information for 2000. The data contained in the pro forma column give effect to the Utilipro acquisition as if it had been consummated on January 1, 2000. The supplemental pro forma loss per share data give effect to the conversion of all outstanding Series A preferred shares 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.

USE OF OPERATING EBITDA. 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, such as debt-to-operating EBITDA, interest coverage ratios and minimum operating EBITDA. We also use operating EBITDA as an integral part of our internal reporting to measure the performance and liquidity of our reportable segments. In addition, we believe 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,			
		ACTUAL		
	RECAST 1998	1999	2000	PRO FORMA 2000
	(UNAUDITED)			(UNAUDITED)
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)			
INCOME STATEMENT DATA				
Total revenue	$ 451,537	$ 583,082	$ 678,195	$695,927
Cost of operations	344,369	456,908	522,833	547,453
General and administrative	39,870	45,919	57,353	57,353
Depreciation and other amortization	8,782	16,183	26,265	27,526
Amortization of purchased intangibles	46,977	61,617	49,879	51,560
Total expenses	439,998	580,627	656,330	683,892
Operating income	11,539	2,455	21,865	12,035
Other non-operating expense	--	--	2,477	2,477
Interest expense	29,295	42,785	38,870	40,642
Income tax expense (benefit)	(2,622)	(6,538)	1,841	(2,162)
Loss from continuing operations	(15,134)	(33,792)	(21,323)	(28,922)
Income (loss) from discontinued operations, net of taxes	(3,948)	7,688	--	--
Loss on disposal of discontinued operations, net of taxes	--	(3,737)	--	--
Net loss	$ (19,082)	$ (29,841)	$ (21,323)	$(28,922)
Loss per share from continuing operations--basic and diluted	$ (0.37)	$ (0.78)	$ (0.60)	$ (0.76)
Loss per share--basic and diluted	$ (0.46)	$ (0.86)	$ (0.60)	$ (0.76)
Weighted average shares used in computing per share amounts--basic and diluted	41,308	47,498	47,538	47,538
Supplemental pro forma loss per share from continuing operations--basic and diluted				$ (0.51)
Supplemental pro forma loss per share--basic and diluted				$ (0.51)
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	$ 11,539	$ 2,455	$ 21,865	$ 12,035
Depreciation and other amortization	8,782	16,183	26,265	27,526
Amortization of purchased intangibles	46,977	61,617	49,879	51,560
EBITDA	67,298	80,255	98,009	91,121
Change in deferred revenue	20,729	91,149	40,845	40,845
Less:				
Change in redemption settlement assets	11,838	63,472	18,357	18,357
Operating EBITDA	$ 76,189	$ 107,932	$ 120,497	$113,609
Operating EBITDA as a percentage of revenue	16.9%	18.5%	17.8%	16.3%
SEGMENT OPERATING DATA				
Transactions processed	1,134,902	1,839,857	2,519,535	
Statements generated	130,895	132,817	127,217	
Average securitized portfolio	$1,898,851	$2,004,827	$2,073,574	
Credit sales	$3,049,151	$3,132,520	$3,685,069	
Air Miles reward miles issued	611,824	1,594,594	1,927,016	
Air Miles reward miles redeemed	158,281	529,327	781,823	

	AS OF DECEMBER 31,				
	1998	1999	2000	PRO FORMA 2000	PRO FORMA 2000 AS ADJUSTED
				(UNAUDITED)	
	(AMOUNTS IN THOUSANDS)				
BALANCE SHEET DATA					
Cash and cash equivalents......	$ 47,036	$ 56,546	$ 116,941	$ 116,941	$ 177,453
Credit card receivables and seller's interest.........	139,458	150,804	137,865	137,865	137,865
Redemption settlement assets, restricted.......	70,178	133,650	152,007	152,007	152,007
Intangibles and goodwill, net....	362,797	493,609	444,549	461,355	444,549
Total assets.......	1,075,707	1,301,263	1,420,606	1,440,856	1,479,618
Deferred revenue--service and redemption...	158,192	249,341	290,186	290,186	290,186
Certificates of deposit and other receivables funding debt.....	147,984	116,900	139,400	139,400	139,400
Long-term and subordinated debt.............	332,000	318,236	296,660	316,910	203,750
Total liabilities......	780,902	921,791	1,058,215	1,078,465	965,305
Series A preferred stock............	--	119,400	119,400	119,400	--
Total stockholders' equity...........	294,805	260,072	242,991	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 GENERAL BUSINESS OPERATIONS

TEN CLIENTS WERE RESPONSIBLE FOR 63% OF OUR CONSOLIDATED REVENUES LAST YEAR, AND THE LOSS OF ANY OF THESE CLIENTS COULD CAUSE A SIGNIFICANT DROP IN OUR REVENUE.

We depend on a limited number of large clients for a significant portion of our consolidated revenues. Our 10 largest clients were responsible for approximately 63% of our consolidated revenue during the year ended December 31, 2000, with The Limited and its retail affiliates representing approximately 25% of our 2000 consolidated revenue. A decrease in revenue from any of our significant clients for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services we provide, could have a material adverse effect on our consolidated revenue.

TRANSACTION SERVICES. Our 10 largest clients in this segment were responsible for approximately 71% of our Transaction Services revenue in 2000. The Limited and its retail affiliates were the largest Transaction Services client in 2000, representing approximately 28% of this segment's 2000 revenue and Brylane, our second largest Transaction Services client, was responsible for approximately 10% of this segment's 2000 revenue. Equiva Services, LLC was responsible for approximately 8% of this segment's 2000 revenue. Our contracts with The Limited and its retail affiliates and Brylane expire in 2006, and our contract with Equiva expires in December 2001.

We provide transaction processing services to Equiva which is the service provider to Shell-branded locations in the United States. Equiva is one of our 10 largest clients both in the Transaction Services segment and on a consolidated basis. 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. 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 from Equiva would be further adversely affected.

CREDIT SERVICES. Our two largest clients in this segment were responsible for approximately 80% of our Credit Services revenue in 2000. The Limited and its retail affiliates were responsible for approximately 59%, and Brylane was responsible for approximately 21%, of our Credit Services revenue in 2000. Our contracts with these clients expire in 2006.

MARKETING SERVICES. Our 10 largest clients in this segment were responsible for approximately 61% of our Marketing Services revenue in 2000. Bank of Montreal, Canada Safeway and The Limited and its retail affiliates were the three largest Marketing Services clients in 2000. The Bank of Montreal represented approximately 27%, Canada Safeway represented approximately 10% and The Limited and its retail affiliates represented approximately 7% of this segment's 2000 revenue. Our contracts with

The Bank of Montreal and Canada Safeway expire in March 2002 and December 2002 and our contract with The Limited expires in September 2003.

OUR LARGEST CLIENT, THE LIMITED, IS A SIGNIFICANT STOCKHOLDER, AND AS A RESULT IT HAS THE ABILITY TO INFLUENCE OUR CORPORATE AFFAIRS IN A MANNER THAT COULD BE INCONSISTENT WITH THE BEST INTERESTS OF OUR OTHER STOCKHOLDERS.

Eight of our clients are affiliates of Limited Commerce Corp., our second largest stockholder and a wholly owned subsidiary of The Limited. The Limited, together with its retail affiliates, is our largest client. Limited Commerce Corp. beneficially owned approximately 25.4% of our common stock as of February 28, 2001 and, through a stockholders agreement, has the right to designate up to two members of our board of directors. As a significant stockholder with board representation, 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. The interests of The Limited may not be aligned with the interests of our company or other stockholders. The Limited could use its influence as a major client and large stockholder to negotiate contracts with us that have terms that are more favorable to The Limited than could be obtained by unaffiliated retailers. In addition, The Limited could use its influence and could act to hinder our ability to enter into contracts with its competitors.

COMPETITION IN OUR INDUSTRY IS INTENSE AND WE EXPECT IT TO INTENSIFY.

The markets for our products and services are highly competitive, and we expect competition to intensify in each of those markets. Many of our current competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than we do. We cannot assure you that we will be able to compete successfully against our current and potential competitors nor can we be sure that we will be able to successfully market our services at our current levels of profitability.

THE MARKETS FOR THE SERVICES THAT WE OFFER MAY FAIL TO EXPAND OR MAY CONTRACT AND THIS COULD NEGATIVELY IMPACT OUR GROWTH AND PROFITABILITY.

Our growth and continued profitability rely 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. Loyalty and database marketing strategies are relatively new to retailers, 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. Additionally, downturns in the economy or the performance of retailers may result in a decrease in the demand for our marketing strategies. Any decrease in the demand for our services for the reasons discussed above or other reasons could have a material adverse effect on our growth and revenue.

WE CANNOT ASSURE YOU THAT WE WILL EFFECTIVELY INTEGRATE FUTURE ACQUISITIONS, REALIZE THEIR FULL BENEFITS OR SUCCESSFULLY MANAGE OUR COMBINED COMPANY, AND FUTURE ACQUISITIONS MAY RESULT IN DILUTIVE EQUITY ISSUANCES OR INCREASES IN DEBT.

If we are unable to successfully integrate any future acquisition, we may incur substantial costs and delays or other operational, technical or financial problems, any of which could harm our business and impact the trading price of our common stock. In addition, the failure to successfully integrate any future acquisition may divert management's attention from our core operations, which could harm our ability to timely meet the needs of our customers and could damage our relationships with key clients.

To finance future acquisitions, we may need to raise additional funds either by issuing additional equity securities or incurring additional debt. If we sell additional equity securities, such sales could reduce the current value of our stock by diluting the ownership interest of our stockholders. If we incur additional debt, the related interest expense may significantly reduce our profitability. Additionally, we are likely to use purchase accounting for future acquisitions and the related amortization expense associated with goodwill and purchased intangibles may significantly reduce our profitability.

WE MAY FACE DAMAGES AS A RESULT OF LITIGATION IN CONNECTION WITH THE BANKRUPTCY PROCEEDINGS OF ONE OF OUR FORMER CUSTOMERS, SERVICE MERCHANDISE, AND A CLASS ACTION SUIT FILED ON BEHALF OF A GROUP OF WORLD FINANCIAL CARDHOLDERS.

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. Service Merchandise has not specified the amount of damages that it is seeking and has asked that the amount of any such damages be determined at trial. 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 for 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. The plaintiff group of cardholders has not specified the amount of damages that it is seeking. The amount of such damages, if any, would be determined at trial. See "Business--Legal Proceedings." Due to the uncertainty inherent in litigation, we cannot provide assurance that an ultimate result against World Financial in either of these actions would not have a material adverse effect on us.

FAILURE TO SAFEGUARD OUR DATABASES AND CONSUMER PRIVACY COULD AFFECT OUR REPUTATION AMONG OUR CLIENTS AND THEIR CUSTOMERS AND MAY EXPOSE US TO LEGAL CLAIMS FROM CONSUMERS.

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

LOSS OF DATA CENTER CAPACITY OR INTERRUPTION OF TELECOMMUNICATION LINKS COULD AFFECT OUR ABILITY TO TIMELY MEET THE NEEDS OF OUR CLIENTS AND THEIR CUSTOMERS.

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

AS A RESULT OF OUR SIGNIFICANT CANADIAN OPERATIONS, OUR REPORTED RESULTS WILL BE AFFECTED BY FLUCTUATIONS IN THE EXCHANGE RATE BETWEEN THE U.S. AND CANADIAN DOLLARS.

A significant portion of our Marketing Services revenue is derived from our Loyalty Group operations in Canada, which transacts business in Canadian dollars. Therefore, our reported results from quarter-to-quarter will be affected by changes in the exchange rate between the U.S. and Canadian dollars over the relevant periods.

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

OUR FAILURE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS MAY HARM OUR COMPETITIVE POSITION, AND LITIGATION TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS OR DEFEND AGAINST THIRD-PARTY ALLEGATIONS OF INFRINGEMENT MAY BE COSTLY.

Third parties may infringe or misappropriate our trademarks or other intellectual property rights, which could have a material adverse effect on our business, financial condition or operating results. The actions we take to protect our trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information. Any infringement or misappropriation could harm any competitive advantage we currently derive or may derive from our proprietary rights.

Third parties may assert infringement claims against us. Any claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. In addition, litigation is time-consuming and expensive to defend and could result in the diversion of our time and resources. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims.

RISKS PARTICULAR TO TRANSACTION SERVICES

AN INABILITY TO FULLY AND EFFECTIVELY INTEGRATE THE RECENT ACQUISITIONS OF SPS AND UTILIPRO IN OUR TRANSACTION SERVICES SEGMENT COULD RESULT IN INCREASED COSTS WHILE DIVERTING MANAGEMENT'S ATTENTION FROM OUR CORE OPERATIONS, HARM OUR ABILITY TO TIMELY MEET THE NEEDS OF OUR CLIENTS AND DAMAGE OUR RELATIONSHIPS WITH THOSE CLIENTS.

We are currently in the process of integrating the network transaction processing business of SPS Payment Systems, Inc. we acquired in July 1999, and are beginning to integrate the Utilipro assets we acquired in February 2001. We expect the SPS integration process to continue through the second quarter of 2001 and the Utilipro integration process to continue through the third quarter of 2001. Although the majority of the integration process of migrating the SPS systems to an in-house processing environment has proceeded as planned, there were a number of service disruptions that occurred in the first quarter of 2001 which resulted in an inefficient routing of transactions and a backlog of authorizations. We cannot assure you that we will be able to fully or successfully integrate SPS or Utilipro in a timely manner or at all. If we are unable to successfully integrate the Utilipro operations or successfully complete the SPS integration, we may incur substantial costs and delays or other operational, technical or financial problems, any of which could harm our business and adversely affect the trading price of our common stock. In addition, management's attention may be diverted from core operations which could harm our ability to timely meet the needs of our clients and their customers and damage our relationships with those clients.

WE ARE DEPENDENT UPON PSINET TRANSACTION SOLUTIONS, A SUBSIDIARY OF PSINET, INC., FOR DATA TRANSMISSION SERVICES AND POINT-OF-SALE DIAL-UP TRANSMISSION SERVICES, AND ANY FAILURE OF PSINET TRANSACTION SOLUTIONS TO PROVIDE THESE SERVICES COULD SIGNIFICANTLY DISRUPT OUR NETWORK SERVICES OR INCREASE OUR COSTS BY REQUIRING US TO OBTAIN DATA TRANSMISSION SERVICES FROM ANOTHER SUPPLIER.

We are dependent on PSINet Transaction Solutions for data transmission services and point-of-sale dial-up transmission services for our network services business. As publicly disclosed, Transaction Solutions' parent, PSINet, Inc., is currently experiencing significant liquidity and cash flow shortfalls and will require substantial additional capital, the availability of which is uncertain. On March 13, 2001, PSINet announced that it has entered into a definitive agreement for the sale of Transaction Solutions to an investor group. In the first half 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, representing a quarter of the transactions we processed in 2000, to Transaction Solutions. Given our dependence on Transaction Solutions, if it were to fail to perform its obligations or its services were otherwise interrupted, for financial or other reasons, we would have to transition the services to our current backup supplier or to another supplier. 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.

IF A CARDHOLDER HAS A DISPUTE WITH A MERCHANT OR IF A CARDHOLDER IS A VICTIM OF A FRAUDULENT TRANSACTION WITH A MERCHANT, WE MAY BE LIABLE FOR THE AMOUNT OF ANY CHARGES RELATED TO SUCH DISPUTE OR TRANSACTION IN THE EVENT WE ARE NOT REIMBURSED FOR SUCH CHARGES BY THE MERCHANT.

In our merchant bank card services 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" to the merchant the amount we originally credited to the merchant. We then credit the amount of the transaction back to the cardholder's account. These billing disputes or chargebacks typically relate to, among others:

- the cardholder's nonreceipt of merchandise or services;

- unauthorized use of a credit card; or

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

If we are unable to collect amounts charged back to a merchant's account, and if the merchant refuses or is unable to reimburse us for the chargeback, we incur a loss equal to the amount of the chargeback. We cannot assure you that we will not experience significant losses from chargebacks in the future. Such significant losses could arise from merchant bankruptcies or other reasons which reduce the likelihood that we will be reimbursed for chargebacks. Any significant chargeback losses in a period would have a material adverse effect on our profitability.

IF WE ARE REQUIRED TO PAY STATE TAXES ON TRANSACTIONS PROCESSING, IT COULD NEGATIVELY IMPACT OUR PROFITABILITY.

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

RISKS PARTICULAR TO CREDIT SERVICES

IF WE ARE UNABLE TO SECURITIZE OUR CREDIT CARD RECEIVABLES DUE TO CHANGES IN THE MARKET, THE UNAVAILABILITY OF CREDIT ENHANCEMENTS, AN EARLY AMORTIZATION EVENT OR FOR OTHER REASONS, WE WOULD NOT BE ABLE TO FUND NEW CREDIT CARD RECEIVABLES, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR OPERATIONS AND EARNINGS.

Since January 1996, we have sold substantially all of the credit card receivables owned by our credit card bank, World Financial, to World Financial Network Credit Card Master Trust as part of our securitization program. This securitization program is the primary vehicle through which World Financial finances our private label credit card receivables. If World Financial were not able to regularly securitize the receivables it originates, our ability to grow or even maintain our credit services business would be materially impaired.

World Financial's ability to effect securitization transactions is impacted by the following factors, some of which are beyond our control:

- conditions in the securities markets in general and the asset-backed securitization market in particular;

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

- our ability to fund required overcollateralizations or credit enhancements, which we routinely utilize in order to achieve better credit ratings to lower our borrowing costs.

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

INCREASES IN NET CHARGE-OFFS BEYOND OUR EXPECTATIONS COULD HAVE A NEGATIVE IMPACT ON OUR OPERATING INCOME AND PROFITABILITY; AND AS THE AVERAGE AGE OF OUR SECURITIZED LOAN PORTFOLIO INCREASES, WE WILL LIKELY EXPERIENCE INCREASING LEVELS OF DELINQUENCY AND LOAN LOSSES.

The primary risk associated with unsecured consumer lending is the risk of default or bankruptcy of the borrower, resulting in the borrower's balance being charged-off as uncollectible. We rely principally on the customer's creditworthiness for repayment of the loan and therefore have no other recourse for collection. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. An increase in defaults or net charge-offs beyond historical levels will reduce the net spread available to us from the securitization master trust and could result in a reduction in finance charge income or a write-down of the interest only strip. General economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies that lead to greater credit losses among consumers.

In addition to being affected by general economic conditions and the success of our collection and recovery efforts, our delinquency and net credit card receivable charge-off rates are affected by the credit risk of 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 our securitized accounts and 38.6% of our securitized loans were less than 24 months old. We believe that our securitized loan portfolio will experience increasing levels of delinquency and loan losses as the average age of our accounts increases. 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 time, as the average age of our accounts increases. Also, we cannot assure you that our risk-based pricing strategy can offset the negative impact on profitability caused by increases in delinquencies and losses. Any material increases in delinquencies and losses beyond our expectations could have a material adverse impact on us and the value of our net retained interests in loans that we sell though securitizations.

CHANGES IN THE AMOUNT OF PREPAYMENTS AND DEFAULTS BY CARDHOLDERS ON CREDIT CARD BALANCES MAY CAUSE A DECREASE IN THE ESTIMATED VALUE OF THE INTEREST ONLY STRIPS.

The estimated fair value of the interest only strips depends upon the anticipated cash flows of the related credit card receivables. A significant factor affecting the anticipated cash flows is the rate at which the underlying principal of the securitized credit card receivables is reduced. Prepayments represent principal reductions in excess of the contractually scheduled reductions. Other assumptions used in estimating the value of the interest only strips include estimated future credit losses and a discount rate commensurate with the risks involved. The rate of cardholder 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. If prepayments from cardholders or defaults by cardholders exceed our estimates, we may be required to decrease the estimated value of the interest only strips through a charge against earnings.

INTEREST RATE FLUCTUATIONS COULD SIGNIFICANTLY REDUCE THE AMOUNT WE REALIZE FROM THE SPREAD BETWEEN THE YIELD ON OUR ASSETS AND OUR COST OF FUNDING.

An increase or decrease in market interest rates could have a negative impact on the amount we realize from the spread between the yield on our assets and our cost of funding. A rise in market interest rates may indirectly impact the payment performance of consumers or the value of, or amount we could realize from the sale of, interest only strips. At December 31, 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 locked at an effective interest rate of 6.6% through interest rate swap agreements and treasury locks with notional amounts totaling $1.5 billion. 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. The foregoing sensitivity analysis is limited to the potential impact of an interest rate swing of 1.0% on cash flows and fair values, and does not address default or credit risk.

WE EXPECT GROWTH IN OUR CREDIT SERVICES SEGMENT TO RESULT FROM NEW AND ACQUIRED PRIVATE LABEL CARD PROGRAMS, WHOSE CREDIT CARD RECEIVABLE PERFORMANCE COULD RESULT IN INCREASED PORTFOLIO LOSSES AND NEGATIVELY IMPACT OUR NET RETAINED INTERESTS IN LOANS SECURITIZED.

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

CURRENT AND PROPOSED REGULATION AND LEGISLATION RELATING TO OUR CREDIT SERVICES COULD LIMIT OUR BUSINESS ACTIVITIES, PRODUCT OFFERINGS AND FEES CHARGED.

Various Federal and state laws and regulations significantly limit the credit services activities in which we are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we can impose on 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 profitability.

IF OUR BANK SUBSIDIARY FAILS TO MEET CREDIT CARD BANK CRITERIA, WE MAY BECOME SUBJECT TO REGULATION UNDER THE BANK HOLDING COMPANY ACT, WHICH WOULD FORCE US TO CEASE ALL OF OUR NON-BANKING BUSINESS ACTIVITIES AND THUS CAUSE A DRASTIC REDUCTION IN OUR PROFITS AND REVENUE.

Our bank subsidiary, World Financial, 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 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 regulation under the Bank Holding Company Act. Being deemed a bank holding company could significantly harm us, as we could be required to either divest any activities deemed to be non-banking activities or cease any activities not permissible for a bank holding company and its affiliates.

While the consequences of being subject to regulation under the Bank Holding Company Act would be severe, we believe that the risk of becoming subject to such regulation is minimal as a result of the precautions we have taken in structuring our business.

RISKS PARTICULAR TO MARKETING SERVICES

BECAUSE WE ARE DEPENDENT UPON AIR CANADA, THE DOMINANT DOMESTIC AIR CARRIER IN CANADA, AS A SUPPLIER OF AIRLINE TICKETS FOR OUR AIR MILES REWARD MILES PROGRAM, WE MAY NOT BE ABLE TO MEET THE NEEDS OF OUR COLLECTORS IF THE CAPACITY MADE AVAILABLE TO US BY AIR CANADA IS INADEQUATE TO MEET OUR COLLECTORS' DEMANDS.

Air Canada completed its acquisition of Canadian Airlines in July 2000 and thereby solidified its position as the dominant Canadian domestic airline. 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. Notwithstanding our agreement with Air Canada, we cannot predict what impact route consolidation or elimination or changes in the merged airline's operations will have on our ability to satisfy and retain active collectors and sponsors of the Air Miles reward miles program.

The new supply agreement with Air Canada contains reductions in the guarantee related to the number of tickets available at contractual rates on certain routes after December 31, 2002. Once these capacity guarantees on certain routes are reduced in 2003, we may be required to meet the demands of collectors by purchasing tickets from other carriers. These tickets could be more expensive than a comparable ticket under the Air Canada agreement, and the routes offered by the other airlines may be inconvenient or undesirable to the redeeming collectors. As a result, we may experience higher air travel redemption costs in 2003 and 2004 than we are currently experiencing, while at the same time collector satisfaction with the Air Miles reward miles program may be adversely affected by requiring travel on other carriers on certain routes.

IF ACTUAL REDEMPTIONS BY COLLECTORS OF AIR MILES REWARD MILES ARE GREATER THAN EXPECTED, OUR REVENUES AND PROFITABILITY COULD BE ADVERSELY AFFECTED.

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

- loss of interest in the program or sponsors;

- collectors moving out of the program area; and

- death of a collector.

If actual redemptions are greater than our estimates, our revenues and profitability could be adversely affected.

THE LOSS OF OUR MOST ACTIVE AIR MILES REWARD MILES COLLECTORS COULD NEGATIVELY IMPACT OUR GROWTH AND PROFITABILITY.

Our most active Air Miles reward miles collectors represent a disproportionately large percentage of our Air Miles reward program revenue. Over the past year, we estimate that over half of the Air Miles reward program revenues came from our most active Air Miles reward miles collectors. The loss of a significant portion of these collectors, for any reason, could impact our ability to generate significant revenue from sponsors and loyalty partners. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive.

LEGISLATION RELATING TO CONSUMER PRIVACY MAY AFFECT OUR ABILITY TO COLLECT DATA THAT WE USE IN PROVIDING OUR MARKETING SERVICES, WHICH COULD NEGATIVELY AFFECT OUR ABILITY TO SATISFY OUR CLIENTS' NEEDS.

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

The Gramm-Leach-Bliley Act, which became law in November 1999, makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. New regulations under this act that take effect in July 2001 will give cardholders the ability to "opt out" of having information generated by their credit card purchases shared with other parties or the public. Our ability to gather and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to "opt out," thereby precluding us from using their data. Once the regulations take effect, we will need to refrain from using data generated by our existing cardholders and new cardholders until such cardholders are given the opportunity to opt out.

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

RISKS RELATED TO OUR COMPANY

SOME OF OUR STOCKHOLDERS CURRENTLY OWN, AND AFTER THE OFFERING WILL CONTINUE TO OWN, A SIGNIFICANT AMOUNT OF OUR COMMON STOCK. THESE STOCKHOLDERS MAY HAVE INTERESTS THAT CONFLICT WITH YOURS AND WOULD BE ABLE TO CONTROL THE ELECTION OF DIRECTORS AND THE APPROVAL OF SIGNIFICANT CORPORATE TRANSACTIONS, INCLUDING A CHANGE IN CONTROL.

As of February 28, 2001, Limited Commerce Corp. and the affiliated entities of Welsh, Carson, Anderson & Stowe, in the aggregate beneficially owned approximately 99.6% of our outstanding common stock and would have owned approximately 81.3% of our common stock as of that date after giving pro forma effect to this offering. Through a stockholders agreement, Limited Commerce Corp. has the right to designate up to two members of our board of directors and Welsh Carson has the ability to designate up to three members of our board of directors. 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, changes to our charter documents and significant corporate transactions. This concentration of ownership makes it unlikely that any other holder or group of holders of common stock will be able to affect the way we are managed or the direction of our business. Limited Commerce Corp. and Welsh Carson may have interests that conflict with the interests of our company or other stockholders. Their continued concentrated ownership after the offering will make it impossible for another company to acquire us and for you to receive any related takeover premium for your shares unless they approve the acquisition.

DELAWARE LAW AND OUR CHARTER DOCUMENTS COULD PREVENT A CHANGE OF CONTROL THAT MIGHT BE BENEFICIAL TO YOU.

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

- a board of directors classified into three classes of directors with the directors of each class having staggered, three-year terms;

- our board's authority to issue shares of preferred stock without 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 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 our common stock has been approved for listing, subject to official notice of issuance, 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.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company and these fluctuations could materially reduce our stock price.

FUTURE SALES OF OUR COMMON STOCK MAY ADVERSELY AFFECT OUR COMMON STOCK PRICE.

If a large number of shares of our common stock are sold in the open market after this offering, the trading price of our common stock could decrease. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional common stock. After this offering, we will have an aggregate of 118,912,621 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 70,834,379 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 50,834,379 shares, 72,013 shares will be freely transferable and 57,762,366 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 4,449,934 shares are issuable upon exercise of options granted as of February 28, 2001, including options to purchase 1,403,355 shares exercisable as of February 28, 2001 or that will become exercisable within 60 days after February 28, 2001. The sale of shares issued upon the exercise of currently outstanding stock options could further dilute your investment in our common stock and adversely affect our stock price.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in "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. You should specifically consider the factors identified under "Risk Factors" and elsewhere in this prospectus which could cause actual results to differ before making an investment decision.

USE OF PROCEEDS

We estimate that the net proceeds from our sale of 13,000,000 share of our common stock in this offering will be approximately $153.4 million, or $178.9 million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of $13.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds as follows:

- approximately $92.9 million to repay in full the outstanding balance of a $130.0 million term loan made to us under our $330.0 million credit agreement, which we entered into in July 1998 and subsequently amended;

- approximately $668,000 to repurchase from JCP Telecom Systems, Inc. a warrant for 167,084 shares of our common stock at an exercise price of $9.00 per share; and

- the balance, approximately $59.8 million, for potential acquisitions and general corporate purposes, including working capital and capital expenditures.

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 U.S. government agencies.

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. The amounts and timing of our expenditures for general corporate purposes will vary depending on a number of factors, including the amount of cash generated or used by our operations, competitive and technological developments and the rate of growth of our business. As a result, we will retain broad discretion in the allocation of the net proceeds of this offering.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock, and 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 $1.42 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 $70.8 million, or $0.98 per share. This represents an immediate increase in pro forma net tangible book value to existing stockholders attributable to new investors of $2.41 per share and the immediate dilution of $12.02 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	$(1.42)	
Increase per share attributable to new investors	2.40	
Pro forma as adjusted net tangible book value per share after the offering		0.98
Dilution per share to new investors		$12.02

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	57,834	81.6%	$346,115	67.2%	$ 5.98
New investors	13,000	18.4	169,000	32.8	13.00
Total	70,834	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.

	AS OF 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 $668,000. There are no other warrants outstanding to purchase our common stock.

We estimate that there will be 70,834,379 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 historical financial statements of Alliance Data Systems Corporation and Utilipro, 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 Utilipro, 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 Utilipro acquisition, accounted for under the purchase method of accounting, as if that acquisition had been consummated on January 1, 2000 for the consolidated statement of operations and on December 31, 2000 for the consolidated balance sheet.

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 BALANCE SHEET

(AMOUNTS IN THOUSANDS)

	AS OF DECEMBER 31, 2000			
	ADSC	UTILIPRO(1)	ADJUSTMENTS	PRO FORMA
ASSETS				
Cash and cash equivalents	$ 116,941	$ 270	$ (270)(2)	$ 116,941
Due from card associations	125,083	--	--	125,083
Trade receivables	86,153	6,344	(6,344)(2)	86,153
Credit card receivables and seller's interest	137,865	--	--	137,865
Deferred tax asset, net	22,365	1,317	(1,317)(2)	22,365
Other current assets	35,368	283	(283)(2)	35,368
Total current assets	523,775	8,214	(8,214)	523,775
Redemption settlement assets, restricted	152,007	--	--	152,007
Property and equipment, net	92,178	3,444	--	95,622
Deferred tax asset, net	55,366	171	(171)(2)	55,366
Tax receivable from affiliate	--	3,508	(3,508)(2)	--
Other non-current assets	18,753	119	(119)(2)	18,753
Due from securitizations	133,978	--	--	133,978
Intangible assets and goodwill, net	444,549	--	16,806 (3)	461,355
Total assets	$1,420,606	$15,456	$ 4,794	$1,440,856
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable	$ 63,570	$ 314	$ (314)(2)	$ 63,570
Accrued expenses	80,547	2,403	(2,403)(2)	80,547
Merchant settlement obligations	149,271	--	--	149,271
Other liabilities	36,725	--	--	36,725
Debt, current portion	161,725	16,955	(16,955)(2)	161,725
Total current liabilities	491,838	19,672	(19,672)	491,838
Other liabilities	1,856	--	--	1,856
Deferred revenue--service	88,931	--	--	88,931
Deferred revenue--redemption	201,255	--	--	201,255
Long-term and subordinated debt	274,335	1,067	19,183 (2)(3)	294,585
Total liabilities	1,058,215	20,739	(489)	1,078,465
Commitments and contingencies				
Series A cumulative convertible preferred stock	119,400	700	(700)(2)	119,400
Stockholders' equity:				
Common stock	475	63	(63)(2)	475
Additional paid-in capital	226,323	3,379	(3,379)(2)	226,323
Retained earnings	16,370	(9,425)	9,425 (2)	16,370
Accumulated other comprehensive income (loss)	(177)	--	--	(177)
Total stockholders' equity	242,991	(5,983)	5,983	242,991
Total liabilities and stockholders' equity	$1,420,606	$15,456	$ 4,794	$1,440,856

See the accompanying notes on page 25.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 2000			
	ADSC	UTILIPRO(4)	ADJUSTMENTS	PRO FORMA
Total revenue	$678,195	$ 17,732	$ --	$695,927
Cost of operations	522,833	24,620	--	547,453
General and administrative	57,353	--	--	57,353
Depreciation and other amortization	26,265	1,261	--	27,526
Amortization of purchased intangibles	49,879	--	1,681	51,560
Total operating expenses	656,330	25,881	1,681 (5)	683,892
Operating income (loss)	21,865	(8,149)	(1,681)	12,035
Other non-operating expense	2,477	--	--	2,477
Interest expense	38,870	1,122	650 (6)(7)	40,642
Income tax expense (benefit)	1,841	(3,539)	(464)(8)	(2,162)
Income (loss) from continuing operations	$(21,323)	$ (5,732))	$ (1,867)	$(28,922)
Earnings (loss) per share from continuing operations--basic and diluted	$ (0.60)			$ (0.76)
Weighted average shares used in computing per share amounts--basic and diluted	47,538			47,538

See the accompanying notes on page 25.

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

The Unaudited Pro Forma Consolidated Balance Sheet as of December 31, 2000 reflects the following adjustments:

(1) Represents the Balance Sheet for Utilipro, Inc. as of September 30, 2000.

(2) Represents the elimination of assets, liabilities and stockholders' equity not acquired in the transaction.

(3) Represents the Utilipro acquisition purchase price of $20.3 million and the excess of the purchase price over the fair value of the net tangible assets acquired.

The Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2000 reflects the following adjustments:

(4) Represents operating activity for Utilipro for the year ended September 30, 2000.

(5) Represents pro forma adjustments to goodwill and amortization of other purchased intangibles' resulting from the preliminary purchase accounting treatment of the Utilipro acquisition. The preliminary amortization period for Utilipro is 10 years.

(6) Represents the elimination of interest expense from debt we are not assuming as part of the acquisition.

(7) Represents the pro forma interest expense at an assumed 8.75% from the incremental borrowing for the purchase price.

(8) Represents the tax effect of pro forma adjustments for the Utilipro acquisition.

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)
	(AMOUNTS 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) per share 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)
	(AMOUNTS IN THOUSANDS)				
SEGMENT OPERATING DATA					
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
Average securitized portfolio	$1,261,833	$1,615,196	$1,905,927	$2,004,827	$2,073,574
Credit sales	$2,402,881	$3,001,029	$2,866,062	$3,132,520	$3,685,069
Air Miles reward miles issued	--	--	611,824	1,594,594	1,903,793
Air Miles reward miles redeemed	--	--	158,281	529,327	737,054

	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
Credit card receivables and seller's interest	161,686	144,440	139,458	150,804	137,865
Redemption settlement assets, restricted	--	--	70,178	133,650	152,007
Intangibles and goodwill, net	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--service and redemption	--	--	158,192	249,341	290,186
Certificates of deposit and other receivables funding debt	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

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

(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, such as debt-to-operating EBITDA, interest coverage ratios and minimum operating EBITDA. We also use operating EBITDA as an integral part of our internal reporting to measure the performance and liquidity of our reportable segments. 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 the cardholder and customer accounts we service.

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 significant 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; and

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

RECENT DEVELOPMENTS

Effective February 28, 2001, we acquired substantially all of the assets of Utilipro, Inc., a subsidiary of AGL Resources, Inc., for $20.3 million in cash. Utilipro is an account processing and servicing provider to the de-regulated utility sector. Utilipro provides these services to three clients serving approximately 500,000 utility customers.

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 recast basis for the year ended December 31, 1998 compared to the year ended December 31, 1999.

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.

One of the largest operating costs for this segment is data transmission services. We currently employ different methods of transmitting data from the point of sale to our processing centers. A common method which comprises approximately 25% of the transactions we process is point of sale dial-up. We are in the process of migrating the majority of these transactions to a single supplier, PSINet Transaction Solutions, in order to take advantage of pricing discounts. As publicly disclosed, this supplier's parent, PSINet, Inc., is currently experiencing significant liquidity and cash flow shortfalls and will require additional capital, the availability of which is uncertain. On March 13, 2001, PSINet announced that it has entered into a definitive agreement for the sale of Transaction Solutions to an investor group. We currently have a back-up service provider for these services, and these data and point of sale dial-up transmission services are available from other suppliers, although at a potentially higher price. As a result of the pending sale of Transaction Solutions, we do not believe that our operations will be materially affected in 2001 or beyond by the financial troubles of Transaction Solutions' parent company.

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.

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.

Credit Services also receives merchant discount fees from clients, which are determined based on a percentage of credit sales charged to our private label card accounts.

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 card processing and servicing activities related to our Credit Services segment. For this, our Transaction Services segment receives a fee equal to its direct costs before corporate overhead plus a margin. The margin is based on current market rates for similar services. This fee represents an operating cost to 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 such as debt-to-EBITDA, interest coverage ratios and minimum operating EBITDA. We also use operating EBITDA 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

	YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1999	2000	1999	2000	1999	2000
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 381,027	$ 437,980	$41,828	$54,764	$ 13,014	$ 13,017
Credit Services	247,824	268,183	29,803	25,318	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

	YEAR ENDED DECEMBER 31,					
	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 revenue, an 8.2% increase in Credit Services revenue and a 28.9% increase in Marketing Services revenue 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 $23.1 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 sector 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. A liquidating portfolio adversely impacted the average outstanding securitized portfolio. Excluding the effect of the liquidating portfolio, the average outstanding securitized portfolio would have grown by 11.7% in 2000. 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 related 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. Prior to signing our supply agreement with Air Canada, our supply of seats was constrained due to the reduction and/or elimination of some of Canadian Airlines' routes. Based on our new supply agreement and other factors, we do not anticipate incurring redemption costs in 2001 at a level greater than what we have historically experienced. Excluding the $7.0 million of additional redemption costs, EBITDA margin for 2000 would have been 14.0%.

  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.

  EBITDA margin for 1999 was affected by approximately $3.3 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 a decrease in amortization of purchased intangibles of $11.7 million. This decrease resulted from 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 and an increase in capital expenditures in 1999, especially software development costs that have relatively short amortization periods.

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.

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)	$ 13,014
Credit Services................	242,377	247,824	37,841	29,803	25,041	17,743
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.

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
	(IN THOUSANDS)					
Transaction Services	$ 303,186	$ 381,027	$29,825	$ 41,828	$ 4,405	$ 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	(11,804)	(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 revenue, a 16.5% increase in Credit Services revenue and a 127.1% increase in Marketing Services revenue 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.

ASSET QUALITY

Our delinquency and net charge-off rates 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 levels of delinquency and loan losses as the average age of our accounts increases.

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 or paid. When an account becomes delinquent, we print a message requesting payment on the cardholder's billing statement. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account rolling to a more delinquent status. The collection system then recommends a collection strategy for the past-due account based on the collection score and account balance, and dictates the contact schedule and collections priority for the account. If we are unable to make a collection after exhausting all in-house efforts, we engage collection agencies and outside attorneys to continue those efforts.

The following table presents the delinquency trends of our securitized credit card 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%
Loan balances 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%

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. Average loans outstanding represents the average balance of the securitized receivables at the beginning of each month in the period indicated.

	FISCAL		
	1998	1999	2000
	(DOLLARS IN THOUSANDS)		
Average loans outstanding	$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%

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

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%

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 $250.8 million in 1999. Working capital in 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 $138.8 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.

CERTIFICATES OF DEPOSIT. 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. At December 31, 2000, we had $194.7 million outstanding under our credit facility, consisting of $184.7 million of term loans and $10.0 million under the revolving loan commitment. Approximately $34.0 million is due under our term loans on July 1, 2001. Of the amount due on July 1, 2001, approximately $30.0 million relates to the term loan that we will repay in full with $92.9 million of the net proceeds from the offering. Interest on our loans is generally payable quarterly. With the exception of a $44.0 million term loan that matures on July 25, 2005, all of our other loans under the credit facility mature on July 25, 2003.

The credit facility prohibits us from borrowing in excess of four times our operating EBITDA. Based on this covenant, our borrowing capacity at December 31, 2000 was $482.0 million. With outstanding borrowings of $436.1 million at that date, we had additional borrowing capacity of $45.9 million under the revolver. On a pro forma basis for the Utilipro acquisition, assuming it had closed on December 31, 2000, our availability under the revolver would have been $34.2 million.

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.

Following the $92.9 million debt repayment discussed above, 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.

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.

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 trigger 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 locked at an effective 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.

REDEMPTION REWARD RISK. We are exposed to potentially increasing reward costs associated primarily with travel rewards. To minimize the risk of rising travel reward costs, we:

- have a long-term supply contract with our primary air travel partner, Air Canada;

- are seeking new supply agreements with additional airlines in Canada;

- alter the total mix of rewards available to collectors with the introduction of new merchandise rewards, which are typically lower cost per Air Mile reward mile than air travel; and

- periodically adjust the number of miles required to redeem a reward.

RECENT ACCOUNTING PRONOUNCEMENTS

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 is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, 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. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated in a cash flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income and will be recognized in the income statement when the hedged item affects earnings.

SFAS 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. In January 2001, we recorded $882,000 in other comprehensive income as a cumulative translation adjustment for derivatives designated in cash flow-type hedges prior to adopting SFAS 133, 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 to retail companies in the United States and Canada. We focus on facilitating and managing electronic transactions between our clients and their customers through multiple distribution channels including in-store, catalog and the Internet. Our credit and marketing services assist our clients in identifying and acquiring new customers as well as helping to increase the loyalty and profitability of their existing customers.

We target select market sectors that typically involve companies who sell products and services to individual consumers. The market sectors include specialty retailers, petroleum retailers, supermarkets and financial service companies. Additionally, we target markets where there is an increasing acceptance of electronic payments--mass transit, tollways and parking--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 the demand increases for products and services that help them compete in a newly de-regulated market.

Our client base includes over 300 companies. We generally have long-term relationships with our clients, with contracts typically ranging from three to five years in duration. Our top five clients, based on their contribution to our 2000 consolidated revenue, are:

- The retail affiliates of The Limited, including Victoria's Secret, Express, Lane Bryant, Bath and 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.

OUR HISTORY

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.

In July 1998, we acquired The Loyalty Management Group Canada Inc., which developed and operates the Air Miles reward miles program in Canada. The acquisition expanded our Marketing Services capabilities to include loyalty marketing. In September 1998, we acquired Harmonic Systems Incorporated, which provides network services, on-line loyalty and stored value products to specialty retailers. This acquisition enabled us to expand our transaction services to include specialty retailers. In July 1999, we acquired the network services business of SPS Payment Systems, Inc., a wholly owned subsidiary of Associates First Capital Corporation. This acquisition increased our processing scale and added an additional 180 clients, many in market sectors with an increasing acceptance of electronic payments, such as mass transit, tollway and parking.

PROGRAMS AND PRODUCTS

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

TRANSACTION SERVICES

Transaction Services is our largest segment representing 49.5% of our 2000 revenue. Primary services within this segment are transaction processing, representing 34.5% of this segment's revenue, and account processing and servicing, representing 64.3% of this segment's revenue.

We facilitate and manage transactions between our clients and their customers through our scalable processing systems. Our services include transaction processing and account processing and servicing. Transaction processing is the electronic authorization, capture and financial settlement of sales transactions at the point of sale. Account processing and servicing is the processing of consumer accounts--both private label credit card and utility accounts; billing and payment processing; and the handling of customer service and collection calls associated with those accounts. Through our predecessor company, we have provided transaction services since 1983. Our clients within this segment are made up of specialty retailers and petroleum retailers. Our largest clients within this segment include The Limited and its retail affiliates, representing approximately 28% of this segment's 2000 revenue, and Brylane, representing approximately 10% of this segment's 2000 revenue.

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 third-party U.S. payment processors in 1999. We believe that 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 network that enables us to process an array of electronic payment types including credit card, debit card, prepaid card, electronic benefits and fleet and check transactions. Our acquisitions, of Harmonic Systems and SPS's network transaction processing business have enabled us to offer our existing products to new market segments, as well as provide additional products to existing clients. In addition to authorization and settlement of transactions, we also provide merchants with on-line, two-way mail messaging between our clients and their individual locations by broadcasting and receiving messages through their terminal devices. We provide clients with a comprehensive help desk, operating 24 hours per day and seven days per week, as well as terminal deployment and servicing.

MERCHANT BANKCARD SERVICES. Our merchant bankcard services include financial settlement of MasterCard, Visa, Discover, American Express and other electronic card transactions, including credit, debit and stored value cards. Through our merchant bankcard services our clients can maintain their current settlement provider or use us as a single processor to streamline their end-to-end transaction processing.

ACCOUNT PROCESSING AND SERVICING. As reported in the Nilson Report, based on the number of accounts on file we were the second largest outsourcer of retail private label card programs in the United States in 1999, with 52.5 million accounts on file. We assist clients in issuing private label 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 Transaction Services segment performs account processing and servicing for the Credit Services segment in connection with that segment's private label card programs. These intersegment services accounted for 47.1% of Transaction Services revenue in 2000. 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 private label credit card system designed specifically for retailers with the flexibility to make changes to accommodate our clients' specific needs. We have also built into the system marketing tools to assist our clients in increasing sales. We utilize our Quick Credit and On-Line Pre-Screen products to originate new private label credit card accounts. We believe that these products provide an effective marketing advantage over competing services.

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, register devices or web sites.

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.

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.

BILLING AND PAYMENT PROCESSING. We use 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 127.2 million statements in 2000. In addition, we also process customer payments using image processing technology to maximize efficiency. By doing so, we improve the funds availability for both our clients and for those private label receivables that we own or securitize.

CUSTOMER CARE. Our customer care operations are influenced by our retail heritage. We focus our training programs in all areas on achieving the highest possible standards. We monitor our performance by conducting surveys with our clients and their customers. We have over 5,000 call center seats in 11 locations, handling over 115 million customer inquiries in 2000. 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.

CREDIT SERVICES

Through our Credit Services segment we provide a program that allows our clients to make private label credit cards available for their customers without having to commit financial resources to the funding of the receivables. We are able to finance and operate private label programs more effectively than a typical retailer can operate a stand-alone program, as we fund receivables through our securitization program while having the infrastructure in place to service credit card accounts.

Through World Financial, we underwrite the accounts and fund purchases at 45 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 experience and expertise in successfully managing private label portfolios since 1986. Clients who utilize our credit services are predominantly specialty retailers. Our largest clients within this segment include The Limited and its retail affiliates, representing 59.2% of this segment's 2000 revenue, and Brylane, representing 21.1% of this segment's 2000 revenue.

ACCOUNT UNDERWRITING AND RISK MANAGEMENT. We believe that an effective risk management process is important in both account underwriting and servicing. We use risk-based pricing in establishing pricing arrangements with our clients. We also use a risk analysis in establishing initial credit limits with cardholders. Because we process a large number of credit applications each year, we use automated proprietary scoring technology and verification procedures to process these applications. Our underwriting process involves the purchase of credit bureau information for each credit applicant. We 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. Credit scoring is based on several factors including delinquency history, number of recent credit inquiries and the amount of credit used and available. We continuously validate, monitor and maintain the scorecards, and we use resulting data to ensure optimal risk performance.

We utilize the capabilities of our Marketing Services segment to develop and execute new account acquisition strategies that support our underwriting guidelines.

We monitor and control the quality of our portfolio on a continuous basis 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.

MERCHANT PROCESSING. We receive a merchant fee for processing each sales transaction charged in private label card programs for which we provide receivables funding. Processing includes authorization and settlement of the funds to the retailer, net of our merchant discount fee.

RECEIVABLES FUNDING. We utilize a securitization program as our primary funding vehicle for private label credit card receivables. Securitizations involve the packaging and selling of both current and future receivable balances of credit card accounts to a master trust. Our Transaction Services segment retains rights to service the securitized accounts. Our securitizations are treated as sales for accounting purposes and, accordingly, the receivable is removed from the balance sheet. We retain an ownership interest in the receivables, which is commonly referred to as the seller's interest, and a residual interest in the trust, which is commonly referred to as an interest only strip.

We securitize our receivables by selling them to a master trust. The master trust funds itself by issuing publicly traded bonds or selling notes to bank-sponsored multi-seller conduits who in turn issue commercial paper. The bonds and notes represent undivided interests in all of the receivables in the related master trust and may be split into separate series and classes that have different terms or maturities. The different classes of an individual series are structured to obtain specific credit ratings. Our seller's interest ranks equally in the right to repayment of principal with the most senior bondholders.

Generally, each series involves an initial reinvestment period, which we refer to as a revolving period, in which the principal payments on receivables allocated to such series are returned to us and we reinvest in the trust new receivables from customer accounts. After the revolving period ends, principal payments allocated to the series are used to repay the investors. This period is referred to as the controlled amortization period. We currently have one series that has entered its controlled amortization period. The controlled amortization period is determined by the agreements governing each series. However, all series set forth when amortization can be accelerated, which is termed an early amortization. Usually, an early amortization would occur if portfolio collections, less net charge-offs for bad debt, financing costs and servicing fees, drop below a minimum threshold. Because new receivables in designated accounts cannot be funded by the trust while a series is in early amortization, early amortization would require us to fund any new receivables or establish a new securitization vehicle. We do not have any series in early amortization.

Each month, each series is allocated its share of finance charge collections which is used to pay investors interest on their securities, to reimburse them for their share of losses due to charge-offs and to pay their share of servicing fees. Amounts remaining may be deposited in cash accounts of the trust as additional protection for future losses. Once each of these obligations is fully met, remaining finance charge collections, if any, are returned to us.

We also maintain flexibility in our current securitization program by negotiating with bank-sponsored conduits. These conduits purchase an interest in receivables arising in designated accounts. These transactions also feature a revolving period in which principal payments on receivables allocated to the conduits are returned to us and reinvested in new receivables. These agreements also have early amortization triggers. Finance charge collections are used to pay certain obligations, including servicing fees, interest on the principal amount of the conduit's investment in the applicable receivables, and recouping charge-offs. After such allocation, remaining finance charge collections, if any, are returned to us.

INTEREST ONLY STRIP. We retain a residual interest in the receivables that essentially represents an interest only strip. The fair value of the interest only strip is determined by the present value of the anticipated cash flows over the estimated outstanding period of the receivables. This anticipated excess cash flow consists of the excess of finance charges and past-due fees net of the sum of the return paid to bondholders, contractual servicing fees and credit 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 in the rate 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.

MARKETING SERVICES

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. We create and manage marketing programs that result in securing more frequent and sustained customer purchasing. We utilize the information gathered through our loyalty programs to help our clients design and implement effective marketing programs. Our primary service for this segment is the Air Miles reward miles program, representing 72.2% of this segment's 2000 revenue. Our clients within this segment are specialty retailers, petroleum retailers, supermarkets and financial services providers. Our largest clients are the Bank of Montreal, representing approximately 26.8% of this segment's 2000 revenue, and Safeway Canada, representing approximately 10% of this segment's 2000 revenue.

AIR MILES REWARD MILES PROGRAM. We operate what we believe to be the largest 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 miles 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 program members or 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 miles program has enabled sponsors to use this tool to 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 miles program:

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

- collectors--customers of sponsors who enroll in the Air Miles reward miles 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 miles program and prospective sponsors to join the Air Miles reward miles 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. Over a number of years, we have been able to develop a membership, or a collector base, of 6.5 million active collectors.

COLLECTORS

The major benefits of the Air Miles reward miles 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 miles program offers a reward structure that provides a quick and easy way to earn a broad selection of travel, entertainment and other lifestyle rewards 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, grocery and 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 to the program.

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.

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. This database contains Air Miles collection information for over 6.5 million Canadian households and the results of marketing programs conducted over the last seven years. Using this database, we have developed a suite of data mining and profiling products that enable our clients to better understand their customers and optimize opportunities for developing customer relationships.

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. These services include sourcing, promoting and fulfillment of products. These products do not compete with the clients' merchandise offerings and include merchandise, travel clubs and credit life insurance programs.

DIRECT MARKETING. 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 for 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 target a particular segment of the customer base and promote specific products and services to them based on customer profiles. 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.

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.

OUR MARKET OPPORTUNITY AND GROWTH STRATEGY

The increasing acceptance of electronic payment systems, including credit, debit and stored value cards, generates transaction data on individual consumers, while the dramatic proliferation of technology has enabled companies to capture, access and easily use this information.

While companies recognize the 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 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 will capitalize on our market opportunities by:

INCREASING THE PENETRATION OF OUR PRODUCTS AND SERVICES TO EXISTING CLIENTS. We plan to further increase the number and types of products and services we provide to our existing client base.

EXPANDING OUR CLIENT BASE IN OUR EXISTING MARKET SECTORS. We plan to acquire new clients in our traditional markets by continuing to distinguish ourselves as a provider of integrated transaction services, credit services and marketing services. We will 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.

CONTINUING TO EXPAND OUR SERVICES AND CAPABILITIES TO HELP OUR CLIENTS SUCCEED IN MULTI-CHANNEL COMMERCE. We plan to help our clients in all channels they choose for distribution--whether in-store, catalog or the Internet. Our current client base is comprised predominantly of traditional storefront and catalog distribution channels. We can apply the systems and marketing programs we have built to support our store and catalog clients using the Internet.

CONSIDERING FOCUSED, STRATEGIC ACQUISITIONS AND ALLIANCES. As we identify new opportunities or product gaps, we may consider focused acquisitions and alliances to enhance our competencies or increase our scale.

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 marketing services to Victoria's Secret. The Victoria's Secret private label credit card that we issue allows us to capture a customer's name and address, as well as transaction data in any channel the customer 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 that we collect and manage for the private label credit card program to enhance our billing, payment processing and customer care services.

SAFEGUARDS TO OUR BUSINESS

DISASTER AND CONTINGENCY PLANNING. We have a number of safeguards to protect us from the risks we face as a business 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 used in each segment of our business. 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. We believe that our trademarks are important for our branding and corporate identification and marketing of our services in each segment.

COMPETITION

The markets for our products and services are highly competitive. We compete with 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. Our credit services business competes primarily with financial institutions whose marketing focus has been on developing credit card programs with large revolving balances. These competitors further drive their businesses by cross-selling their other financial products to their cardholders. Our focus has been on targeting retailers that understand the competitive advantage of developing loyal customers. Typically these retailers have customers that make more frequent and smaller transactions. This results in the effective capture of detail-rich data within our database marketing services, allowing us to mine and analyze this data to develop successful customer relationship management strategies for our clients.

As an issuer of private label credit cards, we compete with other payment methods, primarily general-purpose credit cards like Visa, 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 cumulatively in the last two years and 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 was in full compliance with 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 United States, 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 Merchandise and 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. 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 asserting affirmative defenses, 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. Neither Service Merchandise nor Service Credit Corp. have specified the amount of damages that they are seeking from us but do claim, among other things, that World Financial's conduct caused the plaintiffs to suspend, and later terminate, the private label card program agreement. The plaintiffs generally claim they suffered damages through unpaid amounts that they allege World Financial owes them, lost sales and profits, the loss of the economic benefits of the World Financial credit card program, and a loss of enterprise value suffered by Service Merchandise. 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. The plaintiffs allege that World Financial, through such practices, has violated several federal and Florida state consumer protection statutes and breached cardholder contracts. The plaintiffs have not specified an amount of damages, but 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	LEASE EXPIRATION DATE
Northglenn, Colorado........	Transaction Services	$ 37,104	65,000	August 31, 2007
Marietta, Georgia...........	Transaction Services	$ 3,067	2,103	August 31, 2002
Buffalo Grove, Illinois.....	Transaction Services	$ 35,669	24,320	February 29, 2010
Lenexa, Kansas..............	Transaction Services	$ 45,244	65,000	January 31, 2008
Minneapolis, Minnesota......	Marketing Services and Transaction Services	$ 4,386	3,105	August 31, 2004
Minneapolis, Minnesota......	Marketing Services and Transaction Services	$ 31,997	28,442	August 31, 2004
Voorhees, New Jersey........	Transaction Services	$ 75,431	67,050	January 1, 2005
Columbus, Ohio..............	Transaction Services	$ 36,536	103,161	January 31, 2008
Columbus, Ohio..............	Transaction Services and Credit Services	$ 74,928	100,800	May 31, 2006
Columbus, Ohio..............	Transaction Services	$ 14,400	57,600	August 31, 2004
Columbus, Ohio..............	Marketing Services, Transaction Services and Credit Services	$ 40,733	54,615	August 31, 2007
Columbus, Ohio..............	Transaction Services and Credit Services	$ 25,535	32,255	August 31, 2007
Columbus, Ohio..............	Marketing Services, Transaction Services and Credit Services	$ 10,820	39,951	August 31, 2002
Reno, Ohio..................	Credit Services	$ 11,128	12,140	April 30, 2002
Zanesville, Ohio............	Credit Services	$ 5,850	5,400	April 1, 2006
Johnson City, Tennessee.....	Transaction Services	$ 44,925	45,000	October 19, 2010
Dallas, Texas...............	Marketing Services and Transaction Services	$ 114,228	114,419	November 30, 2009
Dallas, Texas...............	Transaction Services and Credit Services	$ 121,000	114,419	October 10, 2010
Dallas, Texas...............	Marketing Services, Transaction Services and Credit Services	$ 57,479	61,750	July 31, 2007
Dallas, Texas...............	Transaction Services	$ 18,224	72,897	April 30, 2006
San Antonio, Texas..........	Transaction Services	$ 47,692	67,540	January 31, 2002
Mississauga, Ontario, Canada....................	Marketing Services	$ 42,500	40,000	August 31, 2009
Toronto, Ontario, Canada....	Marketing Services	$ 81,492	91,534	September 16, 2007
Montreal, Quebec, Canada....................	Marketing Services	$ 3,125	5,000	June 30, 2009
Calgary, Alberta, Canada....	Database Marketing Services	$ 9,066	8,059	December 31, 2004
Auckland, New Zealand.......	Transaction Services	$ 12,041	11,700	September 13, 2005
Total.....................		$1,004,600	1,293,260	

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.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

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
Robert P. Armiak	39	Vice President and Treasurer
Michael D. Kubic	45	Vice President, Corporate Controller and Chief Accounting Officer
Richard E. Schumacher, Jr	33	Vice President of Tax
Bruce K. Anderson	60	Director
Roger H. Ballou	49	Director
Anthony J. deNicola	36	Director
Daniel P. Finkelman	45	Director
Kenneth R. Jensen	57	Director
Robert A. Minicucci	48	Director
Bruce A. Soll	43	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 a director and 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 and then president of business development and planning. He is responsible for transaction services, U.S. based marketing 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 Corporation 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, internal 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 Bachelor's degree from Dickinson College and a J.D. from Ohio State University College of Law.

ROBERT P. ARMIAK, vice president and treasurer, joined us in February 1996. He is responsible for cash management, hedging strategy, risk management and capital structure. Before joining us, he held several positions, including most recently, treasurer, at FTD Inc. from August 1990 to February 1996. He holds a Bachelor's degree from Michigan State University and an MBA from Wayne State University.

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.

RICHARD E. SCHUMACHER, JR., vice president of tax, joined us in October 1999. He is responsible for corporate tax affairs. Before joining us, he served as tax senior manager for Deloitte & Touche LLP from 1989 to October 1999 where he was responsible for client tax services and practice management and was in the national tax practice serving the banking and financial services industry.

Mr. Schumacher holds a Bachelor's degree from Ohio State University and a Master's from Capital University Law and Graduate School and is a Certified Public Accountant in the State of Ohio.

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.

ROGER H. BALLOU has served as a director since February 2001. Mr. Ballou has been a self-employed consultant since October 2000. Before that time, Mr. Ballou had served as chairman and chief executive officer of Global Vacation Group, Inc. from April 1998 to September 2000. Prior to that, he was a senior advisor for Thayer Capital Partners from September 1997 to April 1998. From April 1995 to August 1997, he served as vice chairman and chief marketing officer, then as president and chief operating officer, of Alamo Rent-a-Car, Inc. Mr. Ballou is currently chairman of the U.S. National Tourism Organization, and served as chairman of the Government Affairs Council from 1995 to 1997. Mr. Ballou is currently a director of American Medical Security Group, Inc. Mr. Ballou holds a Bachelor's degree from the Wharton School of the University of Pennsylvania and an MBA from the Tuck School of Business at Dartmouth.

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 Corp. and NTELOS Inc. 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.

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.

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.

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 eight members. Kenneth R. Jensen and Roger H. Ballou were elected as independent directors in February 2001, and we intend to designate one additional independent director 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 Roger H. Ballou
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 and some of the functions of the compensation committee. Our board of directors has a capital budget committee and, upon the consummation of this offering, will establish an audit committee and an executive committee.

The audit committee, which will consist of at least three independent directors, 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 financial reporting. 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 will consist of at least three independent directors, will review 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 administer 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	$372,000	$1,800,000	230,000	$ 33,482
Ivan M. Szeftel........................ Executive Vice President and President, Retail Credit Services	$335,000	$179,800	$ 525,000	80,000	$ 21,135
Michael A. Beltz....................... Executive Vice President and President, Transaction Services Group	$260,000	$198,200	$ 525,000	80,000	$ 15,503
John W. Scullion(3).................... President and Chief Executive Officer, The Loyalty Group	$255,104	$134,006	$ 525,000	80,000	$ 11,993
Edward K. Mims(4)...................... Executive Vice President and Chief Financial Officer	$214,077	$113,377	$ 525,000	80,000	$290,787
James E. Anderson(5)................... Executive Vice President and President, Utilities Services	$233,692	$117,500	$ 525,000	80,000	$ 17,176

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

(1) Bonuses represent amounts earned by each executive officer during the referenced year, although paid in the following year. 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. Twenty percent of each participant's award vested on February 6, 2001 based on our EBITDA in 2000.

(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

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

(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.

	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR-END(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END($)(1)	
NAME	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

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

(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, all of which have vested. 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 41,666 shares are vested. 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 83,332 shares have vested. 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. 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 outplacement benefits, reimbursement of continuing professional educational expenses and professional fees through 2001. The severance agreement also provided that Mr. Mims was entitled to a payment under the 2000 Incentive Compensation Plan, the amount of which was later set at $113,377. 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 received a lump sum cash payment pursuant to restricted stock awards that vested on February 6, 2001.

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 received a lump sum cash payment pursuant to restricted stock awards that vested on February 6, 2001.

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. Our board of directors accepted the 2000 EBITDA results and accelerated vesting for 114,000 shares based on strong contributions from management to our company in 2000.

We implemented a program whereby we will make loans available to recipients of restricted stock awards in amounts sufficient to cover any tax liability resulting from the vesting of those awards. The amount that any participant can borrow under the program is limited to 50% of the value of the vested shares. Participants in the program are required to pledge their vested restricted shares to us as collateral, until the loans are repaid.

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 will administer the plan.

Our chief executive officer will be deemed to be the compensation committee, except with respect to grants to himself, certain other executive officers, any director with respect to his or her compensation as a director, grants of performance-based restricted stock awards, determining the number of shares available under the plan and amending the plan.

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 6,700 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 February 28, 2001 by:

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

(2) each current director;

(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 57,834,379 shares of our common stock outstanding on February 28, 2001, and 70,834,379 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	42,923,851	74.2%	60.6%
Limited Commerce Corp. Three Limited Parkway Columbus, Ohio 43230	14,663,376	25.4%	20.7%
J. Michael Parks(3)	398,998	*	*
Ivan M. Szeftel(4)	101,443	*	*
Michael A. Beltz(5)	112,553	*	*
John W. Scullion(6)	69,500	*	*
Edward K. Mims(7)	58,331	*	*
James E. Anderson(8)	65,275	*	*
Bruce K. Anderson(9)	356,975	*	*
Anthony J. deNicola(9)	34,267	*	*
Robert A. Minicucci(9)	117,780	*	*
Roger H. Ballou	--	*	*
Daniel P. Finkelman	--	*	*
Kenneth R. Jensen	--	*	*
Bruce A. Soll	--	*	*
All directors and executive officers as a group (20 individuals)(10)	1,620,496	2.8%	2.3%

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

* 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 February 28, 2001, 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 10,172,233 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,

- 102,630 shares of common stock held by Thomas E. McInerney,

- 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) Includes options to purchase 374,998 shares of common stock which are exercisable within 60 days of February 28, 2001.

(4) Includes options to purchase 94,443 shares of common stock which are exercisable within 60 days of February 28, 2001.

(5) Includes options to purchase 105,553 shares of common stock which are exercisable within 60 days of February 28, 2001.

(6) Includes options to purchase 62,500 shares of common stock which are exercisable within 60 days of February 28, 2001.

(7) Includes options to purchase 58,331 shares of common stock which are exercisable within 60 days of February 28, 2001.

(8) Includes options to purchase 65,275 shares of common stock which are exercisable within 60 days of February 28, 2001.

(9) The number of shares beneficially owned by Messrs. Anderson, deNicola and Minicucci includes 110,936, 10,590 and 36,729 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 1,035,873 shares of common stock which are exercisable within 60 days of February 28, 2001 held by Messrs. Parks, Szeftel, Beltz, Mims, James E. Anderson, Armiak, Heffernan, Kubic, Melvin, Schumacher, Scullion, Tucker and Walensky and 158,255 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 74.2% of our outstanding common stock as of February 28, 2001. 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.

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.

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 25.4% of our common stock as of February 28, 2001. 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. World Financial is obligated to issue credit cards to any customer of a Limited affiliate who applies for a credit card, meets World Financial's credit standards, and agrees to the terms and conditions of World Financial's standard form of credit card agreement. World Financial is allowed to change its applicable credit standards and standard form of credit card agreement with the consent of the relevant Limited affiliate. Furthermore, these agreements obligate World Financial to consider, in good faith, requests by a Limited affiliate for variances from World Financial's credit standards and standard form of credit agreement. 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 for special programs and reimbursement of certain costs.

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, with the revenue to be shared between World Financial, The Limited and its affiliated businesses as agreed on a program by program basis.

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. Instead stockholders have independently funded 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.

The stockholders of U.S. Loyalty Corp. include Welsh Carson, Limited Commerce Corp. and our officers and directors who received stock in U.S. Loyalty as a result of their participation in funding U.S. Loyalty 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 70,834,379 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 February 28, 2001, principal stockholders held 57,587,227 shares, representing 99.6% of the outstanding shares of our common stock. Immediately after this offering, we will have 70,834,379 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 57,834,379 shares, 72,013 shares will be freely transferable and 57,762,366 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 57,539,344 shares of our common stock and options to purchase approximately 3,326,297 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, the underwriters, in their sole discretion, may release any of these stockholders from the lock-up agreements prior to expiration of the 180-day period 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 three months 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 and restricted stock plan and the stock purchase 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 Corporation 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 Corporation......................	
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 57,539,344 shares of our common stock, and options to purchase approximately 3,326,297 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.

Our common stock has been approved for listing, subject to official notice of issuance, 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 Corporation, is making a prospectus in electronic format available on its Internet Web site. The underwriters have agreed to allocate 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 connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum price.

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. 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 consolidated financial statements of Utilipro, Inc. and subsidiaries as of September 30, 1999 and September 30, 2000 and for the years ended September 30, 1999 and September 30, 2000, 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 report 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 (February 28, 2001 as to Note 21)

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 to consolidated financial statements.

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	44,919	125,083	
Trade receivables less allowance for doubtful accounts ($1,079 and $3,876 at December 31, 1999 and 2000, respectively)	46,724	86,153	
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	
Deferred tax asset, net	26,416	22,365	
Other current assets	45,209	35,368	
Total current assets	370,618	523,775	
Redemption settlement assets, restricted	133,650	152,007	
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 to consolidated financial statements.

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 to consolidated financial statements.

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 to consolidated financial statements.

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 in the United States and Canada. The Company facilitates and manages transactions between its clients and their customers through multiple distribution channels including in-store, catalog and the Internet. Through the Credit Services and Marketing Services segments, the Company assists its clients in identifying and acquiring new customers, and helps to increase the loyalty and profitability of its clients' existing customers.

The Company operates in three reportable segments: Transaction Services, Credit Services and Marketing Services. Transaction Services encompasses 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 private label receivables financing. 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	FISCAL 1999	FISCAL 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 and 2000, the related amount payable to counterparties was $1.5 million and $1.4 million, respectively. 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 is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, 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. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated in a cash flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income ("OCI") and will be recognized in the income statement when the hedged item affects earnings. SFAS 133 defines new requirements for designation and documentation of hedging relationships as well

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. In January 2001 the Company recorded $882,000 in OCI as a cumulative translation adjustment for derivatives designated in cash flow-type hedges prior to adopting SFAS 133, 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 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	DECEMBER 31, 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. We currently have one series that has entered its controlled amortization period. We do not have any series in early amortization. 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
		(DOLLARS 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.

8. DEBT (CONTINUED)

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 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.

8. DEBT (CONTINUED)

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

2001	$161,725
2002	67,925
2003	59,410
2004	1,000
2005	94,000
Thereafter	52,000
	$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	1999	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

9. INCOME TAXES (CONTINUED)

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	1999	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

Deferred tax assets and liabilities consist of the following:

	DECEMBER 31,	
	1999	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

9. INCOME TAXES (CONTINUED)

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.

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	2,648	14.98
Exercised	(17)	9.09
Cancelled	(96)	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	--	--

12. STOCK COMPENSATION PLANS (CONTINUED)

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 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

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, WFNNB must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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	55,921	55,921	63,570	63,570
Debt	435,136	447,861	436,060	427,125
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Interest swaps	$725,000	$ (6,083)	$351,750	$ (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	834,838	466,425	1,301,263
December 31, 2000	936,849	483,757	1,420,606

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

(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.

21. SUBSEQUENT EVENTS

Effective February 28, 2001, the Company acquired substantially all of the operating assets of Utilipro, Inc., a subsidiary of AGL Resources, Inc., for $20.3 million in cash. Utilipro is an account processing and servicing provider to the deregulated utility sector. Utilipro provides these services to three clients serving approximately 500,000 customers.

INDEPENDENT AUDITORS' REPORT

Board of Directors of Utilipro, Inc.:

We have audited the accompanying consolidated balance sheets of Utilipro, Inc. and subsidiaries (the "Company") as of September 30, 1999 and 2000, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 1999 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Atlanta, Georgia
February 28, 2001

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 1999	SEPTEMBER 30, 2000	DECEMBER 31, 2000
			(UNAUDITED)
ASSETS			
Cash	$ 194,405	$ 270,190	$ 521,101
Accounts receivable--affiliate	1,537,259	5,843,621	1,981,022
Accounts receivable--nonaffiliates, net of allowance for doubtful accounts of $957,226, $3,311,590 and $3,505,387 at September 30, 1999 and 2000 and December 31, 2000, respectively	1,372,044	500,000	500,000
Prepaid expenses and other current assets	114,943	283,391	225,764
Current deferred tax asset	575,253	1,316,590	1,360,848
Total current assets	3,793,904	8,213,792	4,588,735
Property and equipment, net	3,770,395	3,443,606	3,485,298
Deferred tax asset		170,962	136,227
Tax receivable from affiliate	1,073,960	3,508,565	3,758,374
Other assets	68,444	118,716	118,716
	$ 8,706,703	$ 15,455,641	$12,087,350
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	$ 1,648,602	$ 313,935	$ 405,154
Accrued salaries and benefits	763,745	673,631	241,643
Other accrued expenses	314,976	1,729,330	691,305
Notes payable to affiliates	4,162,011	16,104,399	14,787,159
Current portion of long-term debt	420,825	850,488	705,171
Total current liabilities	7,310,159	19,671,783	16,830,432
Long-term debt	574,351	1,067,256	968,891
Deferred tax liability	191,848	--	--
Total liabilities	8,076,358	20,739,039	17,799,323
Commitments and contingencies (Notes 3, 8 and 9)			
Redeemable Preferred Stock, Series A Convertible, $1.00 par value 4,200,000 shares authorized, 700,000 issued and outstanding	700,000	700,000	700,000
Stockholders' equity (deficit):			
Common stock, $1.00 par value, 10,000,000 shares authorized, 123,529 shares issued and outstanding as of September 30, 1999 and 62,999 shares issued and outstanding as of September 30, 2000 and December 31, 2000 (unaudited)	123,529	62,999	62,999
Additional paid-in capital	3,500,000	3,378,940	3,378,940
Accumulated other comprehensive loss	(109)	--	--
Accumulated deficit	(3,693,075)	(9,425,337)	(9,853,912)
Total stockholders' equity (deficit)	(69,655)	(5,983,398)	(6,411,973)
Total liabilities and stockholders' equity	$ 8,706,703	$ 15,455,641	$12,087,350

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
	1999	2000	1999	2000
			(UNAUDITED)	
Revenues				
Affiliate	$ 5,289,008	$ 13,648,089	$ 1,830,195	$4,048,323
Nonaffiliate	3,310,702	4,083,554	1,161,433	91,952
Total revenues	8,599,710	17,731,643	2,991,628	4,140,275
Expenses				
Payroll and employee benefits	5,686,438	12,158,138	2,329,458	2,039,523
Other operating expenses	6,992,762	12,654,070	2,588,909	1,982,309
Depreciation	638,794	1,260,697	273,675	373,989
Total expenses	13,317,994	26,072,905	5,192,042	4,395,821
Operating loss	(4,718,284)	(8,341,262)	(2,200,414)	(255,546)
Interest expense	103,242	1,121,671	182,083	437,243
Other income, net	(58,639)	(191,919)	(70,491)	(4,883)
Loss before income taxes	(4,762,887)	(9,271,014)	(2,312,006)	(687,906)
Income tax benefit	1,842,285	3,538,752	887,500	259,331
Net loss	$(2,920,602)	$ (5,732,262)	$(1,424,506)	$ (428,575)
Foreign currency translation adjustment	(109)	109	--	--
Comprehensive loss	$(2,920,711)	$ (5,732,153)	$(1,424,506)	$ (428,575)

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK					
	SHARES OUTSTANDING	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE (LOSS)	ACCUMULATED DEFICIT	TOTAL
September 30, 1998	123,529	$123,529	$ 700,000	$ --	$ (772,473)	$ 51,056
Capital contribution			2,800,000			2,800,000
Foreign currency translation adjustment				(109)		(109)
Net loss					(2,920,602)	(2,920,602)
September 30, 1999	123,529	123,529	3,500,000	(109)	(3,693,075)	(69,655)
Repurchase of common stock	(60,530)	(60,530)	(121,060)			(181,590)
Foreign currency translation adjustment				109		109
Net loss					(5,732,262)	(5,732,262)
September 30, 2000	62,999	62,999	3,378,940	--	(9,425,337)	(5,983,398)
Net loss (unaudited)					(428,575)	(428,575)
December 31, 2000 (unaudited)	62,999	$ 62,999	$3,378,940	$ --	$(9,853,912)	$(6,411,973)

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
	1999	2000	1999	2000
			(UNAUDITED)	
OPERATING ACTIVITIES:				
Net loss	$(2,920,602)	$ (5,732,262)	$(1,424,506)	$ (428,575)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	638,794	1,260,697	273,675	373,989
Bad debt expense	957,226	2,354,364		
Deferred taxes	(424,928)	(1,104,147)	(105,817)	(259,332)
Changes in assets and liabilities:				
Accounts receivable	(3,505,233)	(5,788,682)	(536,779)	3,862,599
Prepaid expenses and other current assets	(11,506)	(168,448)	(326,489)	57,627
Other assets	(61,327)	(50,272)		
Accounts payable and accrued expenses	2,220,155	(10,427)	267,185	(1,378,794)
Tax receivable from affiliate	(626,856)	(2,434,605)	--	--
Net cash used in operating activities	(3,734,277)	(11,673,782)	(1,852,731)	2,227,514
INVESTING ACTIVITY--Capital expenditures	(2,785,163)	(933,799)	(207,255)	(415,681)
FINANCING ACTIVITIES				
Increases in note payable to affiliate	4,162,011	11,942,388	1,713,398	(1,317,240)
Borrowings on long-term debt	--	1,798,940	368,115	--
Payments on long-term debt	(298,852)	(876,372)	--	(243,682)
Common stock repurchase	--	(181,590)	--	--
Capital contribution	2,800,000	--	--	--
Net cash provided by financing activities	6,663,159	12,683,366	2,081,513	(1,560,922)
INCREASE IN CASH	143,719	75,785	21,527	250,911
CASH:				
Beginning of period	50,686	194,405	194,405	270,190
End of period	$ 194,405	$ 270,190	$ 215,932	$ 521,101
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:				
Interest paid	--	$ 350,694	--	$ 318,288
NONCASH ACTIVITY				
Property, plant, and equipment acquired under capital leases	$ 1,099,137	$ 2,028,013	$ 1,799,245	$ --

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

The accompanying consolidated financial statements include the accounts of Utilipro, Inc. and its wholly owned subsidiaries, which are collectively referred to as the "Company." All significant intercompany accounts and transactions have been eliminated.

The Company engages in the sale of integrated customer care solutions and billing services to energy marketers. The Company was formed on June 17, 1997 and on December 10, 1997 AGL Investments, Inc. ("AGL Investments"), a wholly owned subsidiary of AGL Resources, Inc. ("AGL Resources"), acquired 700,000 shares of the Company's convertible preferred stock. The Company is based in Atlanta, Georgia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTERIM FINANCIAL DATA (UNAUDITED)--The financial statements as of December 31, 2000 and for the three months ended December 31, 1999 and 2000 are unaudited. In the opinion of management, these financial statements reflect all adjustments necessary for a fair presentation of the financial statements for such periods. These adjustments consist of normal, recurring items. The results of operations for the three months ended December 31, 2000 are not necessarily indicative of the results of operations that may be expected for the full year.

USE OF 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

PROPERTY AND EQUIPMENT--Purchases of property and equipment are recorded at cost. Depreciation on property is computed on a straight-line basis using the following estimated useful lives:

Computer and telecommunications equipment..................	5 years
Computer software..	4 to 5 years
Furniture and fixtures.....................................	5 to 7 years
Leasehold improvements.....................................	The life of the lease

IMPAIRMENT OF LONG-LIVED ASSETS--The Company reviews long-lived assets and certain intangibles for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and any impairment losses are reported in the period in which the recognition criteria are first applied based on the fair value of the asset.

INCOME TAXES--Deferred tax assets and liabilities are recorded for all significant temporary differences between the carrying amounts and the tax bases of assets and liabilities. The operating results of the Company are included in the consolidated federal income tax return of AGL Resources and income taxes are allocated to the Company for the tax effects of its income and deductions included in the consolidated return.

DERIVATIVE INSTRUMENTS--In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133, as amended by SFAS No. 138, ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

requires that an entity record all derivatives as either assets or liabilities in the balance sheet measured at fair value. The Company adopted SFAS No. 133 on October 1, 2000. The impact of the adoption of SFAS No. 133 on the Company's consolidated financial statements at October 1, 2000 was immaterial.

REVENUE RECOGNITION--The Company recognizes revenues using the accrual method. As services are performed, they are billed to the Company's customers and recorded as revenue.

RECLASSIFICATIONS--Certain prior year amounts have been reclassified for comparative purposes. Those reclassifications did not affect consolidated net loss for the years presented.

3. CONCENTRATION OF CREDIT RISK

At September 30, 2000, one nonaffiliated customer comprised all of the Company's accounts receivable--nonaffiliates, and at September 30, 1999, three nonaffiliated customers comprised 73%, 12%, and 11%, respectively of the Company's accounts receivable--non-affiliate balance. For the year ended September 30, 2000, no nonaffiliate customer represented more than 10% of nonaffiliate revenues. For the year ended September 30, 1999, three nonaffiliated customers comprised 24%, 8%, and 4% of nonaffiliate revenues, respectively.

On October 26, 1999, Peachtree Natural Gas, LLC ("Peachtree"), one of the Company's nonaffiliated customers, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. As of the date of Peachtree's bankruptcy filing, Peachtree owed the Company $2,063,769. The amount owed to the Company as of September 30, 2000 was fully reserved for in the accompanying balance sheet.

4. PROPERTY AND EQUIPMENT

Property and equipment are as follows:

	AS OF SEPTEMBER 30,	
	1999	2000
Computer and telecommunications equipment	$3,347,907	$ 3,425,108
Computer software	697,350	1,215,750
Furniture and fixtures	350,056	385,323
Leasehold improvements	65,034	341,044
	4,460,347	5,367,225
Accumulated depreciation	(689,952)	(1,923,619)
	$3,770,395	$ 3,443,606

5. LONG-TERM DEBT

Long-term debt as of September 30, 1999 and 2000 consists of capital lease obligations related to computer equipment, telephone equipment, and computer software with interest rates of 8%, maturing at various dates through 2003. The cost of the assets recorded under the capital lease obligations is $3,151,765. Accumulated amortization related to assets recorded under capital leases is

$242,026 and

5. LONG-TERM DEBT (CONTINUED)

$490,441 at September 30, 1999 and 2000, respectively. The balance of the capital lease obligations as of September 30, 1999 and 2000 was $995,176 and $1,917,744, respectively.

Total aggregate minimum lease payments under capital leases at September 30, 2000 are as follows:

2001	$1,008,682
2002	1,114,684
2003	35,472
	2,158,838
Less: amounts representing interest	(241,094)
	$1,917,744

6. INCOME TAXES

The components of income tax benefit are as follows:

	YEAR ENDED SEPTEMBER 30, 1999	YEAR ENDED SEPTEMBER 30, 2000
Current:		
Federal	$1,209,957	$2,078,320
State	207,400	356,285
	1,417,357	2,434,605
Deferred:		
Federal	362,749	942,564
State	62,179	161,583
	424,928	1,104,147
Income tax benefit	$1,842,285	$3,538,752

The reconciliation of the Company's effective tax rate to the statutory tax rate is as follows:

	YEAR ENDED SEPTEMBER 30,			
	1999		2000	
	RATE	AMOUNT	RATE	AMOUNT
Computed tax expense benefit	35.0%	$(1,667,059)	35.0%	$(3,244,894)
State taxes, net of federal benefit	3.7	(175,226)	3.6	(336,614)
Other			(0.4)	42,756
Income tax benefit	38.7%	$(1,842,285)	38.2%	$(3,538,752)

6. INCOME TAXES (CONTINUED)

On a pro forma basis, had the Company used the separate return basis for its income tax provision, no income tax benefit would have been recorded in the years ended September 30, 1999 and 2000.

The tax effects of temporary differences comprising the net deferred tax asset are as follows (a valuation reserve was not considered necessary):

	AS OF SEPTEMBER 30,	
	1999	2000
Allowance for doubtful accounts	$ 370,255	$1,280,899
Property	(191,848)	131,138
Accrued bonus and vacation	185,658	35,691
Other	19,340	39,824
Net deferred tax asset	$ 383,405	$1,487,552

7. STOCKHOLDERS' EQUITY

On December 10, 1997, Utilipro entered into a Series A Convertible Preferred Stock Purchase Agreement whereby 700,000 shares of Convertible Series A Preferred Stock ("Preferred Stock") were issued to AGL Investments for $700,000. Concurrently with the issuance of the Preferred Stock, 123,529 shares of common stock were issued to certain shareholders. The Preferred Stock is convertible into common stock at the option of AGL Investments at a conversion price of $1 per share. Furthermore, AGL Investments has the option to require the Company to redeem any or all outstanding shares of the Preferred Stock on December 10, 2004 at an amount equal to the sum of the original purchase price per share plus any declared and accrued but unpaid dividends on the shares. If the Company fails to redeem the Preferred Stock on December 10, 2004, the conversion price of the Preferred Stock will decrease at the rate of 10% per quarter. As of September 30, 1999 and 2000, no dividends had been declared.

During the year ended September 30, 2000, the Company acquired common stock held by two shareholders. The shares, which were acquired for $181,590, were retired.

On May 22, 1998, the Company entered into a Capital Contribution Agreement with AGL Resources whereby AGL Investments agreed to contribute up to a maximum of $3,500,000 in additional capital to the Company. As of September 30, 2000, AGL Investments had contributed $3,500,000 in additional capital.

8. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES--The Company leases certain buildings and equipment under noncancelable operating leases which expire at various dates through 2006.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following is a schedule of future minimum lease payments under operating leases as of September 30, 2000:

2001	$1,407,130
2002	1,229,051
2003	801,158
2004	572,214
2005	319,959
Thereafter	354,306
	$4,683,818

Rent expense for the years ended September 30, 1999 and 2000 was $418,052 and $1,418,324, respectively.

9. LITIGATION

During the year ended September 30, 2000, Peachtree commenced litigation against the Company seeking damages in excess of $50 million as a result of an alleged breach of contract by the Company. If the Company were to suffer an adverse outcome in this litigation, it could have a material adverse effect on the Company's consolidated financial statements. While management believes that the Company has valid defenses to this litigation, management cannot predict the outcome of the litigation.

The Company is involved in litigation arising in the normal course of business. Management believes that the ultimate resolution of that litigation will not have a material adverse effect on the Company's consolidated financial statements.

10. RELATED PARTY TRANSACTIONS

ACCOUNTS RECEIVABLE-AFFILIATE--Accounts receivable-affiliate at September 30, 1999 and 2000 of $1,537,259 and $5,843,621, respectively, consists of amounts due from SouthStar Energy Services, LLC ("SouthStar"), a joint venture in which AGL Resources is a member, for services rendered by the Company.

REVENUE-AFFILIATE--Revenue-affiliate consists of revenue from SouthStar for services rendered by the Company.

TAX RECEIVABLE FROM AFFILIATE--The receivable from affiliate at September 30, 1999 and 2000 of $1,073,960 and $3,508,565, respectively, consists primarily of amounts due from AGL Resources for income tax benefits.

NOTES PAYABLE TO AFFILIATE--The notes payable to affiliates at September 30, 1999 of $4,162,000 included $2,947,000 owed to AGL Investments and $1,215,000 owed to AGL Propane, Inc., a wholly owned subsidiary of AGL Resources Inc. in accordance with a Note Agreement dated April 16, 1999 (the "AGL Propane Note"). Interest accrues at rates from 8.075% to 8.105% annually with a maturity date of June 1, 2000. The AGL Propane Note was repaid during the year ended September 30, 2000.

10. RELATED PARTY TRANSACTIONS (CONTINUED)

The amount payable to AGL Investments is pursuant to a Note Agreement dated August 13, 1999, as amended (the "Original AGL Investments Note"), with interest accruing at LIBOR plus 250 basis points. The Company and AGL Investments entered into a Note Agreement dated January 1, 2000, with interest accruing at LIBOR plus 300 basis points, whereby the outstanding balance as of January 1, 2000 of the Original AGL Investments Note was refinanced. During the year ended September 30, 1999, interest rates ranged from 7.7% to 7.9%. During the year ended September 30, 2000, interest rates ranged from 8.8% to 9.7%. At September 30, 2000, notes payable to AGL Investments totaled $16,104,399. Interest expense recognized during the years ended September 30, 1999 and 2000 was $47,011 and $882,822, respectively. Accrued and unpaid interest at September 30, 1999 and 2000 was $47,011 and $532,128, respectively.

11. SUBSEQUENT EVENTS

In January 2001, the Company acquired and retired all of the outstanding common stock held by the Company's minority shareholder for $188,997. As a result, all of the capital stock of the Company is now held by AGL Investments.

On February 28, 2001, the Company extinguished its capital lease obligations in the amount of $2,094,999.

Effective February 28, 2001, Alliance Data Systems, Inc. purchased from AGL Investments the property and equipment and assumed certain working capital related liabilities of the Company.

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

```
-  -------------------------------------------------------
-  -------------------------------------------------------
-  -------------------------------------------------------
-  -------------------------------------------------------
```

Inside Back Cover -- [Text and Graphics]

This page contains a photograph of Alliance Data's corporate headquarters. On the bottom right of the photograph is a text box with the following bullets:

- 6,100 Employees
- 26 Facilities
- Serving Over 300 Clients

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 and restricted stock 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 133,152 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. In February 2001, 114,000 shares of common stock vested pursuant to restricted stock awards granted under the stock option and restricted stock plan.

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.
2.5	Asset Purchase Agreement by and between Utilipro, Inc., AGL Resources, Inc., and Alliance Data Systems Corporation, dated as of February 12, 2001, as amended March 2, 2001.
*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.
*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.

EXHIBIT NO.	EXHIBITS
*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.
*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.

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.

EXHIBIT NO.	EXHIBITS
*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.
+*10.56	Supplier Agreement between Loyalty Management Group Canada and Air Canada dated as of April 24, 2000.
10.57	Lease between 1815 LLC and ADS Alliance Data Systems, Inc., dated as of February 7, 2001.
10.58	First Amendment to Lease between Deerfield & Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated as of June 27, 2000.
*21	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP with regards to Alliance Data Systems Corporation.
*23.2	Consent of Akin, Gump, Strauss, Hauer & Feld, L.L.P. (included in its opinion filed as Exhibit 5 hereto).
23.3	Consent of Deloitte & Touche LLP with regards to Utilipro, Inc.
*24	Power of Attorney (included on the signature page hereto).

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

* Previously filed.

\+ Portions of Exhibit have been omitted and filed separately with the commission pursuant to a request for confidential treatment.

(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 March 15, 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 J. 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 March 15, 2001:

NAME	TITLE
/s/ J. MICHAEL PARKS -- J. Michael Parks	Chairman of the Board, Chief Executive Officer and President (principal executive officer)
/s/ EDWARD J. HEFFERNAN -- Edward J. 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
/s/ ROGER H. BALLOU -- Roger H. Ballou	Director
* -- Anthony J. deNicola	Director
* -- Daniel P. Finkelman	Director
* -- 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.
2.5	Asset Purchase Agreement by and between Utilipro, Inc., AGL Resources, Inc., and Alliance Data Systems Corporation, dated as of February 12, 2001, as amended March 2, 2001.
*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.

EXHIBIT NO.	DESCRIPTION
*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.
*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.

EXHIBIT NO.	DESCRIPTION
*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 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.

EXHIBIT NO.	DESCRIPTION
*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.
+*10.56	Supplier Agreement between Loyalty Management Group Canada and Air Canada dated as of April 24, 2000.
10.57	Lease between 1815 LLC and ADS Alliance Data Systems, Inc., dated as of February 7, 2001.
10.58	First Amendment to Lease between Deerfield & Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated as of June 27, 2000.
*21	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP with regards to Alliance Data Systems Corporation.
*23.2	Consent of Akin, Gump, Strauss, Hauer & Feld, L.L.P. (included in its opinion filed as Exhibit 5 hereto).
23.3	Consent of Deloitte & Touche LLP with regards to Utilipro, Inc.
*24	Power of Attorney (included on the signature page hereto)

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

* Previously filed.

+ Portions of Exhibit have been omitted and filed separately with the commission pursuant to a request for confidential treatment.

EXHIBIT 2.5

ASSET PURCHASE AGREEMENT

BY AND BETWEEN

UTILIPRO, INC.,

AGL RESOURCES INC.,

AND

ALLIANCE DATA SYSTEMS CORPORATION

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made as of February 12, 2001, by and among Utilipro, Inc., a Georgia corporation ("Seller"), AGL Resources Inc., a Georgia corporation ("Parent"), and Alliance Data Systems Corporation, a Delaware corporation ("Purchaser").

W I T N E S S E T H:

WHEREAS, Seller provides deregulated energy marketers with a range of managed customer care services (the "Business");

WHEREAS, upon and subject to the terms and conditions contained herein, Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, certain of the assets of Seller;

WHEREAS, Parent's wholly-owned subsidiary, AGL Investments, Inc., a Georgia corporation, owns 100% of the equity ownership of Seller;

WHEREAS, as indirect owner of such preferred stock, Parent has the authority to execute, deliver and perform this Agreement and the documents and transactions contemplated herein.

NOW, THEREFORE, in consideration of the mutual representations, warranties and covenants contained herein, and upon and subject to the terms and the conditions hereinafter set forth, the parties do hereby agree as follows:

ARTICLE I

PURCHASE AND SALE OF ASSETS

1.01 TRANSFER OF THE ASSETS.

(a) Subject to the terms and conditions set forth in this Agreement, as of the Closing, Seller agrees to sell, convey, assign, and transfer to Purchaser, and Purchaser agrees to purchase, accept and take from Seller, all of the assets, properties and rights of every kind, nature, character and description, whether personal or mixed, whether tangible or intangible, whether accrued, contingent or otherwise relating to or utilized in the Business, directly or indirectly, in whole or in part, whether or not carried on the books and records of Seller and wherever located (collectively, the "Assets"), except for those assets, properties and rights defined in Section 1.01(b) as Excluded Assets. The Assets shall include:

(i) the tangible personal property and interests (including equipment, furniture and fixtures) therein listed on SCHEDULE 1.01(a)(i) (the "Personal Property");

(ii) [INTENTIONALLY OMITTED];

(iii) all of Seller's (a) inventions (whether patentable or unpatentable and whether or not reduced to practice), proprietary ideas, designs, improvements and domestic and foreign patents and patent applications and design registrations and applications, together with all reissuances, continuations, continuations-in-part, revisions, extensions, and reexaminations relating thereto, (b) trademarks, service marks, trade dress, logos, appellations of origin, trade names, domain names and corporate names, and all goodwill associated therewith, and domestic and foreign mark registrations and applications for registration, (c) copyrightable works, translations, adaptations, derivations, and combinations thereof, and all copyright registrations and registration applications relating thereto, (d) mask works and all applications, registrations and renewals relating thereto, (e) trade secrets and confidential business information (including ideas, research and development, research record, know-how, formulas, compositions, manufacturing and production processes and techniques, quality control procedures, technical information, technical data, records of inventions, test information, designs, drawings, specifications, customer and supplier information and lists, pricing and cost information, and business and marketing plans and proposals, market surveys and marketing know-how), and (f) all other creative works and measures of protection therefor (by way of the common law, statute or otherwise) and proprietary, personal and moral rights, including but not limited to rights of publicity, rights of privacy, and neighboring rights of Seller that are used or held for use primarily in the Business (the "Intellectual Property"), including but not limited to those Intellectual Property assets listed in SCHEDULE 2.11;

(iv) all of Seller's rights in computer software used in the Business to the extent transferable;

(v) all of the intangible rights of Seller relating to the Business or used in the Business, including going concern value, goodwill, telephone and e-mail addresses and listings, Seller's website (www.utilipro.com), the name "Utilipro, Inc." and similar items;

(vi) all Licenses listed on SCHEDULE 2.08 that are transferable;

(vii) all of Seller's rights, interests and benefits in, to and under the contracts listed on SCHEDULE 1.01(a)(vii) (the "ASSIGNED CONTRACTS");

(viii) all operating data and records of Seller, including, without limitation, all books of account, ledgers, general, financial, accounting and any personnel records, files, invoices, customers' and suppliers' lists, other distribution lists, billing records, sales and promotional literature, manuals, customer and supplier correspondence (in all cases, in any form or medium), of Seller that are used, held for use or intended to be used in, or that arise out of, the conduct or operating of the Business (the "Records"), except for those specifically excluded pursuant to Section 1.01(b);

(ix) the prepaid and deferred items of Seller listed on SCHEDULE 1.01(a)(ix); and

(x) those assets subject to the capital leases listed on SCHEDULE 1.01(a)(x) to which, pursuant to Section 4.01(f), Seller has obtained good and valid title, subject to Permitted Liens, between the date of this Agreement and the Closing.

(b) the term "EXCLUDED ASSETS" means:

(i) the assets identified on SCHEDULE 1.01(b)(i);

(ii) all cash, cash equivalents, and accounts receivable of Seller;

(iii) all rights and obligations of Seller under this Agreement and the other agreements and instruments executed and delivered in connection with this Agreement;

(iv) all minute books and stock records;

(v) all records prepared in connection with the sale of the Business to Purchaser that do not otherwise have to do with the conduct of the Business in the ordinary course;

(vi) income tax records relating to the Business;

(vii) any other records listed on SCHEDULE 1.01(b)(vii);

(viii) the capital stock of and the assets held by Utilipro International, Inc. or Utilipro Canada Company;

(ix) any right or recoveries under any litigation or proceedings not assumed by Purchaser; and

(x) those assets subject to the capital leases listed on SCHEDULE 1.01(a)(x) to which, pursuant to Section 4.01(f), Seller has not obtained good and valid title, subject to Permitted Liens, between the date of this Agreement and the Closing.

(c) The sale, conveyance, transfer, assignment and delivery of the Assets by Seller to Purchaser shall be effected by a Bill of Sale in the form attached as EXHIBIT 1.01(c) and such deeds, endorsements, assignments, transfers and other instruments of transfer and conveyance as are attached as exhibits to this Agreement or, if not attached to this Agreement as an exhibit, as Purchaser shall reasonably request.

1.02 AGGREGATE PURCHASE PRICE OF THE ASSETS. Subject to adjustment as provided in Section 1.05(b), Section 1.07, and Section 10.03, the aggregate purchase price of the Assets (the "Purchase Price") shall be Twenty Two Million Five Hundred Thousand Dollars ($22,500,000) payable as provided in Section 1.05(b).

1.03 ALLOCATION. As soon as practicable but not later than 120 days after the Closing Date, Purchaser and Seller shall use their good faith efforts to agree to the allocation (the "Allocation") of the Purchase Price, the Assumed Liabilities and all other capitalized costs among the Assets and Assumed Liabilities in accordance with Section 1060 of the Internal

Revenue Code of 1986, as amended, and shall set forth such allocation on a statement (the "Allocation Statement"). The Allocation Statement shall be revised to reflect any changes in the Assets and Assumed Liabilities as a result of the calculation in Section 1.07. If Purchaser and Seller agree to such Allocation prior to Closing, Purchaser and Seller covenant and agree that (a) the values assigned to the assets by the parties' mutual agreement shall be conclusive and final for all purposes, and (b) neither Purchaser nor Seller will take any position before any government authority or in any judicial proceeding that is in any way inconsistent with such Allocation. Notwithstanding the foregoing, if Purchaser and Seller cannot agree to an Allocation within 120 days of the Closing Date, Purchaser and Seller covenant and agree to file and to cause their respective affiliates to file, all Returns and schedules thereto (including, for example, amended returns, claims for refund, and those returns and forms required under Section 1060 of the Internal Revenue Code of 1986, as amended and any treasury regulations promulgated thereunder) consistent with each of Purchaser's and Seller's good faith Allocations, unless otherwise required because of a change in applicable law.

1.04 LIABILITIES.

(a) EXCLUDED LIABILITIES. Other than the assumption of Assumed Liabilities as expressly provided in Section 1.04(b) below, Purchaser shall not assume any of the liabilities, obligations and commitments of Seller (collectively, the "Excluded Liabilities").

(b) ASSUMED LIABILITIES. Subject to the terms and conditions of this Agreement, and as additional consideration for the Assets, Purchaser shall assume, effective as of Closing, and from and after the Closing, Purchaser shall pay, and discharge when due, pursuant to the Assumption Agreement attached as Exhibit 1.04(b) (the "Assumption Agreement") all of the following liabilities, obligations and commitments of Seller (collectively, the "Assumed Liabilities"):

(i) all liabilities, obligations and commitments of Seller under the Assigned Contracts to the extent such liabilities, obligations and commitments relate to the period from and after the Closing;

(ii) the accounts payable of Seller listed on SCHEDULE 1.04(b)(ii);

(iii) the other current liabilities, obligations and commitments of Seller listed on SCHEDULE 1.04(b)(iii);

(iv) liabilities for General Taxes (as defined in Section 1.08(b)) allocated to Purchaser as provided under Section 1.08);

(v) liabilities related to the Employee Benefit plans assumed pursuant of Section 4.02(b).

1.05 CLOSING.

(a) TIME AND LOCATION. Subject to the satisfaction or waiver of the conditions set forth herein, the consummation of the purchase and sale of the Assets (the "Closing") shall take place at 10:00 a.m. on February 28, 2001 in the offices of Long Aldridge & Norman LLP, 303 Peachtree Street, Suite 5300, Atlanta, Georgia, 30308, or on such other date at such other time and place as the parties shall agree in writing (the "Closing Date").

(b) CALCULATION AND PAYMENT OF THE PURCHASE PRICE AT CLOSING.

(i) Two days prior to the Closing Date, Seller shall cause to be prepared and delivered to Purchaser a calculation of the "Adjusted Purchase Price" to be paid to Seller at the Closing. The "Adjusted Purchase Price" shall equal Twenty Two Million Five Hundred Thousand Dollars (x) less the amount of any reductions in the purchase price as specified on SCHEDULE 1.05(b)(i) as a result of Seller's failure to obtain good and valid title to assets subject to capital leases pursuant to Section 4.01(f), and (y) plus Seller's good faith estimate of Closing Working Capital. "Closing Working Capital" means the positive or negative number resulting from subtracting the amount of current liabilities estimated to be assumed by Purchaser as of the Closing pursuant to Sections 1.04(b)(ii) and 1.04(b)(iii) from the estimated current assets to be purchased by Purchaser as of the Closing pursuant to Section 1.01(a)(ix).

(ii) At the Closing, Purchaser shall make payment of the Adjusted Purchase Price as follows:

(A) to AGL Investments, Inc. the outstanding principal balance plus all interest accrued as of the Closing Date under that certain Revolving Promissory Note dated January 1, 2000, as amended by the certain First Amendment to Revolving Promissory Note dated May 1, 2000 (the "Note"), payable by wire transfer of immediately available funds in United States currency to an account designated in writing by AGL Investments, Inc. in full payment and satisfaction of all principal and interest under the Note. Prior to the Closing, Seller shall provide Purchaser with a letter signed by AGL Investments, Inc. stating the amount of principal and interest owed with respect to the Note as of the Closing; and

(B) to Seller, any amounts remaining after payment pursuant to Section 1.05(b)(ii)(a), payable by wire transfer of immediately available funds in United States currency to an account designated in writing by Seller.

(c) TRANSACTIONS TO BE EFFECTED AT THE CLOSING. At the Closing:

(i) Seller shall deliver to Purchaser:

(A) The Bill of Sale and General Assignment in the form of EXHIBIT 1.01(c) and such assignments and other instruments of transfer related to the Assets in form and substance reasonably satisfactory to Purchaser and its counsel;

(B) A Non-Competition and Non-Solicitation Agreement in the form of EXHIBIT 1.05(c)(i)(B);

(C) The Assignment and Assumption Agreement in the form of EXHIBIT 1.04(b);

(D) The certificate referenced in Section 6.01;

(E) Release of liens for those security interests, easements or encumbrances listed on SCHEDULE 2.05(a);

(F) Such other documents as Purchaser or its counsel may reasonably request to effect the sale and transfer of good and valid title of the Assets to Purchaser free and clear of all encumbrances, except for Permitted Liens, as defined in Section 2.05, and to demonstrate satisfaction of the conditions and compliance with the covenants set forth in this Agreement;

(G) A customary opinion of counsel substantially in the form of Exhibit 1.04(c)(i)(G);

(H) Executed counterparts of all consents listed in SCHEDULE 6.03;

(I) A certificate dated as of the Closing Date and signed by the secretary of each of Seller and Parent, certifying the articles of incorporation, bylaws, board of directors and stockholders approvals and the incumbency of the officers authorized to execute this Agreement and the documents contemplated herein; and

(J) A transition services agreement in substantially the form of EXHIBIT 1.05(c)(i)(J) covering the services outlined therein.

(ii) Purchaser shall deliver to Seller:

(A) A Non-Competition and Non-Solicitation Agreement in the form of EXHIBIT 1.05(c)(i)(B);

(B) The Assignment and Assumption Agreement in the form of EXHIBIT 1.04(b);

(C) The certificate referenced in Section 5.01;

(D) Such other documents as Seller or its counsel may reasonably request to demonstrate satisfaction of the conditions and compliance with the covenants set forth in this Agreement;

(E) Executed counterparts of all consents listed in SCHEDULE 5.03;

(F) A certificate dated as of the Closing Date and signed by the Purchaser's Secretary, certifying the articles of incorporation, bylaws, board of directors approvals and the incumbency of the officers authorized to execute this Agreement and the documents contemplated herein; and

(G) A transition services agreement in substantially the form of EXHIBIT 1.05(c)(i)(J) covering the services outlined therein.

1.06 USE OF CORPORATE NAME. Within two (2) business days following the Closing Date, Seller shall: (a) amend its Articles of Incorporation and take all other actions necessary to change its name to one sufficiently dissimilar to Seller's present name, in Purchaser's judgment, to avoid confusion, and (b) take all actions reasonably requested by Purchaser to enable Purchaser to change its name to Seller's present name.

1.07 PURCHASE PRICE ADJUSTMENT.

(a) Within 45 days after the Closing Date, Purchaser shall cause to be prepared and delivered to Seller an audited statement (the "STATEMENT") of Closing Working Capital as of the close of business on the Closing Date and a certificate of Purchaser that the Statement has been prepared in accordance with the requirements of this Section 1.07.

(b) During the 45-day period following Seller's receipt of the Statement, Seller and its independent auditors shall be permitted to review the working papers relating to the Statement. The Statement shall become final and binding upon the parties on the 45th day following delivery thereof, unless Seller gives written notice of its disagreement with the Statement (a "NOTICE OF DISAGREEMENT") to Purchaser prior to such date. Any Notice of Disagreement shall (i) specify in reasonable detail the nature of any disagreement so asserted, and (ii) only include disagreements based on mathematical errors or based on Closing Working Capital not being calculated in accordance with this Section 1.07. If a Notice of Disagreement is received by Purchaser in a timely manner, then the Statement (as revised in accordance with this sentence) shall become final and binding upon Seller and Purchaser on the earlier of (a) the date Seller and Purchaser resolve in writing any differences they have with respect to the matters specified in the Notice of Disagreement or (b) the date any disputed matters are finally resolved in writing by the Accounting Firm (as defined below). During the 45-day period following the delivery of a Notice of Disagreement, Seller and Purchaser shall seek in good faith to resolve in writing any differences that they may have with respect to the matters specified in the Notice of Disagreement. At the end of such 30-day period, Seller and Purchaser shall submit to Ernst & Young, LLP (or if Ernst & Young, LLP refuses to serve, another independent public accounting firm of national standing) (the "ACCOUNTING FIRM") for arbitration any and all matters that remain in dispute and which were properly included in the Notice of Disagreement. The Accounting Firm shall have 45 days from the date of retention to make a final written determination of all items in dispute. Copies of such written determination shall be provided promptly to Purchaser and Seller. The Accounting Firm shall be empowered to assess its fees against the party against whom the Notice of Disagreement is resolved. The fees and disbursements of Seller's independent auditors incurred in connection with their review of the Statement and certification of any Notice of Disagreement shall be borne by Seller, and the fees and disbursements of Purchaser's independent auditors incurred in connection with their preparation of the Statement and review of any Notice of Disagreement shall be borne by Purchaser.

(c) To the extent that the final Closing Working Capital resulting from this Section 1.07 is greater than the estimated Closing Working Capital used in Section 1.05, Purchaser shall be obligated to pay the difference to Seller. To the extent that the final Closing

Working Capital resulting from this Section 1.07 is less than the estimated Closing Working Capital used in Section 1.05, Seller shall be obligated to pay the difference to Purchaser. The party owing the amount to the other under this Section shall be obligated to pay the amount in immediately available funds within five business days of the Statement becoming final and binding on the parties. Any amounts not paid within the foregoing time period shall bear interest at the prime rate of interest as publicly announced from time to time by SunTrust Bank.

(d) Following the Closing, Purchaser shall not take any actions with respect to the accounting books and records of the Business on which the Statement is to be based that would obstruct or prevent the preparation of the Statement and the determination of Closing Working Capital as provided in this Section 1.07. During the period of time from and after the date of delivery of the Statement to Seller through the resolution of any adjustment to the Adjusted Purchase Price contemplated by this Section 1.07, Purchaser shall afford to Seller and any accountants, counsel or financial advisers retained by Seller in connection with any adjustment to the Adjusted Purchase Price contemplated by this Section 1.07 reasonable access during normal business hours to the books and records of the Business forming a part of the Assets to the extent relevant to the adjustment contemplated by this Section 1.07.

1.08 TAXES, ASSESSMENTS AND SIMILAR ADJUSTMENTS.

(a) Seller shall be responsible for the payment of the following:

(i) all federal, state and other taxes imposed upon Seller's net income from the transactions contemplated hereunder (including but not limited to federal taxes based upon depreciation recapture and federal taxes based upon the recapture of investment tax credit);

(ii) taxes payable by Seller on gross income from the sale of the Assets to Purchaser hereunder; and

(iii) any penalties, interest, or similar charges with respect to the foregoing taxes enumerated in this Section.

(b) "General Taxes" (as defined hereinafter) shall be prorated between Seller and Purchaser, so that regardless of when or by whom actually paid or payable, Seller shall bear any of such taxes levied or assessed against or with respect to the Assets for or with respect to any period before the date of the Closing and Purchaser shall bear any of such taxes for or with respect to any period on or after the date of Closing. Each party shall pay to the other amounts due in connection with the proration noted above within ten (10) days of a parties submission of proof that such party has paid the General Taxes in question. "General Taxes" shall mean (i) all annual or periodic ad valorem fees and other taxes and assessments, both general and special, and payments made in lieu thereof, on real or personal property and (ii) all other annual or periodic fees, taxes and similar charges imposed by any governmental unit, upon or in respect to the Assets, including, but not limited to, taxes, fees or similar charges (e.g. licenses) for the privilege of doing business. "General Taxes" shall not include motor fuel taxes, sales and use taxes, corporate franchise taxes, transfer taxes, income taxes, or taxes based on gross income. Purchaser shall prepare and file any returns for General Taxes due from and after the date of the

Closing, and Seller shall prepare and file all other returns for General Taxes. Purchaser and Seller shall jointly prepare returns which determine taxes that are being prorated.

(c) In the event any deficiencies are assessed or refunds made with respect to any of the taxes provided for in this Section 1.08 deficiencies shall be the responsibility of, or refunds shall be paid to, the party having the responsibility for the payment of the tax pursuant to this Section 1.08.

(d) All sales or transfer taxes, including but not limited to, document recording fees, and sales and excise taxes, arising out of or in connection with the consummation of the transactions contemplated hereby shall be paid by Seller.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF SELLER AND PARENT

Seller and Parent, jointly and severally, hereby represent and warrant to Purchaser as follows:

2.01 ORGANIZATION, AUTHORIZATION AND CAPITALIZATION.

(a) Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Georgia and has all requisite power and authority, corporate or otherwise, to carry on its business as it is now being conducted and to own or lease its properties and assets. Seller is duly qualified and in good standing in every state in which the conduct of the business of Seller or the ownership of its properties and assets requires it to be so qualified except where the absence of such qualification would not individually or in the aggregate have a Material Adverse Effect on the Business. As used in this Agreement, the phrase "Material Adverse Effect" shall mean an effect which is materially adverse to (i) the Assets, the financial condition, results of operations, or material customer relationships of an entity and its subsidiaries taken as a whole, or (ii) the ability of a party to consummate the material transactions contemplated by this Agreement. Notwithstanding the foregoing, any effect with respect to Seller relating (a) to the economy or financial markets in general, (b) to a change in applicable law with respect to Seller, (C) any change in the industry in which Seller or the Business operates, or (d) any action taken by Seller as expressly contemplated by this Agreement, shall not constitute a Material Adverse Effect.

(b) Each of Seller and Parent has the right, power and capacity to execute, deliver and perform this Agreement and all the documents and instruments referred to herein and contemplated hereby to be executed or delivered at the Closing (collectively, the "Seller Transaction Documents") and to consummate the transactions contemplated hereby. Seller has all requisite corporate power and authority necessary to own, operate and lease the Assets and to carry on its Business as and where conducted. The execution, delivery and performance of this Agreement and the Seller Transaction Documents, and the consummation of the transactions contemplated hereby, have been duly and validly authorized by all necessary action, corporate or otherwise, on the part of Seller and Parent. This Agreement and the Seller Transaction Documents have been duly and validly executed and delivered by Seller and Parent and constitute Seller's and Parent's legal, valid and binding obligation, enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws in effect which affect the enforcement of creditors' rights generally, or equitable principles.

(c) The authorized, issued and outstanding capital stock of Seller is set forth on SCHEDULE 2.01(c). SCHEDULE 2.01(c) sets forth (i) every entity, in which Seller owns, or will own prior to the Closing, outstanding equity, directly or indirectly (each a "Subsidiary" and collectively, the "Subsidiaries"), and the equity interest in such entity that is owned by Seller. Except as noted on SCHEDULE 2.01(c), all outstanding shares of capital stock of the Subsidiaries (the "Subsidiary Shares") are owned by Seller, directly or indirectly, free and clear of all liens, restrictions, claims, equities, charges, options, rights of first refusal or encumbrances, with no defects of title whatsoever. Seller has full power, right and authority to vote all of the outstanding shares of capital stock of each Subsidiary. Seller is not a party to or bound by any agreement affecting or relating to its right to transfer or vote the outstanding shares of capital stock of any Subsidiary.

2.02 FINANCIAL STATEMENTS; ABSENCE OF UNDISCLOSED LIABILITIES. Seller has furnished Purchaser with the internal balance sheet of Seller as of December 31, 2000 and the related internal statements of income for the period then ended (the "Internal Financial Statements"). The Internal Financial Statements have been prepared in accordance with GAAP (except as noted therein and the absence of detailed notes to such statements), and fairly present, in all material respects, the financial position of Seller as of the date thereof and the related results of its operations for the periods then ended. Seller had no material liabilities or obligations, except as and to the extent reserved against on the balance sheet included in the Internal Financial Statements or as shown in SCHEDULE 2.02, as of December 31, 2000. Since December 31, 2000, Seller has not incurred any material liabilities or obligations except for liabilities and obligations incurred by Seller in the ordinary course of business and consistent with past practice or as reflected in SCHEDULE 2.02.

2.03 INDEBTEDNESS. SCHEDULE 2.03 sets forth a complete and accurate list and description of all instruments or other documents relating to any direct or indirect indebtedness for borrowed money of the Seller, as well as indebtedness by way of lease-purchase arrangements, guarantees, undertakings on which others rely in extending credit and all conditional sales contracts, chattel mortgages and other security arrangements with respect to personal property used or owned by Seller. Seller has made available to Purchaser a true, correct, and complete copy of each of the items listed on SCHEDULE 2.03.

2.04 NO VIOLATION OF LAW. Seller is not, with respect to the Business or the Assets, in violation of any applicable local, state or federal law, ordinance, regulation, order, injunction or decree, or any other requirement of any governmental body, agency or authority or court binding on it or relating to the Assets or the Business, except for violations, if any, which would not individually or in the aggregate have a Material Adverse Effect on the Business. Seller has received no written notice and does not otherwise have Knowledge of an enforcement action against Seller relating to the Business or the Assets in connection with any violation or alleged violation of applicable law.

2.05 TITLE TO AND CONDITION OF THE ASSETS. (a) Except for Assets for which Seller is obligated to attempt to obtain good and valid title pursuant to Section 4.01(f), Seller has good and valid title to all of the Assets subject only to the Permitted Liens (as hereinafter defined) and the liens, restrictions, claims, charges, security interests, easements or other encumbrances set forth on SCHEDULE 2.05(a) (collectively, with the Permitted Liens, the "Encumbrances"). (b) Except for the Encumbrances, Seller owns the Assets free and clear of all title defects or objections, liens, restrictions, claims, charges, security interests, easements or other encumbrances of any nature whatsoever. "Permitted Liens" shall mean (i) the security interests, easements or other encumbrances described in SCHEDULE 2.05(b); (ii) liens in connection with workers' compensation, unemployment insurance or other social security obligations; (iii) deposits, pledges or liens to secure the performance of bids, tenders, contracts, leases, statutory obligations, surety, customs, appeal, performance and payment bonds and other obligations of like nature arising in the ordinary course of business; (iv) mechanics', workers', carriers', warehousemen's, materialmen's, landlords' or other like liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith and by appropriate proceedings diligently conducted; (v) liens or attachments, judgments or awards with respect to which an appeal or proceeding for review shall be pending or a stay of execution shall have been obtained, and which are otherwise being contested in good faith and by appropriate proceedings diligently conducted; and (vi) liens for taxes, assessments, fees or governmental charges or levies not yet due and payable or which are being contested in good faith and by appropriate proceedings diligently conducted and in each case as to which adequate reserves have been established in accordance with GAAP. (c) All of the Assets are in the possession or control of Seller. (d) The equipment owned or leased by Seller and included among the Assets is structurally sound with no known material defects, is in good and safe operating condition and repair, normal wear and tear excepted, and is adequate for the uses to which it is being put. (e) The Assets, together with the Excluded Assets, include all rights, properties and other assets necessary to permit Seller to conduct its business in the same manner as the Business has been conducted during the last 12 months.

2.06 CONTRACTS. SCHEDULE 2.06 sets forth all contracts, agreements, and other arrangements (including purchase orders) relating to the Assets or the Business to which the Seller is a party and which provide for payment or performance obligations by either party thereto having an aggregate value in excess of $50,000 in any single year or has a term of more than one year (individually, a "Contract;" collectively, the "Contracts"). Seller is, and at all times since January 1, 2000 has been, in material compliance with all applicable terms and requirements of each Contract. To the Knowledge of Seller, each other person or party who has had any obligation or liability under any Contract is, and at all times since January 1, 2000 has been, in material compliance with all applicable terms and requirements of such Contract.

2.07 LITIGATION. Except as set forth in SCHEDULE 2.07, there are no litigation, claims, suits, actions, Known investigations, indictments or informations, proceedings or arbitrations, grievances or other procedures (including Known grand jury investigations, actions or proceedings, and product liability and workers' compensation suits, actions or proceedings) pending, or to the Knowledge of Seller, threatened, before any court, commission, arbitration tribunal, or judicial, governmental or administrative department, body, agency, administrator or official, grand jury (each, a "Governmental Authority"), against Seller relating to the Assets or the Business. Further, there are no judgments, orders, writs, injunctions, decrees, indictments or informations, grand jury subpoenas or civil investigative demands, plea agreements, stipulations or awards (whether rendered by a court, commission, arbitration tribunal, or judicial, governmental or administrative department, body, agency, administrator or official, grand jury or any other forum for the resolution of grievances) against or relating to Seller relating in any way to the Business or involving any of the Assets.

2.08 REQUIRED LICENSES AND PERMITS. SCHEDULE 2.08 sets forth all material licenses, permits and other authorizations of Seller necessary for the conduct of the Business (the "Licenses"). Seller has made available to Purchaser true, correct, and complete copies of all the Licenses. There is no action pending, or to the Knowledge of Seller, threatened, seeking the revocation, cancellation, suspension or adverse modification or amendment of any of the Licenses.

2.09 CONSENTS; NO CONFLICT. Subject to obtaining the consents and approvals and making the filings described in SCHEDULE 2.09, the execution and delivery of this Agreement by Seller and Parent, the consummation of the transactions contemplated herein by Seller and Parent, and the performance of the covenants and agreements of Seller and Parent will not: (a) violate or conflict with any of the provisions of any charter document or bylaws of Seller or Parent; (b) violate, conflict with or result in a breach or default under or cause termination of any term or condition of any mortgage, indenture, contract, license, permit, instrument, trust document, will, or other agreement, document or instrument to which Seller is a party or by which Seller or its properties may be bound; (c) require any consent of any third party; (d) violate any provision of law, statute, regulation, court order or ruling of any governmental authority, to which Seller, Parent or the Assets is subject; or (e) result in the creation or imposition of any lien, claim, charge, restriction, security interest or encumbrance of any kind whatsoever upon the Assets.

2.10 EMPLOYEE BENEFIT PLANS.

(a) SCHEDULE 2.10 lists all employment, retention, severance, deferred compensation, change of control or other agreements or contracts with any employee of Seller, and all "employee benefit plans" as such term is defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") in which any employee of Seller participates, and all stock option, restricted stock, stock appreciation or other equity plans and all bonus, severance, change in control, retention, deferred compensation or other compensatory plans maintained or contributed to by the Seller in which any employee of Seller participates ("Employee Benefit Plans"). Seller has made available to Purchaser true and complete copies of all Employee Benefit Plans. Assuming that Purchaser accepts the assignment of all employee severance contracts as reflected on SCHEDULE 2.10 and hires all employees as required by this Agreement, this Agreement and the consummation of the transactions contemplated herein do not create any liabilities or trigger any expenses under the Employee Benefit Plans.

(b) With respect to each Employee Benefit Plan: (i) if intended to qualify under Section 401(a) or 401(k) of the Code, such plan satisfies the requirements of such sections, has received a favorable determination letter from the Internal Revenue Service with respect to its qualification, and its related trust has been determined to be exempt from tax under Section

501(a) of the Code and, to the knowledge of Parent and Seller, nothing has occurred since the date of such letter to adversely affect such qualification or exemption; (ii) each such plan has been administered in substantial compliance with its terms and applicable law, (iii) neither Parent nor Seller has engaged in, and neither Parent nor Seller has any knowledge of any Person that has engaged in, any transaction or acted or failed to act in any manner that would subject Seller to any liability for a breach of fiduciary duty under ERISA, (iv) no disputes are pending, or, to the Knowledge of Parent nor Seller, threatened; (v) neither Parent nor Seller has engaged in, and neither Seller nor Parent has any Knowledge of any Person that has engaged in, any transaction in violation of Section 406(a) or (b) of ERISA or Section 4975 of the Code for which no exemption exists under Section 408 of ERISA or Section 4975(c) of the Code or Section 4975(d) of the Code or that would result in a civil penalty being imposed under subsections (i) or (l) of Section 502 of ERISA, (vi) all contributions due have been made on a timely basis; (vii) no Employee Benefit Plan is a plan covered by Title IV of ERISA or subject to the funding requirements of Section 412 of the Code; (viii) except to the extent required under ERISA Section 601 et seq. and Section 4980B of the Code, Seller does not provide health or welfare benefits under the Employee Benefit Plans for any retired or former employee or is obligated to provide health or welfare benefits to any active employee following such employee's retirement or other termination of service; (ix) the termination of any Employee Benefit Plan would not result in any material liability or further obligation on the part of the Parent or Seller; and (x) all reports and other documents required to be filed by any of the Employee Benefit Plans with any governmental agency or distributed to plan participants or beneficiaries (including notices required by the Consolidated Omnibus Reconciliation Act of 1986, actuarial reports, audits, or tax returns) have been timely filed or distributed. All contributions made or required to be made under any Employee Benefit Plan meet the requirements for deductibility under the Code, and all contributions which are required and which have not been made have been properly recorded on the books of Parent or Seller.

(c) No Employee Benefit Plan is a "multi-employer plan" (as defined in Section 4001(a)(3) of ERISA) or a "multiple employer plan" (within the meaning of Section 413(c) of the Code). No event has occurred with respect to Seller in connection with which Seller could be subject to any liability, lien or encumbrance with respect to any Employee Benefit Plan or any employee benefit plan described in Section 3(3) of ERISA sponsored, maintained or contributed to by Parent, Seller or any trade or business, whether or not incorporated, which together with Parent and Seller would be deemed a "single employer" within the meaning of Section 414(b), (c) or (m) of the Code or Section 4001(b)(1) of ERISA.

2.11 INTELLECTUAL PROPERTY.

(a) SCHEDULE 2.11 sets forth a complete and accurate list and description of all (i) domestic and foreign patents and pending patent applications and design registrations and applications owned or used by Seller, (ii) domestic (federal and state) and foreign trademark and service mark registrations and registration applications owned or used by Seller, (iii) domestic and foreign copyright registrations and registration applications owned or used by Seller, (iv) mask work registrations and registration applications relating thereto owned or used by Seller, (v) material unregistered trademarks and service marks, inventions, and proprietary computer software owned or used by Seller, (vi) material licenses or contracts by which Seller is licensed or granted permission to use the intellectual property of another, excluding any off the shelf software subject to a shrinkwrap license, and (vii) material licenses or contracts by which Seller has granted permission to another to use Seller's Intellectual Property. Seller has made available to Purchaser correct and complete written documentation evidencing each item of Intellectual Property required to be listed on SCHEDULE 2.11 pursuant to subsections 2.11(a)(i), (ii), (iii), (iv), (vi), and (vii).

(b) Except as set forth on SCHEDULE 2.11, with respect to each item of Intellectual Property required to be identified in SCHEDULE 2.11 by Section 2.11(a):

(i) Seller owns and possesses all right, title and interest in and to the item, free and clear of any security interests or other encumbrances;

(ii) the item is not subject to any outstanding order, judgment or decree;

(iii) no action is pending in any administrative or judicial proceeding, or to Seller's Knowledge is threatened, which challenges the validity, enforceability, use or ownership of the item;

(iv) to Seller's Knowledge, all items of such Intellectual Property are valid, subsisting and enforceable;

(v) Seller has not indemnified or agreed to indemnify any person for or against any interference, infringement, misappropriation, or other conflict with respect to the item;

(vi) the consummation of the transactions contemplated by this Agreement will not have a Material Adverse Effect on any right to or the use of the item;

(vii) Seller has no Knowledge that the use of the item of Intellectual Property infringes or violates the intellectual property rights of any third party;

(viii) Seller has no Knowledge of any license agreement required to be listed on SCHEDULE 2.11 which has been revoked, terminated or cancelled, where the revocation, cancellation or termination would have a Material Adverse Effect on the Business;

(ix) Seller has neither received notice nor has Knowledge that any other person or entity is infringing, misappropriating, violating or interfering with the rights of Seller in such item; and

(x) there is no material restriction affecting the use by Seller of such item except as noted in the license agreements and other documents of Seller made available to Purchaser.

(c) Seller owns, is licensed or otherwise has the right to use, such Intellectual Property as is necessary for the operation of the Business as it is now conducted.

(d) Seller has not been notified or advised, has not been the recipient of a claim, nor has Knowledge, that any activity of Seller, now conducted or presently contemplated to be conducted, infringes, violates or adversely affects the intellectual property rights of any third party.

(e) SOFTWARE. Except as set forth in SCHEDULE 2.11 or in any written agreement made available to Purchaser, all right, title and interest in and to the computer software developed by or for Seller (the "Software") is owned by Seller, free and clear of all security interests or other encumbrances, and no party other than Seller has any ownership or other proprietary interest in such Software. The development or sale of the Software by Seller did not and does not violate any rights of any other person or entity, except for such violations that, individually or in the aggregate, would not have a Material Adverse Effect, and Seller has not received any communication alleging such a violation. Except as set forth in SCHEDULE 2.11 or in any written agreement made available to Purchaser, Seller does not have any obligation to pay royalties or similar payments to any person for the development, use, sale or exploitation of the Software.

2.12 TAX MATTERS. (i) all Federal, state, and local income, franchise, license and other tax returns ("Returns") required to be filed on behalf of Seller have been duly filed on a timely basis (including any duly obtained extensions) and such Returns are true, complete and correct; (ii) all taxes, license, permit or other fees, assessments and penalties ("Taxes") shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by Seller with respect to items or periods covered by such Returns (whether or not shown on or reportable on such Returns) or with respect to any period prior to the date of this Agreement; (iii) Seller has withheld and paid over all Taxes required to have been withheld and paid over, and complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto, in connection with amounts paid or owing to any employee, creditor, independent contractor, or other third party; and (iv) there are no liens on any of the assets of Seller with respect to Taxes, other than liens for Taxes not yet due and payable or for Taxes that Seller is contesting in good faith through appropriate proceedings and for which appropriate reserves have been established, which contested Taxes are disclosed in SCHEDULE 2.12.

2.13 EVENTS SUBSEQUENT TO DECEMBER 31, 2000. Since December 31, 2000 (the "Balance Sheet Date"), there has been no change in the condition of Seller which would have a Material Adverse Effect on the Assets or the Business. Since the Balance Sheet Date, the Business has been conducted in the ordinary course of business, consistent with past practices, in all material respects and Seller has not:

(a) suffered any material damage or destruction adversely affecting the Assets or the Business, whether or not covered by insurance;

(b) incurred or discharged any material obligation or liability, except in the ordinary course;

(c) created or assumed any mortgage, lien, security interest, or other encumbrance on any of the Assets except for Permitted Liens;

(d) waived any material claims or rights;

(e) entered into, amended or terminated any material contract, lease or permit except in the ordinary course of business; or

(f) agreed in writing to take any action described in this Section 2.13.

2.14 REAL PROPERTY. Seller does not own any real property. SCHEDULE 2.14 sets forth a true and complete list of all agreements pursuant to which Seller leases or sub-leases any real property (the "Leases"). Except as set forth on SCHEDULE 2.14, all of the Leases are in full force and effect and have not been modified and amended, and there are no disputes, oral agreements or forbearance programs in effect as to the Leases. There has not occurred any material default by Seller under any Lease and to Seller's Knowledge, there has not occurred any default thereunder by any other party thereto.

2.15 BROKERAGE. Seller hereby represents and warrants that no broker, agent, or finder has rendered services to it in connection with the transaction contemplated under this Agreement except for Windsor Group, LLC, f/k/a Boles, Knop & Company, LLC, the fees and expenses of which will be paid solely by Seller.

2.16 FULL DISCLOSURE. No representation or warranty of Seller made in this Agreement contains or will contain any untrue statement of a material fact which affects the Business, the Assets, or the financial condition of Seller, or omits or will omit to state a material fact necessary to make the statements or facts contained herein or therein not misleading.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller as follows:

3.01 ORGANIZATION AND AUTHORIZATION.

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to effect the transactions contemplated hereunder.

(b) Purchaser has the right, power and capacity to execute, deliver and perform this Agreement and all the documents and instruments referred to herein and contemplated hereby to be executed or delivered at the Closing (collectively, the "Purchaser Transaction Documents") and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement and the Purchaser Transaction Documents, and the consummation of the transactions contemplated hereby, have been duly and validly authorized by all necessary action, corporate or otherwise, on the part of Purchaser. This Agreement and the Purchaser Transaction Documents have been duly and validly executed and delivered by Purchaser and constitute Purchaser's legal, valid and binding obligation, enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws in effect which affect the enforcement of creditors' rights generally, or equitable principles.

3.02 CONSENTS; NO CONFLICT. The execution and delivery of this Agreement by Purchaser, the consummation of the transactions contemplated herein by Purchaser, and the performance of the covenants and agreements of Purchaser will not: (a) violate or conflict with any of the provisions of any charter document or bylaws of Purchaser; (b) violate, conflict with or result in a breach or default under or cause termination of any term or condition of any mortgage, indenture, contract, license, permit, instrument, trust document, will, or other agreement, document or instrument to which Purchaser is a party or by which Purchaser or its properties may be bound; (c) require any consent of any third party or (d) violate any provision of law, statute, regulation, court order or ruling of any governmental authority, to which Purchaser is a party or by which Purchaser or its properties may be bound.

3.03 LITIGATION. There is no litigation, suit, action investigation, indictment or information, or proceeding or arbitration, pending, or to Purchaser's knowledge, threatened, before any court, arbitration tribunal, or judicial, governmental or administrative agency, against Purchaser which would prevent Purchaser from performing its obligations hereunder or which seeks to prevent the consummation of the transactions contemplated herein.

3.04 FINANCING AND CAPITAL RESOURCES. Purchaser has adequate cash on its balance sheet or unrestricted borrowing capacity under existing credit facilities to pay the Purchase Price as contemplated by this Agreement, together with all fees and expenses of Purchaser associated with the transactions contemplated hereby, and to make any other payments necessary to consummate the transactions contemplated hereby.

3.05 BROKERAGE. Purchaser hereby represents and warrants that no broker, agent, or finder has rendered services to it in connection with the transaction contemplated under this Agreement.

ARTICLE IV

COVENANTS OF PARTIES

4.01 COVENANTS OF SELLER.

(a) CONDUCT OF BUSINESS. From the date hereof until the Closing Date, except as provided in SCHEDULE 4.01 or otherwise expressly permitted by this Agreement, Seller shall (w) conduct its business in the ordinary course in a manner consistent with past practice; (x) maintain the Assets in their present state of repair (ordinary wear and tear excepted); (y) use commercially reasonable efforts to preserve substantially the relationships with its suppliers and customers, including but not limited to SouthStar and PowerCom; (z) perform its obligations under all contracts, leases, and permits in all material respects; (aa) notify Purchaser regarding operational matters of a material nature; and (bb) report periodically to Purchaser regarding the status of the Business and the results of operations; PROVIDED, HOWEVER, that nothing in this Section 4.01(a) shall require Seller to incur capital or other expenditures beyond the normal maintenance of its business or prevent Seller from taking the actions described on SCHEDULE 4.01.

In addition, Seller shall be permitted to manage its cash and accounts receivable billings and collections in any manner Seller sees fit provided, however, Seller shall not prebill for any services which have not yet been rendered other than in the ordinary course. In furtherance and not in limitation of the foregoing, the Seller shall not, without the prior written consent of Purchaser:

(i) Dispose of any Assets other than in the ordinary course of business consistent with past practice;

(ii) Mortgage, pledge or subject to liens or other encumbrances any Assets, except for incurring Permitted Liens in the ordinary course;

(iii) Purchase or commit to purchase any capital asset for a price exceeding $10,000, or which in the aggregate exceed $50,000;

(iv) Except for planned or normal increases in the ordinary course of business consistent with past practice with respect to non-officer employees, increase (or announce any increase of) any salaries, wages or employee benefits, or hire, commit to hire or terminate any employee;

(v) Amend any charter document or bylaw of Seller;

(vi) Issue, sell or repurchase any of its capital stock or make any change in its issued and outstanding capital stock, or issue any warrant, option or other right to purchase shares of its capital stock or any security convertible into its capital stock;

(vii) Incur, assume or guarantee any obligation or liability for borrowed money, or exchange, refund or renew any outstanding indebtedness in such a manner as to reduce the principal amount of such indebtedness and increase the interest rate or balance outstanding;

(viii) Cancel any debts; or

(ix) Amend or terminate any material agreement, including any Employee Benefit Plan (except as otherwise contemplated by this Agreement) or any insurance policy, in force on the date hereof, or enter into any new Employee Benefit Plan that was not in force on the date of this Agreement.

(b) PRE-CLOSING ACCESS. Prior to the Closing, Seller shall: (i) provide Purchaser and its designees (including officers, counsel, accountants, and other authorized representatives) with such information as Purchaser may from time to time reasonably request with respect to Seller and the transactions contemplated by this Agreement; (ii) provide Purchaser and its designees access during regular business hours to the books, records, offices, personnel, counsel and accountants of Seller, as Purchaser or its designees may from time to time reasonably request; and (iii) permit Purchaser and its designees to make such inspections thereof as Purchaser may reasonably request. Any investigation shall be conducted in such a manner so as not to interfere unreasonably with the operation of the Business. No such investigation shall limit or modify Seller's obligations with respect to any breach of its representations, warranties, covenants or agreements contained herein. Any information made available pursuant to this Section 4.01(b) hereto shall be subject to the confidentiality obligations of Section 4.03(c).

(c) POST-CLOSING CONDUCT OF BUSINESS. Immediately following the Closing, Seller shall take all actions and do all things necessary to cease all activities which constitute the conduct of the Business (other than matters related to the transition of the Business to Purchaser).

(d) STANDSTILL. Until the earlier to occur of the Closing or the termination of this Agreement pursuant to Article VII, neither Seller nor Parent shall, nor shall Seller or Parent permit any of its representatives to, (a) directly or indirectly, encourage, solicit or initiate, or engage in any negotiations with any Person (other than Purchaser and its representatives) concerning any merger, sale of securities, sale of substantial assets, investment proposals, or similar transaction involving Seller, or (b) disclose to any third party any non-public information concerning Seller, the Business, or Seller's financial condition.

(e) CASUALTY. Seller shall bear the risk of any loss or damage or destruction to any of the Assets from fire or other casualty or cause at all times prior to the Closing. Upon the occurrence of any loss or damage to any material portion of the Assets as a result of fire, casualty, or other causes prior to the Closing, Seller shall immediately notify Purchaser of the same in writing, stating the extent of loss or damage incurred, the cause thereof, if known, and the extent to which restoration, replacement, and repair of the Assets lost or destroyed will be reimbursed under any insurance policy with respect thereto. Purchaser shall have the option, exercisable within thirty (30) days after receipt of such notice from Seller, to: (i) postpone the Closing until such time as such Assets have been completely repaired, replaced, or restored through available insurance proceeds, which postponement shall not exceed one hundred and eighty (180) days without Seller's consent; (ii) elect to consummate the Closing and accept the Assets in their "then" condition, in which event Seller shall assign to Purchaser all rights under any insurance claim covering the loss and pay over to Purchaser any proceeds under any such insurance policy theretofore received by Seller with respect thereto; or (iii) terminate this Agreement by written notice to Seller. Any failure by Purchaser to act within the foregoing thirty (30) day period shall be deemed an election pursuant to subsection (i) above.

(f) ASSETS RELATED TO CERTAIN LEASES. Seller shall use commercially reasonable efforts to purchase those assets subject to the leases set forth on SCHEDULE 1.01(a)(x) prior to the Closing; provided however, nothing contained herein shall obligate Seller to purchase such assets if the terms of such purchase are not commercially reasonable as determined by Seller in Seller's discretion.

4.02 COVENANTS OF PURCHASER.

(a) POST-CLOSING ACCESS. It is recognized that Seller may need tax, financial or other data after the Closing Date with respect to the Business covering fiscal periods prior to the Closing Date to facilitate the preparation of Tax Returns or in connection with any audit, investigation, litigation, amended return, claim for refund or any proceeding in connection therewith or to comply with the rules and regulations of the Internal Revenue Service, the Securities and Exchange Commission or any other governmental organization or agency. Purchaser will render reasonable cooperation and will afford access during normal business hours to all books, records, data and personnel concerning the operation and conduct of the Business with respect to periods prior to and including the Closing Date to Seller and its auditors, accountants, counsel or other authorized representatives for such purpose. Seller will bear all reasonable out-of-pocket costs and expenses incurred by Purchaser (excluding salaries or wages of its employees) with respect to Purchaser's obligations pursuant to this Section 4.02(a).

(b) EMPLOYEE BENEFIT PLANS. At the Closing Date, Purchaser shall adopt, assume, and otherwise become responsible for, either primarily or as a successor employer, the Employee Benefit Plans currently sponsored by Seller, other than Employee Benefit Plans sponsored by Parent (including Parent's 401(k) plan) in which Seller's employees participate. Purchaser covenants to collect and pay over to Seller or Parent any 401(k) contributions of Seller's employees who are hired by Purchaser and which relate to periods prior to the Closing.

(c) EMPLOYEES. Purchaser agrees to hire all of Seller's employees (the "Employees"), effective as of the Closing Date. Purchaser agrees to provide immediate coverage for the Employees, effective as of 12:00 a.m. on the Closing Date, under a group health insurance plan sponsored or assumed by Purchaser, which provides group health insurance coverage consistent with that provided to similarly situated employees of Purchaser. Purchaser agrees to waive all waiting or qualification periods and preexisting conditions limitations of such plans for the Employees. Purchaser agrees to grant past service credit to the Employees for purposes of eligibility and vesting under Purchaser's tax-qualified retirement plan.

(d) LITIGATION. Purchaser agrees to make former employees of Seller available to Seller following the Closing Date upon Seller's reasonable requests that such employees assist Seller in defending the lawsuits listed in SCHEDULE 2.07, including, without limitation, participation in discovery, depositions and any related trials.

4.03 COVENANTS OF PURCHASER AND SELLER.

(a) APPROVALS OF THIRD PARTIES; SATISFACTION OF CONDITIONS TO CLOSING. Seller and Purchaser will use their reasonable, good faith efforts, and will cooperate with one another, to secure all necessary consents, approvals, authorizations and exemptions from governmental agencies and other third parties, as may be required after the Closing.

(b) FURTHER ASSURANCES. In addition to such actions as Seller or Purchaser may otherwise be required to take under this Agreement or applicable law in order to consummate this Agreement and the transactions contemplated hereby, Seller and Purchaser shall take such action, shall furnish such information, and shall prepare, or cooperate in preparing, and execute and deliver such certificates, agreements and other instruments as Purchaser or Seller may reasonably request from time to time, at or after the Closing, with respect to compliance with obligations of Purchaser or Seller in connection with the transactions contemplated herein.

(c) CONFIDENTIALITY. In connection with this Agreement the parties will have access to information which is nonpublic, confidential or proprietary in nature. All of such information, in whole or in part, together with any analyses, compilations, studies or other documents prepared by any party, which contain or otherwise reflect any such information is hereinafter referred to as the "Information". Each party hereby agrees as follows:

(i) the Information will be kept confidential and shall not, without the prior mutual written consent of the parties, be disclosed, in any manner whatsoever, in whole or in part, and shall not be used by any party following the termination of this Agreement. Each party agrees to transmit the Information only to its respective employees and representatives who need to know the Information and who shall agree to be bound by the terms and conditions of this Agreement. In any event, each party shall be responsible for any breach of this Agreement by its respective employees or representatives;

(ii) each party agrees to keep a record of the location of the Information. If the transactions contemplated hereunder are not consummated, the Information, except for that portion of the Information which consists of analyses, compilations, studies or other documents prepared by each party's respective employees and representatives, will be returned to the other promptly upon request and no party shall retain any copies. That portion of the Information, and all copies thereof, which consists of analyses, compilations, studies or other documents prepared by each party's respective employees and representatives will promptly be destroyed, and such fact shall be certified in writing to the providing party by an officer of the recipient party; and

(iii) in the event any party becomes legally compelled to disclose any of the Information, such party will provide to the other parties prompt notice so that each other party may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Agreement. In the event that such protective order or other remedy is not obtained, or compliance with the provisions of this Agreement is waived, a party will furnish only that portion of the Information which is legally required, and to the extent requested by the other party, will exercise its best efforts to obtain a protective order or other reliable assurance that confidential treatment will be accorded the Information.

(iv) The term "Information" does not include information which (i) was known to any party about another party prior to its disclosure, provided that such information was lawfully obtained or developed, (ii) becomes generally available to the public other than as a result of a disclosure by a party in violation of this Agreement, or (iii) becomes available from a source other than a party to this Agreement, if the source is not bound by a confidentiality obligation or agreement and such source lawfully obtained such information.

(d) SUPPLEMENT TO SCHEDULES. If between the signing date and the Closing Date either party becomes aware that any of its representations and warranties in this Agreement or the schedules to this Agreement were inaccurate when made, or if during such period any event occurs or condition changes that would cause any of such representations and warranties to be inaccurate if made on such date, then such party shall promptly amend its Schedules with respect to such matters and forward a copy of such amended schedules to the other party. Such amended schedules shall be deemed a part of this Agreement for all purposes; provided, however, that unless otherwise agreed in writing by the other party, such amendment shall not be deemed to have been disclosed (i) with respect to any representation or warranty made as of the signing date with respect to matters in existence as of the signing date, or (ii) for the purpose of determining whether the conditions in Sections 5.01 or 6.01 have been satisfied.

ARTICLE V

CONDITIONS TO SELLER'S OBLIGATIONS

Each of the obligations of Seller to consummate the transactions contemplated hereby will be subject to the satisfaction (or written waiver by Seller) at the Closing Date of each of the following conditions:

5.01 REPRESENTATIONS AND WARRANTIES TRUE AT CLOSING DATE; COVENANTS PERFORMED. Other than representations and warranties made expressly as of a specific date (which only need be accurate in all material respects as of such date), each representation and warranty set forth in Article III must have been accurate in all material respects (except with respect to any provisions including the word "material" or words of similar import, with respect to which such representations and warranties must have been accurate) as of the date of this Agreement, and must be accurate in all material respects (except with respect to any provisions including the word "material" or words of similar import, with respect to which such representations and warranties must have been accurate) as of the Closing Date, as if made on the Closing Date, without giving effect to any supplements to the Schedules; Purchaser shall have performed and complied in all material respects with the covenants and agreements set forth herein to be performed or complied with by it on or before the Closing Date; and Purchaser shall have delivered to Seller a certificate dated as of the Closing Date and signed by a duly authorized officer of Purchaser to all such effects.

5.02 LITIGATION. No suit, investigation, action or other proceeding shall be pending against Seller, Parent or Purchaser before any court or governmental agency which has resulted in the restraint or prohibition of Seller, Parent or Purchaser, in connection with this Agreement or the consummation of the transactions contemplated hereby.

5.03 REQUIRED CONSENTS AND APPROVALS. All authorizations, consents and approvals (governmental or otherwise) set forth in SCHEDULE 5.03 shall have been obtained and shall be in full force and effect. All applicable governmental pre-acquisition filing, information furnishing and waiting period requirements must have been met or such compliance must have been waived by the governmental authority having authority to grant such waivers.

5.04 DELIVERIES BY PURCHASER. Purchaser shall have executed and prepared the documents required to be delivered to Seller as provided in Section 1.05.

ARTICLE VI

CONDITIONS TO PURCHASER'S OBLIGATIONS

Each of the obligations of Purchaser to consummate the transactions contemplated hereby is subject to the satisfaction (or written waiver by Purchaser) at or prior to the Closing Date of each of the following conditions:

6.01 REPRESENTATIONS AND WARRANTIES TRUE AT CLOSING DATE. Other than representations and warranties made expressly as of a specific date, which only need be accurate in all material respects as of such date, each representation and warranty set forth in Article II must have been accurate in all material respects (except with respect to any provisions including the word "material" or words of similar import, with respect to which such representations and warranties must have been accurate) as of the date of this Agreement, and must be accurate in all material respects (except with respect to any provisions including the word "material" or words of similar import, with respect to which such representations and warranties must have been accurate) as of the Closing Date, as if made on the Closing Date, without giving effect to any supplements to the Schedules; Seller and Parent each shall have performed and complied in all material respects with their respective covenants and agreements set forth herein to be performed or complied with by it on or before the Closing Date; and each of Seller and Parent shall have delivered to Purchaser a certificate dated as of the Closing Date and signed by a duly authorized officer of each of Seller and Parent to all such effects.

6.02 LITIGATION. No suit, investigation, action or other proceeding shall be pending or overtly threatened against Purchaser, Parent or Seller before any court or governmental agency which has resulted in the restraint or prohibition of Purchaser, Parent or Seller, in connection with this Agreement or the consummation of the transactions contemplated hereby.

6.03 REQUIRED CONSENTS AND APPROVALS. All authorizations, consents and approvals (governmental or otherwise) set forth in SCHEDULE 6.03 must have been obtained and must be in full force and effect. All applicable governmental pre-acquisition filing, information furnishing and waiting period requirements must have been met or such compliance must have been waived by the governmental authority having authority to grant such waivers.

6.04 DELIVERIES TO PURCHASER. Seller shall have executed and prepared the documents required to be delivered to Purchaser pursuant to Section 1.05.

ARTICLE VII

TERMINATION PRIOR TO CLOSING

7.01 TERMINATION. Anything herein to the contrary notwithstanding, this Agreement may be terminated at any time (such date of termination being the "Termination Date") before the Closing as follows, and in no other manner:

(a) MUTUAL CONSENT. By mutual written consent of Purchaser and Seller;

(b) BY SELLER. By Seller in writing, without liability, if Purchaser shall have (i) failed to perform in any material respect its agreements contained herein required to be performed by it on or prior to the Closing, or (ii) materially breached any of its representations, warranties or covenants contained herein, which failure or breach is not cured within twenty (20) days after Seller has notified Purchaser of its intent to terminate this Agreement pursuant to this subparagraph (b);

(c) BY PURCHASER. By Purchaser in writing, without liability, if Seller shall have (i) failed to perform in any material respect its agreements contained herein required to be performed by it on or prior to the Closing, or (ii) materially breached any of its representations, warranties or covenants contained herein, which failure or breached is not cured within twenty (20) days after Purchaser has notified Seller of its intent to terminate this Agreement pursuant to this subparagraph (c);

(d) RESTRAINT. By either Seller or Purchaser in writing, without liability, if there shall be any order, writ, injunction or decree of any court or governmental or regulatory agency binding on Purchaser, Parent or Seller, which prohibits or restrains Purchaser, Parent or Seller from consummating the transactions contemplated hereby, provided that Purchaser, Parent and Seller shall have used their reasonable, good faith efforts to have any such writ, injunction or decree lifted and the same shall not have been lifted within 30 days after entry, by any such court or regulatory agency;

(e) EXPIRATION DATE. By either Purchaser or Seller if the Closing shall not have occurred on or prior to March 31, 2001; PROVIDED, HOWEVER, that no entity may terminate this Agreement in accordance with this Section 7.01(e) if the failure to consummate the Closing shall be due to the action or failure to act of the party seeking to terminate this Agreement in violation of its covenants under this Agreement; or

(f) CASUALTY. By Purchaser as provided in Section 4.01(e).

7.02 EFFECT OF TERMINATION. In the event that this Agreement shall be terminated pursuant to Section 7.01, all obligations of the parties hereto under this Agreement shall terminate and there shall be no liability of any party to any other party hereto and each party hereto will pay all costs and expenses incident to its negotiation and preparation of this Agreement and to its performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with, including the fees, expenses and disbursements of its counsel, its auditors and its actuaries (the "Preparation Expenses"), PROVIDED, HOWEVER, that if this Agreement shall be terminated pursuant to Section 7.01(b), Section 7.01(c) or Section 7.01(e), such termination shall not release any party hereto from any liability that such party may have for any breach occurring prior to the Termination Date of any representation, warranty or covenant made by such party in this Agreement and the non-breaching party shall have the right to recover its Preparation Expenses from the breaching party, in addition to any other claims for damages that the non-breaching party may have.

ARTICLE VIII

INDEMNIFICATION

8.01 SELLER AND PARENT INDEMNIFICATION. Except as otherwise provided in this Article VIII, Seller and Parent will jointly and severally indemnify and reimburse Purchaser for any and all claims, losses, liabilities, damages, penalties, fines, costs and expenses (including reasonable attorneys' fees, court costs and settlement costs but excluding consequential, incidental, exemplary or punitive damages) (individually, a "Loss", collectively, "Losses") incurred by Purchaser and its affiliates and their successors or assigns, and their respective directors, officers, employees, consultants and agents (the "Purchaser Protected Parties"), as a result of, with respect to, or arising out of (i) any breach or inaccuracy of any representation or warranty of Seller set forth in this Agreement or the certificate delivered to the Purchaser pursuant to Section 6.01

hereof; (ii) any breach of or noncompliance by Seller with any covenant of Seller contained in this Agreement to be performed after the Closing; (iii) that certain case styled Peachtree Natural Gas, LLC v. Utilipro, Inc., Atlanta Gas Light Company and AGL Resources Inc., Civil Action No. 00VS009106F in the State Court of Fulton County, State of Georgia; (iv) any liability relating to Employee Benefit Plans sponsored by Parent (including Parent's 401(k) plan) in which Seller's employees participated prior to the Closing; (v) any liability due to claims of creditors which could be asserted against Purchaser by reason of non-compliance with the bulk sales law of any state to the extent such liabilities are not Assumed Liabilities; (vi) any claim by any broker, agent, finder, or other person or entity, including Windsor Group, LLC, based upon any agreement or arrangement made or alleged to have been made by Seller in connection with the transaction contemplated under this Agreement; (vii) the amount of liquidated damages set forth on SCHEDULE 8.01 as a result of (a) a "termination for convenience" pursuant to Section 8.3(a) of that certain Service Agreement between Seller and SouthStar Energy Services, LLC ("SouthStar") dated September 1, 2000 (the "SouthStar Agreement") or (b) SouthStar's movement of then "Active Accounts" of SouthStar (as defined on SCHEDULE 8.01) to a provider of services other than Purchaser (including Southstar providing such services for its own benefit); provided, however, (x) the indemnity provided under subsection (vii) shall only apply to the Southstar Agreement as presently drafted (unless any amendment or modification thereof is consented to in writing by Parent, whose consent shall not be unreasonably withheld, a response from whom must be provided within 5 business days of Parent's receipt of written notice from Purchaser attaching or outlining in reasonable detail the proposed amendment or modification, and whose consent shall be deemed given in the event of a failure to respond within such time period) and shall not apply to any other termination of the SouthStar Agreement; (y) after a right to indemnification accrues under Section 8.01(vii)(a), no further indemnification rights shall exist under Section 8.01(vii)(b) (other than rights which have accrued prior to such time); and (z) the amount of liquidated damages to which Purchaser is entitled on SCHEDULE 8.01(VII) shall be the only "Loss" recoverable in connection with such claim; or (viii) third party claims related to the Excluded Assets or Excluded Liabilities.

8.02 PURCHASER INDEMNIFICATION. Except as otherwise provided in this Article VIII, Purchaser will indemnify and reimburse Seller for any and all Losses incurred by Seller or its affiliates and their successors or assigns, and their respective directors, officers, employees, consultants and agents (the "Seller Protected Parties"), as a result of, or with respect to, or arising out of (i) any breach or inaccuracy of any representation or warranty of Purchaser set forth in this Agreement or the certificate delivered to Seller pursuant to Section 5.01 hereof; (ii) any breach of or noncompliance by Purchaser with any covenant or agreement of Purchaser contained in this Agreement to be performed after the Closing; (iii) the Assumed Liabilities and Purchaser's operation of the Business, in each case after the Closing Date; or (iv) any claim by any broker, agent, finder or other person or entity based upon any agreement or arrangement made or alleged to have been made by Purchaser in connection with the transaction contemplated under this Agreement.

8.03 INDEMNITY CLAIMS.

(a) SURVIVAL. The representations, warranties, covenants and agreements contained herein will survive the Closing, subject to the limitations set forth in subsection (b) below with respect to the time periods within which claims for indemnity must be asserted. The covenants and agreements to be performed by the parties prior to the Closing shall expire at the Closing.

(b) TIME TO ASSERT CLAIMS. All claims for indemnification (i) under Section 8.01(i), 8.01(ii), 8.02(i), and 8.02(ii) must have accrued and be asserted no later than eighteen (18) months after the Closing Date, except for claims for indemnification under Section 8.01(i) for a breach of Section 2.05, or for any tax related breach which must be asserted before the expiration of the applicable statute of limitations; (ii) under Section 8.01(iii), 8.01(iv), 8.01(v), 8.01(vi), 8.02(iii), and 8.02(iv) must have accrued and be asserted no later than three (3) years after the Closing Date; (iii) under 8.01(vii)(a) must have accrued and be asserted no later than sixty (60) days after a "termination for convenience" under Section 8.3(a) of the Southstar Agreement; (iv) under 8.01(vii)(b) must have accrued and be asserted no later than sixty (60) days after a movement of "Active Accounts" by SouthStar; and (v) under Section 8.01(viii) must have accrued and be asserted by the earlier of thirty (30) days after the assertion of a claim by a third party or one (1) year after the Closing Date.

8.04 BASKET. The Purchaser Protected Parties may make no claim against Seller or Parent for indemnification pursuant to this Agreement until the aggregate amount of all such claims exceeds two and one-half percent (2.5%) of the final adjusted Purchase Price (the "Basket"), in which event the Purchaser Protected Parties may claim indemnification for the amount of such claims beginning from dollar one. Notwithstanding the foregoing, claims made under Section 8.01(vii) shall not be subject to, and no claim thereunder shall satisfy, the Basket.

8.05 NOTICE OF CLAIM. The Purchaser Protected Parties or the Seller Protected Parties, as the case may be, will promptly notify the party against whom indemnification under this Agreement is sought (the "Indemnifying Party"), in writing, of any claim for indemnification, specifying in reasonable detail the nature of the Loss, and, if known, the amount, or an estimate of the amount, of the liability arising therefrom. The Purchaser Protected Parties or the Seller Protected Parties, as the case may be, will provide to the Indemnifying Party, as promptly as practicable thereafter, such information and documentation as may be reasonably requested by the Indemnifying Party to support and verify the claim asserted, so long as such disclosure would not violate the attorney-client privilege of the Purchaser Protected Parties or the Seller Protected Parties, as the case may be.

8.06 DEFENSE. If the facts pertaining to a loss arise out of the claim of any third party, or if there is any claim against a third party (other than a Purchaser Protected Party or a Seller Protected Party, as the case may be) available by virtue of the circumstances of the Loss, the Indemnifying Party may assume the defense or the prosecution thereof by prompt written notice to the affected Protected Party, including the employment of counsel or accountants, at its cost and expense. The affected Protected Party will have the right to employ counsel separate from counsel employed by the Indemnifying Party in any such action and to participate therein, but the fees and expenses of such counsel employed by the affected Protected Party will be at its expense and shall not be considered a Loss hereunder. The Indemnifying Party will not be liable for any settlement of any such claim effected without its prior written consent, which will not be unreasonably withheld; provided that if the Indemnifying Party does not assume the defense or prosecution of a claim as provided above within thirty (30) days after notice thereof from any Protected Party, the affected Protected Party may settle such claim without the Indemnifying

Party's consent. The Indemnifying Party will not agree to a settlement of any claim which provides for any relief other than the payment of monetary damages without the affected Protected Party's prior written consent. Whether or not the Indemnifying Party chooses to so defend or prosecute such claim, the Indemnifying Party and the affected Protected Party will cooperate in the defense or prosecution thereof and will furnish such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials and appeals, as may be reasonably requested in connection therewith. The Indemnifying Party will be subrogated to all rights and remedies of any Protected Party, except to the extent they apply against another Protected Party.

8.07 LIMITATION OF LIABILITY. In no event shall the combined liability of Parent or Seller for indemnity obligations under this Agreement exceed the final adjusted Purchase Price pursuant to Section 1.07, except for indemnity obligations related to an intentional or willful breach of this Agreement by Parent or Seller. Moreover, in no event shall the liability of Purchaser for indemnity obligations under this Agreement exceed the final adjusted Purchase Price pursuant to Section 1.07, except for indemnity obligations related to an intentional or willful breach of this Agreement by Purchaser or Purchaser's failure to pay the Purchase Price.

8.08 EXCLUSIVE REMEDY. From and after the Closing, the indemnification provided pursuant to this Article VIII shall be the sole and exclusive remedy hereto for any Losses as a result of, with respect to or arising out of the breach of this Agreement or any representation or warranty contained herein, any of the transactions or other agreements or instruments contemplated or entered into in connection herewith (including all exhibits, the Schedules, or any other schedule attached hereto or referenced herein), or any matter related to the Business.

ARTICLE IX

ARBITRATION AND EQUITABLE REMEDIES

9.01 SETTLEMENT MEETING. The parties shall attempt in good faith to resolve promptly through negotiations any claim or dispute under this Agreement. If any such claim or dispute should arise, the parties shall meet at least once to attempt to resolve the matter (the "Settlement Meeting"). Either party may request the other party to attend a Settlement Meeting at a mutually agreed time and place within ten days after delivery of a notice of a claim or dispute. The occurrence of a Settlement Meeting with respect to a claim or dispute shall be a condition precedent to seeking any arbitration or judicial remedy, provided that if a party refuses to attend a Settlement Meeting the other party may proceed to seek such remedy.

9.02 ARBITRATION PROCEEDINGS. If the parties have not resolved a monetary claim or dispute at the Settlement Meeting either party may submit the matter to arbitration. A panel of three arbitrators shall conduct the arbitration proceedings in accordance with the provisions of the Federal Arbitration Act (99 U.S.C. Section 1 et seq.) and the Commercial Arbitration Rules of the American Arbitration Association (the "Arbitration Rules"). The decision of a majority of the panel shall be the decision of the arbitrators.

(a) ARBITRATION NOTICE. To submit a monetary claim or dispute to arbitration, a party shall furnish the other party and the American Arbitration Association with a notice (the

"Arbitration Notice") containing (i) the name and address of such party, (ii) the nature of the monetary claim or dispute in reasonable detail, (iii) the party's intent to commence arbitration proceedings under this Agreement, and (iv) the other information required under the Federal Arbitration Act and the Arbitration Rules.

(b) SELECTION OF ARBITRATORS. Within ten days after delivery of the Arbitration Notice, Purchaser and Seller shall each select one arbitrator from the list of the American Arbitration Association's National Panel of Commercial Arbitrators. Within ten (10) days after the selection of the last of those two arbitrators, those two arbitrators shall select the third arbitrator from such list. If the first two arbitrators cannot select a third arbitrator within such ten day period, the American Arbitration Association shall select such third arbitrator from the list. Each arbitrator shall be an individual not subject to disqualification under Rule No. 19 (or any successor rule) of the Arbitration Rules (or any successor rule) with experience in settling complex litigation involving mergers and acquisitions.

(c) ARBITRATION FINAL. The arbitration of the matters in controversy and the determination of any amount of damages or indemnification shall be final and binding upon the parties to the maximum extent permitted by law, provided that any party may seek any equitable remedy available under Law as provided in this Agreement. This agreement to arbitrate is irrevocable.

9.03 PLACE OF ARBITRATION. Any arbitration proceedings shall be conducted in Atlanta, Georgia or at such other location as the parties may agree. The arbitrators shall hold the arbitration proceedings within sixty (60) days after the selection of the third arbitrator.

9.04 DISCOVERY. During the period beginning with the selection of the third arbitrator and ending upon the conclusion of the arbitration proceedings, the arbitrators shall have the authority to permit the parties to conduct such discovery as the arbitrators consider appropriate.

9.05 EQUITABLE REMEDIES. Notwithstanding anything else in this Agreement to the contrary, after the Settlement Meeting a party shall be entitled to seek any equitable remedies available under law before a court as provided in Section 9.06, including an order requiring Seller to perform this Agreement. Any such equitable remedies shall be in addition to any damages or indemnification rights that such Party may assert in an arbitration proceeding.

9.06 EXCLUSIVE JURISDICTION. The parties agree that any claim for equitable relief relating to this Agreement shall be instituted in a federal or state court sitting in Atlanta, Georgia, which courts and their respective appellate courts shall be the exclusive venue for any such claim. Each party waives any objection that it may have to the laying of such venue, and irrevocably submits to the jurisdiction of any such court with respect to any such claim. Any service of process and other notice in any such case shall be effective against a party when transmitted in accordance with Section 10.08, provided that a party also may serve process in any manner permitted by Law.

9.07 JUDGMENTS. Any arbitration award under this Agreement shall be final and binding. Any court having jurisdiction may enter judgment on such arbitration award upon application of a party.

9.08 EXPENSES. If any party commences arbitration proceedings or court proceedings seeking equitable relief with respect to this Agreement, the prevailing party in such arbitration proceedings or case may receive as part of any award or judgment reimbursement of such party's reasonable attorneys' fees and expenses to the extent that the arbitrators or court considers appropriate. Notwithstanding whether the arbitration or court proceedings involved a purported breach of a party's representations and warranties, the portion of any award or judgment reimbursing the prevailing party's attorneys' fees and expenses shall not be subject to the other party's deductible or limitation of liability.

9.09 COST OF THE ARBITRATION. The arbitrators shall assess the costs of the arbitration proceedings, including their fees, to the parties in such proportions as the arbitrators consider reasonable under the circumstances.

9.10 EXCLUSIVITY OF REMEDIES. To the extent permitted by law, the arbitration and judicial remedies contained in this Article IX shall be the exclusive remedies available to the parties with respect to any dispute under this Agreement or claim for damages or indemnification under this Agreement.

ARTICLE X

MISCELLANEOUS

10.01 BULK SALES LAW. Purchaser hereby waives compliance by Seller with the provisions of the bulk sales law of any state.

10.02 NO LIENS CREATED. This Agreement shall not be construed to create any lien or encumbrance on any of the Assets, or to create any rights in any third persons or to indicate that Purchaser is assuming any liabilities of Seller except as specifically provided for in Section 1.04(b).

10.03 EXTENSION BONUS. If at any time prior to or within one year of the expiration of the term of the SouthStar Agreement that will be assigned to Purchaser hereunder Purchaser and SouthStar agree to an extension of such agreement or a new agreement with a term of at least four (4) years, Purchaser shall pay to Seller, its successor, or its shareholder a one time payment of Two Million Dollars ($2,000,000) within thirty (30) days of such extension or new agreement; PROVIDED, HOWEVER, Purchaser shall not be obligated to make such payment in the event that (i) prior to the agreement regarding an extension or new agreement, Seller has made or is obligated to make any payment to Purchaser pursuant to Section 8.01(vii) of this Agreement, or (ii) during the one year period after expiration of the term of the SouthStar Agreement, Purchaser no longer services any SouthStar accounts.

10.04 ENTIRE AGREEMENT. This Agreement (including the Schedules and Exhibits) constitutes the entire agreement and understanding of the parties and supersedes all prior agreements and understandings, both oral and written with respect to the subject matter hereof; provided, however, that this provision is not intended to abrogate any other written agreement between the parties executed with or after this Agreement.

10.05 AMENDMENT. No amendment, modification or alteration of the terms or provisions of this Agreement shall be binding unless the same shall be in writing and duly executed by the parties hereto.

10.06 PARTIES BOUND BY AGREEMENT; SUCCESSORS AND ASSIGNS. The terms, conditions and obligations of this Agreement shall inure to the benefit of and be binding upon the parties hereto and the respective successors and assigns thereof. Neither party may assign its rights, duties or obligations hereunder or any part thereof to any other person or entity without the prior written consent of the other party; provided, however, if Purchaser decides to acquire the Assets and assume the Assumed Liabilities through an acquisition subsidiary, such acquisition subsidiary will sign a counterpart of this agreement agreeing to be bound by the terms hereof. The addition of the acquisition subsidiary to this Agreement shall not relieve Purchaser of any obligation hereunder other than the obligation to be the entity which acquires the Assets and assumes the Assumed Liabilities.

10.07 COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument.

10.08 MODIFICATION AND WAIVER. Any of the terms or conditions of this Agreement may be waived in writing at any time by the party which is entitled to the benefits thereof. No waiver of any of the provisions of this Agreement shall be deemed to or shall constitute a waiver of any other provision hereof (whether or not similar).

10.09 NOTICES. Any notice, request, instruction or other document to be given hereunder by any party hereto to any other party hereto shall be in writing and delivered personally (including by overnight courier or express mail service) or by facsimile or sent by registered or certified mail, postage or fees prepaid,

if to Seller or Parent to:

AGL Resources Inc.
817 W. Peachtree Street, 10th Floor
Atlanta, Georgia 30308
Attention: Paul R. Shlanta, Esq., General Counsel

With a copy to:

Long Aldridge & Norman LLP
303 Peachtree Street, Suite 5300
Atlanta, Georgia 30308
Attention: Johnathan H. Short, Esq.

if to Purchaser to:

Alliance Data Systems Corporation
17655 Waterview Parkway
Dallas, Texas 75252
Attention: President of Utility Services
With a copy to General Counsel

With a copy to:

Akin, Gump, Strauss, Hauer & Feld, L.L.P.
1700 Pacific Avenue, Suite 4100
Dallas, Texas 75201-4675
Attention: Gemma L. Descoteaux, Esq.

or at such other address for a party as shall be specified by like notice. Any notice which is delivered personally in the manner provided herein shall be deemed to have been duly given to the party to whom it is directed upon actual receipt by such party or the office of such party. Any notice which is addressed and mailed in the manner herein provided shall be conclusively presumed to have been duly given to the party to which it is addressed at the close of business, local time of the recipient, on the fourth business day after the day it is so placed in the mail or, if earlier, the time of actual receipt.

10.10 GOVERNING LAW. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware without giving effect to the principles of conflicts of law thereof.

10.11 NO THIRD-PARTY BENEFICIARIES. With the exception of the parties to this Agreement, the Purchaser Protected Parties and Seller Protected Parties, there shall exist no right of any person to claim a beneficial interest in this Agreement or any rights occurring by virtue of this Agreement.

10.12 PUBLIC ANNOUNCEMENTS. No public announcement may be made by any person with regard to the transactions contemplated by this Agreement without the prior consent of Seller and Purchaser, provided that either party may make such disclosure if advised by counsel that it is required to do so by applicable law or regulation of any governmental agency or stock exchange upon which securities of such party are or will be registered and such party has consulted with the other regarding the necessity and content of such announcement. Seller and Purchaser will discuss any public announcements or disclosures concerning the transactions contemplated by this Agreement with the other parties prior to making such announcements or disclosures.

10.13 KNOWLEDGE. As used in this Agreement, the phrase "to Seller's Knowledge," "Known" and phrases of like kind or import shall mean to the actual knowledge of those officers of the Seller or Parent set forth on SCHEDULE 10.13 hereto, as of the date of this Agreement or the date as of which a particular representation or warranty is given.

10.14 INTERPRETATION. Words of the masculine gender will be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number will include the plural number and vice versa unless the context will otherwise indicate. References to Articles, Sections and other subdivisions of this Agreement are to the Articles, Sections and other subdivisions of this Agreement as originally executed. The headings of this Agreement are for convenience and do not define or limit the provisions hereof. Words importing persons include firms, associations and corporations. The term "herein," "hereunder," "hereby," "hereto," "hereof" and any similar terms refer to this Agreement; the term "heretofore" means before the date of execution of this Agreement; and the term "hereafter" means after the date of execution of this Agreement. References herein to "include", "includes" or "including" shall mean without limitation.

10.15 SCHEDULES. The term "Schedules" means the schedules, including all attachments to all schedules, attached hereto and, together with all exhibits hereto, part hereof. The Schedules will be arranged in paragraphs corresponding to the applicable lettered and numbered sections and subsections of this Agreement. Matters listed once on the Schedules shall be deemed disclosed with reference to all sections, subparts and subdivisions of the Schedules and all Sections of Articles 2 and 3 of this Agreement, to the extent the subject matter of any item is applicable and reference to such subject matter is made. Any capitalized and undefined term used in the Schedules shall have the same meaning assigned to such term herein. Unless expressly labeled within the Schedules as being "material", the description or listing of a matter, event or thing within the Schedules (whether in response for a description or listing of material items or otherwise) shall not be deemed an admission or acknowledgment that such matter, event or thing is "material" for any other purpose, including the purposes of determining termination or indemnification based on materiality. Matters reflected in the Schedules are not necessarily limited to matters required by this Agreement to be reflected in the Schedules. Such additional matters may be set forth for informational purposes only and do not necessarily include other matters of a similar nature.

(SIGNATURES BEGIN ON FOLLOWING PAGE)

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed on its behalf as of the date indicated on the first page hereof.

PURCHASER:

ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ Michael Beltz
Name: Michael Beltz
Title: President, Transaction SVCS

SELLER:

UTILIPRO, INC.

By: /s/ James A. Hopkins
Name: James A. Hopkins
Title: President

PARENT:

AGL RESOURCES INC.

By: /s/ Donald Weinstein
Name: Donald Weinstein
Title: SVP & CFO

FIRST AMENDMENT TO THE ASSET PURCHASE AGREEMENT
BY AND AMONG UTILIPRO, INC., AGL RESOURCES INC.
AND ALLIANCE DATA SYSTEMS CORPORATION

This First Amendment (this "Amendment") to the Asset Purchase Agreement dated February 12, 2001 by and among Utilipro, Inc., AGL Resources Inc. and Alliance Data Systems Corporation is entered into this 2nd day of March, 2001, by and among Utilipro, Inc., a Georgia corporation ("Seller"), AGL Resources Inc., a Georgia corporation ("Parent") and Allliance Data Systems Corporation, a Delaware corporation ("Purchaser").

WHEREAS, Seller, Purchaser and Parent entered into that certain Asset Purchase Agreement dated February 12, 2001 (the "Purchase Agreement");

WHEREAS, Seller, Purchaser and Parent desire to make certain amendments to the Purchase Agreement and desire to enter into certain other agreements in relation thereto;

WHEREAS, all capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Purchase Agreement;

NOW, THEREFORE, for and in consideration of the premises and mutual promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

1. Section 1.02 of the Purchase Agreement is amended by deleting the amount "Twenty Two Million Five Hundred Thousand Dollars ($22,500,000)" and replacing it with "Twenty Million Two Hundred Fifty Thousand Dollars ($20,250,000)."

2. Section 1.05(b)(i) of the Purchase Agreement is amended by deleting the amount "Twenty Two Million Five Hundred Thousand Dollars" and replacing it with "Twenty Million Two Hundred Fifty Thousand Dollars ($20,250,000)."

3. Section 1.06 of the Purchase Agreement is amended by deleting the phrase "Within two (2) business days following the Closing Date" and replacing it with the phrase "No later than March 5, 2001."

4. The parties acknowledge that the actual closing of the Purchase Agreement has occurred on March 2, 2001. Notwithstanding the foregoing, and except as otherwise set forth herein, the Closing shall be treated as having occurred at 11:59 p.m. on February 28, 2001 (the "Effective Time"). The parties acknowledge and agree, however, that given the Effective Time, Seller will have run the Business on behalf of Purchaser for all periods after the Effective Time and prior to the actual Closing on behalf of Purchaser. In light of the foregoing, the parties agree that appropriate reimbursements shall be made for expenditures made by Seller on behalf of Purchaser relating to such period, or for amounts collected by Seller on behalf of Purchaser relating to such period, all with appropriate consideration of the Closing Working

Capital measured as of the Effective Time and any adjustments for payroll items already taken into account in connection with the calculation of Adjusted Purchase Price pursuant to Section 1.05(b)(i) of Purchase Agreement. By way of illustration, but not limitation, any amounts paid by Seller or an Affiliate after the Effective Time and up to 11:59 p.m. on the Closing Date, which decrease a current liability assumed by Purchaser as of the Effective Time (such as accrued payroll measured as of February 28, 2001) would be reimbursed to Seller. In addition, any cash collected by Seller from customers for accounts receivable, which did not relate to periods prior to the Effective Time would be collected on behalf of Purchaser and paid over to Purchaser. All such payments shall be made as soon as reasonably possible, but in no event later than any payments for a purchase price adjustment under Section 1.07 of the Purchase Agreement.

5. The Schedules to the Purchase Agreement are hereby amended as set forth on Exhibit A hereto.

6. Each party hereby acknowledges that upon its execution of this Amendment, (i) all of the conditions to Closing set forth in the Purchase Agreement shall have been satisfied or waived by the appropriate party, and (ii) each party agrees to immediately transmit the documents required for Closing pursuant to Section 1.05(c) of the Purchase Agreement by overnight delivery service and by facsimile to the other party's attorney to be held in escrow by Long Aldridge & Norman, LLP (in the case of Purchaser) and Akin, Gump, Strauss, Hauer & Feld, L.L.P. (in the case of Seller and Parent), which documentation shall be released from escrow and the transaction under the Asset Purchase Agreement deemed "closed" upon receipt by wire transfer of the Adjusted Purchase Price by AGL Investments, Inc. and Seller pursuant to Section 1.05(b)(ii) of the Purchase Agreement on March 2, 2001. Purchaser agrees that such wire transfer shall be made no later than one o'clock p.m. EST (1:00 p.m.) on March 2, 2001.

7. Except as otherwise expressly stated herein, all provisions of the Purchase Agreement remain in full force and effect.

8. This Amendment may be signed in two or more counterparts, which when taken together shall constitute one and the same Amendment.

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be duly executed on its behalf as of the above date.

PURCHASER:

ALLIANCE DATA SYSTEMS CORPORATION

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

SELLER:

UTILIPRO, INC.

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

PARENT:

AGL RESOURCES INC.

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

EXHIBIT 10.57

LEASE

This lease is made February 7, 2001 between 1815 LLC ("Landlord"), whose address is c/o Tri-Y, Inc., 1835 W. Main Street, Zanesville, Ohio 43701, and ADS ALLIANCE DATA SYSTEMS, INC. ("Tenant"), whose address is 800 TechCenter Drive, Gahanna, OH 43230 who hereby agree as follows:

Section 1 LEASE OF PREMISES. On the terms and subject to the conditions set forth in this lease, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the real property situated in Muskingum County, Ohio and more fully described on the attached Exhibit A, including the 5,400 square foot building (the "Building") and all other improvements thereon and appurtenances thereto (the "Premises"), subject only to those matters listed on the attached Exhibit A (the "Permitted Exceptions"). Landlord shall provide Tenant with at least 50 paved parking spaces adjacent to the Premises as shown on Exhibit B attached hereto. Such parking spaces shall be designated for the Tenant's sole use. Landlord shall also provide Tenant with unrestricted driveway access from the main road to the parking area. Tenant shall maintain such parking lot and driveway at its expense, including without limitation snow removal.

Section 2 TERM. The initial term of this lease (the "Initial Term") shall be a period of five (5) years commencing on the earlier of the following dates (the "Commencement Date"): (a) the date which is 15 days after the "Improvements" (as defined in Section9, below) have been substantially completed, or (b) the date on which Tenant occupies and commences its business operations in substantially the entire Premises, and ending on the date preceding the fifth anniversary of the Commencement Date, both dates inclusive, unless terminated earlier as provided herein. Tenant may at its option terminate this lease early on the second or third anniversary of the Commencement Date, if (x) Tenant gives Landlord at least ninety (90) days prior written notice of its election to terminate early, and (y) pays Landlord a sum of $75,000, such sum shall be paid by Tenant on or before the termination date of the lease.

Section 3 RENTAL. During the Initial Term of this lease, Tenant shall pay Landlord rent for the Premises in the amount of $13 per square foot, which will be seventy thousand two hundred dollars ($70,200) per annum, payable in twelve (12) equal monthly installments of five thousand eight hundred fifty dollars ($5,850.00) each, due and payable in advance on the first day of each calendar month during the term of this lease. For all purposes under this lease, a "lease year" shall be the 12-month period from the Commencement Date through the date immediately preceding the anniversary of the Commencement Date and each successive 12-month period thereafter. It is the purpose and intent of the Landlord and Tenant that, except for Landlord's obligations under this lease and as otherwise provided in this lease, the rent shall be net to Landlord so that this lease shall yield, net to Landlord, the rent specified in Section3 and Section4 hereof in each year during the term of this lease and that all costs, expenses and obligations normally paid for by the Tenant in a triple net lease which becomes due during the term of this lease shall be paid by Tenant.

Unless otherwise provided under this lease, all payments to be made by Tenant to Landlord under this lease shall be made by normal business methods and shall be paid to Landlord at Landlord's address for receiving notices under Section 20.

Landlord represents and warrants to Tenant that the Premises are free and clear of all mortgages, deeds of trust, liens, or encumbrances, except for the Permitted Exceptions, which include the first mortgage to be given to Bank First which will secure a promissory note in the original principal amount not to exceed $410,000 and that the First Mortgage is current to date and Landlord is not otherwise in default thereunder. If Landlord defaults in making any payment due on the First Mortgage, or on any other mortgage, deed or trust, security interest, lien, or other claim which now or hereafter may encumber the Premises, Tenant may, after five (5) days prior notice to Landlord (if permitted by the mortgagee's non-disturbance agreement), make any such payments directly out of the rent payments due Landlord under this lease. All such payments by Tenant shall constitute a payment of rent to Landlord under this lease; provided that nothing in this lease shall be construed as an assumption by Tenant of Landlord's obligations under any such mortgage, security interest, lien, or other claim.

Section 4 TENANT'S RENEWAL OPTIONS. Tenant shall have the options to renew this lease for five (5) additional terms of two (2) years each (the "Renewal Terms"). Each of Tenant's renewal options shall be exercisable by Tenant's written notice to Landlord which states that Tenant thereby exercises its renewal option under this Section 4 and shall be deemed exercised if Tenant gives such a notice to Landlord: (a) at least 120 days prior to the end of the Initial Term or the then current Renewal Term, of (b) if no more than 150 days prior to the end of the Initial Term or the then current Renewal Term, Landlord requests Tenant to notify Landlord if Tenant intends to renew, then Tenant shall within 30 days after such written request from Landlord exercise or waive its option to renew the Term. Any reference in this lease to the "term of this lease" shall include the Renewal Term if Tenant exercises its renewal option under this Section 4.

All terms and conditions of this lease which are applicable during the Initial Term shall also be applicable during each Renewal Term, except that the rent shall be adjusted to the amount set forth below.

RENEWAL TERM	RENTAL PER SQUARE FOOT
First	$13.25
Second	$13.50

Third	$13.75
Fourth	$14.00
Fifth	$14.25

Section 5 TAXES AND ASSESSMENTS. Tenant shall pay or caused to be paid when due (a) all taxes or charges now or hereafter imposed with respect to any business conducted on the Premises or any fixtures or personal property contained on the Premises or used in connection with Tenant's business on the Premises, and (b) all installments of real estate taxes and assessments on the Premises which become due and payable with respect to the term of this lease (prorated to the Commencement Date and the termination date of this lease).

Section 6 UTILITIES. Tenant shall pay or cause to be paid all charges for utility services used or consumed on the Premises during the term of this lease, including without limitation water, sewer, gas, electricity, and telephone. Landlord represents to Tenant that all such utility services are currently available to the Premises through public rights-of-way or valid easements in the following current capacities:

(a)	Electric	600 Amp 120/208 Volt
(b)	Water	6 inch main - 1 1/2" to Building
(c)	Sewer	4 inch main
(d)	Natural Gas	Sufficient for Building
(e)	Telephone	Make 4" Conduit available for Vendor from new power pole to building

Section 7 INSURANCE. Tenant shall maintain or cause to be maintained in force, at all times during the term of this lease:

(a) Comprehensive public liability insurance with respect to the Premises having limits not less than Three Million Dollars ($3,000,000.00) for bodily injury to any one person, Three Million Dollars ($3,000,000.00) for bodily injuries arising out of one occurrence, and Two Hundred Fifty Thousand Dollars ($250,000.00) for property damage. If coverage is not available in the exact amounts stated, the coverage in the nearest higher amount available shall be obtained;

(b) Fire and extended coverage insurance on the Premises in an amount not less than then the current full insurable value of the Premises;

(c) Rent interruption insurance for the sole benefit of Landlord in an amount not less than the annual rental then in effect; and

(d) Fire and extended coverage insurance with respect to all Tenant's personal property within the Premises. Each insurance policy furnished by Tenant under this Section 7 shall be issued by a reputable insurance company licensed to do business in Ohio and reasonably approved by Landlord; and shall name Tenant, Landlord, and any persons reasonably designated by Landlord as insured parties therein; and shall provide for written notice to Landlord and its designees at least ten (10) days prior to any cancellation, expiration without renewal, or modification of such policy. Upon request, Tenant shall furnish Landlord with certificates of coverage and evidence of payment of premiums thereon from time to time. Tenant does hereby waive any and all rights of recovery against Landlord for any insurable loss arising out of or occurring to any of Tenant's property situated on the Premises, and to the extent permitted by the policy providing such insurance, hereby agrees not to assign to any insurer any right or cause of action for any insured damage to said Premises which may occur during the term of this lease, provided that this waiver shall not limit Tenant's rights to insurance proceeds under Section 12 below.

Landlord does hereby waive any and all rights of recovery against Tenant for loss arising out of or occurring to the Premises or any of Landlord's property therein which loss is covered by insurance maintained under this lease, and to the extent permitted by the policy providing such insurance, agrees not to assign to any insurer any right or cause of action for insured damage to the Premises which may occur during the term of this lease.

Section 8 USE OF PREMISES. Tenant shall use the Premises during the term of this lease for any and all purposes that are from time to time permitted by applicable laws as applicable to Tenant's regular lines of business, including without limitation the following: customer service center, collections center, data processing, payment and remittance processing, and other general office uses. Tenant shall use the Premises only in a lawful, careful, safe, and proper manner and shall not commit or permit any waste of or on the Premises.

Tenant will not use, store, or dispose of any Hazardous Substances (as hereinafter defined) on the Premises except for immaterial amounts that are exempt from or do not give rise to any violation of the Environmental Laws (as hereinafter defined) and except for the handling, use or storage of Hazardous Substances in the normal course of Tenant's business conducted at the Premises in accordance with the terms of this lease and in compliance with all Environmental Laws. As used herein, "Hazardous Substances" shall mean and include all hazardous substances, toxic substances, wastes, materials, compounds, pollutants and contaminates including, without limitation, asbestos, polychlorinated biphenyls and petroleum products that are included under or regulated by the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 9601, et. seq., the Toxic Substances Control Act, 15 U.S.C. 2601 et. seq., the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et. seq., the Water Quality Act of 1987, 33 U.S.C. 1251 et. seq., and the Clean Air Act, 42 U.S.C. 7041, et. seq., any state and local statute, ordinance, law, code, rule, regulation or order regulating or imposing liability (including strict liability) or standards of conduct regarding Hazardous Substance (herein the "Environmental Laws"). Tenant shall indemnify Landlord and hold Landlord harmless from and against any loss, damage, cost, expense or liability (including strict liability) directly or indirectly arising out of or attributable to the generation, storage, release, threatened release, discharge or disposal during the term of this lease of Hazardous Substance on, under, or from the Premises by Tenant or any employee, agents, contractors or subcontractors of Tenant or by third persons occupying or present on the Premises, under the direction or control of Tenant, including, without limitation: (a) those damages or expenses arising under the Environmental Laws; (b) the cost of any required or necessary repair, cleanup or detoxification of the Premises, including the soil and ground water thereof, and the preparation and implementation of any closure, remedial or other required plans; (c) quantifiable damage to any natural resources; and (d) all reasonable costs and expenses incurred by Landlord in connection with clauses (a), (b), and (c) including, but not limited to reasonable attorney's fees. Tenant's obligations shall survive the expiration or earlier termination of the term of this lease for a period of one year after such expiration or termination.

Landlord (i) represents an warrants to Tenant that on the date of this lease, the Premises, including all areas under and adjacent to the Premises, are free from all Hazardous Substances and in compliance with all Environmental Laws, and (ii) agrees to indemnify Tenant and hold Tenant harmless from and against any loss, damage, cost (including strict liability) directly or indirectly arising out of or attributable to the generation, storage, release, threatened release, discharge or disposal prior to the term of this lease, or the existence on the date of this lease, of Hazardous Substances on, under, about, or from the Premises (whether caused by Landlord or any employee, agents, contractors or subcontractors of Landlord or by third persons occupying or present on the Premises), including without limitation: (a) those costs, penalties, damages or expenses arising under the Environmental Laws; (b) the cost of any required or necessary investigation, repair, cleanup or detoxification of the Premises, including the soil and ground water thereof, and the preparation and implementation of any closure, removal, remedial or other required plan or study; (c) damage to any natural resources; and (d) all reasonable costs and expenses incurred by Tenant in connection with clauses (a), (b), and (c) including, but not limited to reasonable attorney's fees. Landlord's obligations shall survive the expiration or earlier termination of the term of this lease for a period of one year after such expiration or termination.

Section 9 IMPROVEMENTS. Landlord and Tenant have agreed upon a construction plan which is attached hereto as Exhibit B.

Section 10 MAINTENANCE AND REPAIRS. Subject to Landlord's obligations under the next paragraph of this section, Tenant shall, at Tenant's expense, perform all maintenance to the interior, non-structural features of the Premises, including without limitation the interior floors, walls, ceilings, doors, windows; all heating, ventilation and air-conditioning (HVAC); electrical; plumbing; lighting (including bulb replacement); and other systems, fixtures, and equipment therein, to maintain the Premises in good order and condition of repair and safety during the term of this lease, ordinary wear and tear and damage by casualty excepted.

Except in instances covered by Section 12 or Section 13, which will be governed by such sections, Landlord shall, at its expense, maintain the roof, exterior walls, foundation, subfloors, common driveways and structure of the Building in good order and condition of repair and safety. If Landlord fails to perform or commence the performance of (and thereafter diligently prosecute them to completion) the maintenance or repair of such items shall commence within 15 days and be completed in a reasonable time after receipt of notice of the need thereof from Tenant, Tenant may, at its option and upon prior written notice to Landlord, perform such maintenance or repair obligations and the amount of all costs and expenses incurred by Tenant shall be paid to Tenant upon demand, or at Tenant's option Tenant may offset such amount against future rent obligations of Tenant; provided that nothing in this lease shall be construed as an assumption by Tenant of Landlord's obligation to perform such obligations. This right shall be in addition to, and not in limitation of, any other rights which Tenant may have under this lease for Landlord's failure to perform such obligations.

Section 11 ALTERATIONS, SIGNS, MECHANICS' LIENS. Tenant shall have the right from time to time to make changes, alterations, or additions in or to the Premises or to restore, remove, replace, or reconstruct all or any part of the Premises (hereinafter collectively, called an "alteration") provided that: (a) no such alteration shall reduce or otherwise impair the value of the Premises; (b) all costs relating to any such alteration shall be paid by Tenant; (c) if such alteration is structural in nature, pierces the roof or any exterior wall of the Building, or is estimated to cost more than Twenty-Five Thousand Dollars ($25,000), then Landlord shall have given its prior consent to the alterations being made, which consent will not be unreasonably withheld; and (d) any such alteration shall be made in compliance with all requirements of any governmental authority having jurisdiction.

Tenant shall have the right from time to time attach, install, and furnish to an in the Premises (including without limitation the land, building, and other improvements) fixtures, signs, equipment, and personal property relating to Tenant's use of the Premises. Landlord shall have no right, title, or interest to or in any such fixtures, signs, equipment, and personal property, and Tenant shall remove them at any time at or prior to the end or sooner termination of the term of this lease. Tenant shall pay the cost of all repairs of damage caused by such removal. Tenant shall have the right to install, at its expense, a monument sign near the main access road to the Building to be approved by Landlord and meet Local Building Codes.

Section 12 RESTORATION. If all or any part of the Premises is damaged or destroyed at any time during the term of this lease and the cost to repair such damage or destruction is less than 50% of the Premises as reasonably estimated by Landlord and agreed by Tenant, then Tenant shall repair or restore the Premises to their previous or better condition with all reasonable speed, and for this purpose Landlord shall have the right to use all insurance proceeds payable in connection with such damage or destruction, and if all such insurance proceeds are not made available to Tenant for this purpose, Tenant shall have the right to terminate this lease. If such destruction or damage occurs during the first sixty (60) months of the term of this lease, Tenant shall have the option to terminate this lease and any further liability hereunder in which case all insurance proceeds shall be paid to the Landlord: If such destruction or damage occurs after the first sixty (60) months of the term of this lease and such damage or destruction is greater than 50% of the Premises, Landlord and Tenant shall each then have the option to terminate this lease and any further liability hereunder in which case, all insurance proceeds shall be paid to Landlord.

If neither Tenant nor Landlord elects to exercise an applicable option to terminate this lease by notice to the other within sixty (60) days after their agreement upon the estimated cost of the repair, then Tenant shall proceed to repair or restore the Premises to their previous or better condition with all reasonable speed.

In the event that any damage or destruction to the Premises occurs which does not result in a termination of this lease, the rental payable by Tenant shall be abated during the period of any restoration or repair of the Premises, in such proportion that the floor area of the Building of which the Tenant is deprived as a result of such damage or destruction or the repair or restoration necessitated thereby bears to the total floor area of the Building.

If all or any part of the Premises is damaged or destroyed, Tenant promptly shall notify Landlord thereof.

Section 13 CONDEMNATION. If all or materially all of the Premises or the Building is taken in appropriation proceedings or by right of eminent domain, then this lease shall terminate as of the date Tenant is deprived of physical possession thereof and the rent and other charges under this lease to be paid by Tenant shall be paid to that date. For purposes of this lease, "materially all of the Premises or the Building" shall be considered as having been taken if the portion which is taken would leave remaining a portion which (due either to the area so taken or the location of the parts taken) would not under then existing economic conditions, zoning laws, building regulations or Tenant's current or anticipated needs readily accommodate improvements or a nature similar to those improvements comprising the Premises at the time of such taking of size sufficient, together with improvements not taken, to permit Tenant in Tenant's reasonable determination to operate its business in a reasonably efficient manner.

If less than materially all of the Premises or the Building is taken in appropriation proceedings or by right of eminent domain, then this lease shall not terminate and all damages and compensation awarded for such taking shall be reinvested in to the Premises or the Building to the extent necessary to restore the Premises and the Building to the same or better condition as the same were in immediately prior to such taking, and the balance, if any, shall be payable to

Landlord. In that event, an equitable amount of the rent otherwise payable under this lease shall be abated until the Premises are so restored, considering all relevant factors, including, but not limited to, the limitations to Tenant's use of the Premises resulting from the taking and the amount of the damages and compensation paid to Landlord which is not reinvested in the Premises or the Building. If this lease is terminated upon any such taking as described in the preceding paragraph, then all compensation or damages awarded for such taking shall belong to the Landlord.

For the purposes in this Section 13, any negotiated sale to a public or quasi-public authority under threat of condemnation shall be deemed to constitute a taking by such public or quasi-public authority under the power of eminent domain. Tenant shall have the right to participate with Landlord on an equal basis in the negotiations with any public or quasi-public authority.

Section 14 MORTGAGE BY LANDLORD. Subject to the last sentence of this Section14, this lease and Tenant's rights under this lease shall be subject and subordinate to the First Mortgage (as defined in Section3) and to any subsequent first mortgage granted by Landlord upon the Premises either before or after the date of this lease and delivered as security for any bona fide loan made to Landlord. Tenant shall execute, acknowledge, or verify and deliver any and all instruments that may be reasonably requested by such mortgagee from time to time to permit or expedite disbursement to Landlord or such other person of the proceeds of such mortgage loan; provided that Tenant shall have no liability whatsoever with respect to any such mortgage loan. Prior to the date of this lease, Landlord has procured from the holder of the First Mortgage, and Landlord shall procure from any future mortgagee of any mortgage on the Premises, a non-disturbance agreement providing, in form and content satisfactory to Tenant, that Tenant's rights under this lease shall not be disturbed by any such mortgagee or any purchaser at foreclosure in the event of a default by Landlord under such mortgage or otherwise so long as Tenant is in compliance with the terms of this lease.

Section 15 DEFAULT.

(a) TENANT DEFAULTS. Each of the following shall be deemed an event of default by Tenant under this lease:

(i) Failure by Tenant to make any payment of rent to Landlord when due and failure to cure such nonpayment within ten (10) days after Landlord gives Tenant to do so;

(ii) Failure by Tenant to make any other payment or perform or observe any other obligation or condition to be performed or observed by Tenant under this lease within thirty (30) days after Landlord gives Tenant notice to do so or, if because of the nature of such default it cannot reasonable be corrected within such thirty (30) day period, failure by Tenant to commence correction within such thirty (30) day period and thereafter to expeditiously and continuously prosecute the correction to completion;

(iii) Tenant's interest created by this lease is taken in execution or other process of law; or

(iv) Tenant or any entity which has guaranteed the obligations of Tenant under the lease (a) is insolvent, is adjudicated bankrupt, or seeks any relief as a debtor by any bankruptcy proceeding pursuant to the provisions of any state or federal law; (b) has any receiver or trustee of its property appointed by reason of insolvency or inability to pay debts; or (c) makes or permits an assignment of its property for the benefit of creditors.

Immediately upon the occurrence of an event of default or at any time thereafter, unless such default has been cured by Tenant or waived by Landlord, Landlord may at its option elect either to: (A) continue this lease in full force and effect notwithstanding the occurrence of such event of default, or (B) terminate this lease, in which event all rights and interests of Tenant in and to the Premises and this lease shall terminate and Landlord shall be entitled immediately to re-enter and re-lease the Premises at the best possible rent obtainable, but Tenant shall remain liable for the amount by which the rent payable by Tenant under this lease exceeds the rent received upon such re-letting, if any. Any and all monthly deficiencies in the rent so payable by Tenant shall be paid monthly on the date required for payment of rent under Section3. The remedies provided herein shall be without prejudice to any other remedies which Landlord may have for the recovery of the arrears of rent or for damages for the Tenant's breach of this lease.

(b) LANDLORD DEFAULTS. Failure by Landlord to make any payment or perform or observe any other obligation or condition to be performed or observed by Landlord under this lease within thirty (30) days after Tenant gives Landlord notice to do so (or such shorter time as may be appropriate, such as for a necessary repair under Section10 above) or, if because of the nature of such default it cannot reasonably be corrected within such thirty (30) day (or shorter) period, failure by Landlord to commence correction within such thirty (30) day or shorter period and thereafter to expeditiously and continuously prosecute the correction to completion shall be deemed an event of default by Landlord under this lease.

Immediately upon the occurrence of an event of default or at any time thereafter, unless such default has been cured by Landlord or waived by Tenant, Tenant may at its option elect either to: (A) continue this lease in full force and effect notwithstanding the occurrence of such event of default, or (B) terminate this lease, in which event Tenant shall be released from all of its obligations under this lease. The remedies provided herein shall be without prejudice to any other remedies which Tenant may have for damages for the Landlord's breach of this lease.

(c) RIGHT TO CURE DEFAULTS. If either party fails to perform and observe all obligations and conditions to be performed and observed by it under this lease within the time periods set forth in (a) and (b) above, then the non-defaulting party may, but shall not be obligated to, cause the performance and observance of the obligation or condition to which the default relates, and any and all costs and expenses incurred by the non-defaulting party in connection therewith, including without limitation reasonable attorneys' fees, shall thereupon be due and payable immediately from the defaulting party, with interest thereon at a rate equal to one percent (1%) per month (12% per annum) from the time such costs and expenses were paid until reimbursed or, in Tenant's case, until Tenant offsets any such amount against its rent obligation under this lease.

Section 16 SURRENDER AND HOLDING OVER. Tenant shall deliver and surrender possession of the Premises to landlord upon the expiration of this lease or its earlier termination for any reason, in substantially as good condition and repair as the same shall be on the Commencement Date, or as the same may be put by Landlord or Tenant, ordinary wear and tear and damage from casualty excepted. If Tenant, or any party claiming under Tenant, remains in possession of the Premises, or any part thereof, after expiration or any termination of this lease, Tenant or such party claiming under Tenant shall be deemed a Tenant from month-to-month on the same terms and conditions set forth in this lease, subject to termination by either party upon thirty (30) days' prior written notice to the other party.

Section 17 MEMORANDUM OF LEASE. Upon request of either party, this lease or a memorandum of this lease shall be recorded for the purpose of giving public notice of the rights and obligations of Landlord and Tenant under this lease.

Section 18 ASSIGNMENT AND SUBLEASE. Tenant shall have the right, from time to time, to assign its rights under this lease or sublet all or any portion of the Premises to any person or organization selected by Tenant, upon such terms and conditions as may be agreed upon between Tenant and such assignee or sublessee, provided that: (a) Landlord shall have given its consent to such assignment or sublease, which consent shall not be unreasonably withheld or delayed: provided that Landlord's consent shall not be required for any assignment or sublease by Tenant to Tenant's parent company, subsidiary or any entity of which Tenant or Tenant's parent company, subsidiary or any entity of which Tenant or Tenant's parent company owns more than fifty percent (50%) of the voting interests thereof: (b) no such assignment or sublease shall excuse or otherwise affect any liability of Tenant under this lease, and Tenant shall remain fully liable to perform and observe all obligations and conditions to be performed and observed by Tenant under this lease; and (c) the term of any such sublease shall not exceed the then remaining term of this lease.

Landlord may assign its rights and obligations under this lease at any time during the term of this lease, and after any such assignment shall not be liable for any obligations of Landlord under this lease, provided that any such assignment shall be subject to this lease and all of Tenant's rights hereunder and provided further that Landlord's assignee assumes in writing all of Landlord's obligations under this lease. Tenant shall attorn to any assignee of Landlord which so assumes Landlord's obligations.

Section 19 NON-WAIVER. No failure by either party to enforce its rights or seek its remedies upon any default shall affect or constitute a waiver of such party's right to enforce that right, or seek that remedy with respect to that default or any prior or subsequent default.

Section 20 NOTICES. Any notice, consent, or other communication required or desired to be given to either party under this lease shall be in writing and shall be deemed given when delivered personally to that party's address set forth at the beginning of this lease (in the case of Tenant a copy of which shall be sent to ADS Alliance Data Systems, Attention: John Clyne, 17655 Waterview Parkway, Dallas, TX 75252) or when deposited in the United States mail, first class, postage prepaid, addressed to that party at that same address or, in either case, at such other address as that party may theretofore have designated in notice to the party giving notice.

Section 21 ESTOPPEL CERTIFICATE. Either party to this lease shall from time to time during the term of this lease, promptly after request of the other party, execute and deliver to the other party a statement certifying that this lease is in full force and effect, the date through which the rentals and other charges hereunder have been paid, and any other factual matter reasonably requested by the other party.

Section 22 ADDITIONAL WARRANTIES. Landlord represents and warrants to Tenant that: (a) Landlord has good and marketable fee simple title to the Premises except for the permitted exception in Attachment A; (b) Landlord has unrestricted capacity, power, and right to enter into and perform this lease in accordance with its provisions without joinder or consent of anyone else; (c) the Premises are not situated within the one-hundred (100) year floodplain; (d) Tenant shall be entitled to lawfully, peaceably, and quietly hold, occupy, and enjoy the Premises during the term of this lease without hindrance or molestation from Landlord or any person or organization claiming any legal or equitable interest or rights in or to the Premises; (e) the

Building and all fixtures and systems therein are in good and operable condition and were constructed in compliance with all applicable laws, ordinances, codes, and regulations (including without limitation the Americans with Disabilities Act); and (f) the Premises are zoned under a classification which permits Tenant's intended use thereof without any license, permits, or variances, except for any required occupancy permit which will be obtained upon completion of the Improvements.

Section 23 SEVERABILITY. The intention of the parties to this lease is to comply fully with all laws governing leases, and this lease shall be construed consistently with all such laws to the extent possible. If and to the extent that any court of competent jurisdiction is unable to so construe part or all of any provision of this lease, and holds part or all of that provision to be invalid, such invalidity shall not affect the balance of that provision or the remaining provisions of this lease, which shall remain in full force and effect.

Section 24 GOVERNING LAW. The Premises is located in the State of Ohio and it is the intention of the parties to this lease that all questions concerning the intention, validity, or meaning of this lease or relating to the rights and obligations of the parties with respect to performance under this lease shall be construed and resolved according to the laws of the State of Ohio.

Section 25 NO THIRD PARTY BENEFIT. This lease is intended for the exclusive benefit of the parties to this lease and their respective successors and permitted assigns, and nothing contained in this lease shall be construed as creating any right or benefit in or to any third party.

Section 26 CAPTIONS. The captions of the various sections of this lease are not part of the context of this lease, but are only labels to assist in locating those sections, and shall be ignored to construing this lease.

Section 27 EXHIBITS. Each exhibit and addendum, if any, referred to in this lease hereby is incorporated in this lease by reference. All obligations of any party under any such exhibit or addendum shall be considered an obligation under this lease.

Section 28 GENDERS AND NUMBERS. When permitted by the context, each pronoun used in this lease includes the same pronoun in other genders or numbers, and each noun used in this lease includes the same noun in other numbers.

Section 29 COMPLETE AGREEMENT. This document (including each exhibit or addendum, in any, referred to in this document) contains the entire agreement between the parties and supersedes all prior or contemporaneous discussions, negotiations, representations, or agreements relating to the subject matter of this lease. No change to this lease shall be made or be binding on any party unless made in writing and signed by each party to this lease.

Section 30 SUCCESSORS. This lease shall be binding upon, inure to the benefit of, and be enforceable by and against the respective successors and permitted assigns of each party to this lease.

Section 31 INDEMNIFICATION.

(a) Tenant, shall assume, pay and at all time indemnify, protect and save Landlord harmless from any and all loss, liability, damage and expense for injuries to person (including death) or property of others arising or resulting from the use or occupancy by Tenant of the Premises or resulting from any tortious or negligent act or default of Tenant, its employees, agents, or invitees on, or in said Premises, together with all costs and expenses (including reasonable legal fees) incurred with respect to any such claim, demand or legal proceeding brought against Landlord

(b) Landlord shall assume, pay and at all times indemnify, protect and save Tenant harmless from any and all loss, liability, damage and expense for injuries to person (including death) or property of others arising or resulting from any tortious or negligent act or default of Landlord, its employees or agents, together with all costs and expenses (including reasonable legal fees) incurred with respect to any such claim, demand or legal proceeding brought against Tenant.

Section 32 MUTUAL INDEMNIFICATION. Each party shall indemnify the other party against any and all losses, damages, liabilities, or claims arising directly or indirectly out of: (a) any failure of any representation or warranty of such party to be correct and complete when made or any failure by such party to fully perform and observe all obligations and conditions to be performed or observed by such party under this lease, whether any such failure is innocent, negligent, or intentional; and (b) any and all costs and expenses (including reasonable legal fees) relating to any of the matter set forth in subparagraph (a), above. All rights and remedies under this section are cumulative and in addition to all other rights or remedies under this lease or any applicable laws.

Section 33 BROKERAGE FEE. Landlord shall pay all real estate or leasing commissions and brokerage fees payable in connection with this lease. Tenant represents to Landlord that Tenant has not dealt with or entered into any agreement with any persons or entities that would require the payment of any real estate or leasing commission or brokerage fees in connection with this lease.

Section 34 TAX INCENTIVES. Landlord agrees that (a) it shall cooperate and assist Tenant as reasonably requested by Tenant in Tenant's efforts to secure the benefit of certain tax incentives, and (b) if these incentives are challenged at any time during the term of this lease, Landlord shall use its best efforts to assist Tenant in objecting to and overcoming such challenge. Section34 shall not require Landlord to incur expenses or costs, including, but not limited to, professional fees or expenses, but Tenant shall not be obligated to reimburse Landlord for any such costs or expenses which Landlord may elect to incur.

Witnesses as to Landlord: 1815 LLC

/s/ [illegible] By: /s/ [illegible]

Name: [illegible]

/s/ [illegible] Its: PARTNER

Name: [illegible]

Witnesses as to Tenant: ADS Alliance Data Systems, Inc.

/s/ [illegible] By: /s/ Dwayne H. Tucker

Dwayne H. Tucker
EVP & CAO

Name: [illegible] Its: EVP & CAO

/s/ Jane Baedke

Name: Jane Baedke

STATE OF OHIO, COUNTY OF FRANKLIN, ss:

The foregoing instrument was acknowledged before me this 8th day of FEBRUARY, 2001, by MIKE NASH the PARTNER of 1815 LLC, a LIMITED LIABILITY CO, on behalf of the 1815 LLC.

/s/ Bonnie S. Bendure

Notary Public

STATE OF TEXAS, COUNTY OF DALLAS, ss:

The foregoing instrument was acknowledged before me this 6th day of FEBRUARY, 2001, by DWAYNE H. TUCKER the EVP & CAO of ADS Alliance Data Sytems, Inc., a Delaware corporation, on behalf of the Corporation.

/s/ Teresa C. Johnson

Notary Public

Exhibit 10.58

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE made and entered into this 27th day of June, 2001, by and between DEERFIELD & WEILAND OFFICE BUILDING, L.L.C., an Illinois limited liability company ("LANDLORD"), and ADS ALLIANCE DATA SYSTEMS, INC. ("TENANT") for a portion of the Premises commonly known as 975 Weiland Road, Buffalo Grove, Illinois.

W I T N E S S E T H:

WHEREAS, the parties hereto did heretofore enter into a certain Lease of the aforesaid Premises on or about July 30, 1999 (the "LEASE"); and

WHEREAS, the parties hereto do hereby intend to amend the Lease upon the terms and conditions as are more fully hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, it is hereby agreed that the Lease, particularly the Lease Schedule appended thereto, be and is hereby amended to provide as follows:

1. Effective upon the completion of the work described in Appendix "B" attached hereto and specifically incorporated by reference herein, which work is anticipated to be completed on or about June 1, 2000 ("EFFECTIVE EXPANSION DATE"), the Premises shall be deemed amended to include an additional one hundred eighty-four (184) rentable square feet located on the first floor of the Building and depicted on Appendix "A" attached hereto and specifically incorporated by reference herein. The Purpose with respect to the additional one hundred eighty-four (184) rentable square feet shall be for storage.

2. Upon the Effective Expansion Date, the Annual Base Rent years 1 through 5 shall be increased to FOUR HUNDRED TWENTY-EIGHT THOUSAND THIRTY-TWO DOLLARS ($428,032.00) and the Monthly Base Rent shall be increased to THIRTY-FIVE THOUSAND SIX HUNDRED SIXTY-NINE DOLLARS and 34/100 ($35,669.34). Furthermore, the Annual Base Rent for years 6 through 10 shall be increased to FOUR HUNDRED EIGHTY-NINE THOUSAND THREE HUNDRED EIGHTEEN DOLLARS and 40/100 ($489,318.40) and the Monthly Base Rent for said period shall be increased to FORTY THOUSAND SEVEN HUNDRED SEVENTY-SIX DOLLARS and 54/100 ($40,776.54).

3. Upon the Effective Expansion Date, Tenant's share shall be increased to 50.30%.

4. Paragraph 16 of the Lease Schedule is hereby modified to substitute GVA Williams for Podolsky Northstar Realty Partners, L.L.C.

5. Except as herein expressly provided, the Lease shall remain unmodified and in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant have executed this First Amendment to Lease as of the day and year first above written.

LANDLORD:

DEERFIELD & WEILAND OFFICE BUILDING,
L.L.C., an Illinois limited liability company

BY: /s/ [illegible]

TENANT:
ADS ALLIANCE DATA SYSTEMS, INC.

BY: /s/ [illegible]

CONSENTED TO AND APPROVED:

GUARANTOR:

ALLIANCE DATA SYSTEMS CORPORATION

BY: /s/ [illegible]

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 6 to Registration Statement No. 333-94623 of Alliance Data Systems Corporation and Subsidiaries of our report dated February 2, 2001 (February 28, 2001 as to Note 21), appearing in the Prospectus, which is part of this Registration Statement, and to the references 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

March 15, 2001

EXHIBIT 23.3

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 6 to Registration Statement No. 333-94623 of Alliance Data Systems Corporation and Subsidiaries of our report dated February 28, 2001 relating to the consolidated financial statements of Utilipro, Inc., appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP
Atlanta, Georgia
March 15, 2001